

MUNICIPAL YEAR 2014/2015 - REPORT NO.

**ACTION TO BE TAKEN UNDER
DELEGATED AUTHORITY**
(delete as appropriate)

PORTFOLIO DECISION OF
Cabinet Member for Finance

REPORT OF:
Director of Finance Resources & Customer
Services

Contact officer and telephone number:
Vivian Uzoechi (Insurance & Risk manager)
020 8379 4615

E mail: Vivian.uzoechi@enfield.gov.uk

Agenda - Part: 1	Item:
Subject: Combined Liability Insurance	
Wards: All	
Key Decision No: KD 3994	
Cabinet Member consulted: Cllr Andrew Stafford	

1. EXECUTIVE SUMMARY

- 1.1 The Council re-tendered its external insurance policies in 2013 (Key Decision No. 3810) and a 5 year Long Term Agreement (LTA) commencing 01 April 2014 was entered into with the successful insurers.
- 1.2 In September 2014, Travelers Insurance, the provider awarded the Combined Liability insurance contract, advised of their intentions to make adjustments to premium rates, which will result in the LTA being broken.
- 1.3 The said adjustments will result in very significant premium increases for the Council and for this reason they suggested it would be in the best interest of the Council to re-tender the affected policies for a new contract commencing 01 April 2015.
- 1.4 A tender exercise has now been carried out using the Crown Commercial Services 'Insurance Services Framework Agreement (RM958)'.
- 1.5 Tender evaluation and pricing are detailed in the enclosed Part 2 report.

2. RECOMMENDATIONS

- 2.1 To award the contract to the recommended bidder as detailed in the enclosed Part 2 report.

3. BACKGROUND

- 3.1 The insurance market is generally volatile and influenced by various factors such as expensive claims, global exposure and the economic climate. Insurers tend to mitigate their losses by imposing stricter requirements and raising premiums.
- 3.2 With only a few dominant suppliers, the Local Authority insurance market has remained even more unstable with rate increases and LTA breaks reported across the board.
- 3.3 In conjunction with Pro5, the Crown Commercial Service (CCS) developed and implemented the Insurance Services Framework Agreement - RM958. Key benefits of using the Framework Agreement include reduced procurement timescales, varied choice of suppliers (over 25 insurers and 10 brokers) and legality (in line with EU regulations).
- 3.4 Re-tendering of the Council's Combined Liability Insurance was carried out using the CCS Framework Agreement.
- 3.5 Bids were assessed against the criteria set out in Fig 1A below.

Fig 1A – Evaluation Criteria

Price	Quality - 40%	
60%	Compliance with Tender & Innovation (<i>core policy cover & wording</i>)	36.84%
	Additional Benefits (<i>e.g. policy add-ons & risk management</i>)	2.11%
	Ongoing Support (<i>e.g. underwriting advice</i>)	1.05%

- 3.6 Quotes were sought for 2 different contract durations (LTA) as detailed below
- **3 + 1 years** - (*after 3 years, the Council has the option to cancel or extend the LTA for another year*)
 - **2 + 1 + 1 years** - (*after 2 years, the Council has the option to cancel or extend the LTA for 2 more years subject to a 12 monthly review*)

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Total Self Insurance

- 4.1.1 The review of the current insurance arrangement carried out by our actuary revealed that the Council manages its risks well. However, in the current financial climate, it is prudent to continue to insure externally, those major / catastrophic risks that the Council may not be able to cover from its own funds, should they occur.

4.2 Joint Procurement

- 4.2.1 As insurance is a risk transfer mechanism, authorities procuring a joint policy must have very similar risk profiles (including claims history and management) to benefit from the collaboration.

- 4.2.2 In addition, the insurance arrangement / contracts for collaborating parties must have harmonised renewal dates.
- 4.2.3 We are unaware of any other authorities with risk profiles, insurance arrangement / contracts and harmonised renewal dates similar to Enfield Council.

5. REASONS FOR RECOMMENDATIONS

- 5.1 Awarding the contract to the recommended bidder as detailed in the Part 2 report will ensure the Council complies with legislative requirements and has adequate financial protection in the event of a major loss.
- 5.4 The Council's insurable risks will continue to be proactively managed with regular actuarial reviews carried out to ensure adequacy of the Council's Insurance Fund throughout the policy years.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

Please refer to the Part 2 report.

6.2 Legal Implications

- 6.2.1 The Council has the general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals generally may do provided it is not prohibited by legislation.
- 6.2.2 The proposed award of the insurance contract is in accordance with this power.
- 6.2.3 Throughout the engagement of the insurance provider, the Council must ensure value for money in accordance with the overriding Best Value Principles under the Local Government Act 1999.
- 6.2.4 The Council is permitted to call-off from valid framework agreements. In doing so the Council must comply with the terms of the relevant framework agreement and the provisions relating to framework agreements contained in the Council's Contract Procedure Rules (CPR).
- 6.2.5 The competition process was carried out in accordance with the terms of the CCS Framework Agreement, and in compliance with the CPR. The procedure set out in the CPR for processing non-electronic tenders was followed in consultation with the Assistant Director of Procurement.
- 6.2.6 All legal agreements arising from the matters described in this report must be approved by the Assistant Director of Legal & Governance Services.

6.3 Property Implications

There are no specific property implications arising from this report.

7. KEY RISKS

- 7.1 If the Council fails to enter into the new contract, its assets and liabilities will be uninsured with effect from 01 April 2015.
- 7.2 Where financial liabilities are or could be incurred, adequate funds must be set aside to meet them. In the absence of adequate external insurance arrangements, the Council will potentially be faced with unlimited financial liabilities.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

Having adequate external insurance in place is integral to the functioning of the Authority, enabling the Council to meet insurable financial losses that may arise from the delivery of services to all residents.

8.2 Growth and Sustainability

Having adequate external insurance in place is integral to the functioning of the Authority, enabling the Council to meet insurable financial losses that may arise from the delivery of objectives in the area of growth and sustainability.

8.3 Strong Communities

Having adequate external insurance in place is integral to the functioning of the authority, enabling the Council to meet insurable financial losses that may arise from the delivery of objectives in the area of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

It is not relevant or proportionate to undertake an equality impact assessment/analysis of the extension of current insurance contracts as the items summarised in this report only affect the Council's ability to meet financial losses arising from its insurable risks.

Where a third party suffers loss due to negligence on the part of the Council, the loss will be assessed on the basis of legal liability determined by the facts of the incident and not an individual's personal circumstances or characteristics.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

There are no specific performance management implications arising from this report.

11. HEALTH AND SAFETY IMPLICATIONS

There are no specific health and safety implications arising from this report.

MUNICIPAL YEAR 2014/2015 REPORT NO.

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY

OPERATIONAL DECISION OF
Director of Finance, Resources and
Customer Services

Agenda – Part:	Item:
Subject: Approval of the London Boroughs Grants Scheme for 2015/16	
Cabinet Member consulted: Cllr Andrew Stafford	

Contact officer and telephone number:

Stan Barker Tel: 0208 379 4213

E mail: Stan.Barker@enfield.gov.uk

1. EXECUTIVE SUMMARY

This delegated action report seeks approval for the change in the Enfield contribution to the 2015/16 London Boroughs Grant Scheme.

2. RECOMMENDATIONS

The following recommendations are made:

- 2.1 That the Council agrees to formally accept the recommendations contained in the report to London Council's Leaders Committee London Council's Grants Scheme Budget Proposals 2015/16- Item 9.
- 2.2 That the Council agrees to the proposed revision to the scheme that reduces Enfield's commitment from £343,692 in 2014/15 to £342,699 in 2015/16, a reduction of £993.
- 2.4 If approved, the Council will notify London Councils of this decision not later than 31st January 2015.

3. BACKGROUND

- 3.1 The London Council's Leaders Committee approved the overall budget for the London Boroughs Grants Scheme 2015-16 at its meeting on 9th December 2014.
- 3.2 The Enfield Contribution to the scheme is summarised below:

	2014/15	Proposed 2015/16	Reduction 2015/16
	£	£	£
Enfield Contribution to LBGS	343,692	342,699	993

- 3.3 In order to comply with the Grants to Voluntary Organisations Order 1992, the budget must be agreed by 2/3rds of constituent councils. If it is not, the overall level of expenditure (and so Enfield's contribution) will be deemed to be the same as 2014/15 i.e. £343,692. Therefore a decision needs to be agreed and notified to London Councils by 31st January 2015.

3.4 Allocation of the contribution is based on the ONS mid-year population estimates in line with statutory legislation. The minor variation in the 2015/16 grant scheme contribution is as a result of changes in population between boroughs.

3.5 Leaders' Committee 9th December 2014- London Councils Grant Scheme- Item 9 is attached at Appendix 1.

4. ALTERNATIVE OPTIONS CONSIDERED

The alternative option would be not to approve the recommendation from the Leaders Committee. This would mean that the proposed reduction in the 2015/16 contribution would not be realised.

5. REASONS FOR RECOMMENDATIONS

To confirm approval of the revised scheme agreed at London Councils Leaders Committee on 9th December 2014 of the reduced contribution in 2015/16 of £993.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

If this report is approved, the Council will benefit from the small reduction in contribution to the scheme.

6.2 Legal Implications

6.2.1 Legal implications concerning the scheme are set out in Appendix 1. Contributions per local authority are calculated according to the ONS mid-year population estimates for June 2013 pursuant to the requirements of s.48 (4) of the Local Government Act 1985. Apportionment between the local authorities is calculated according to The Levying Bodies (General) Regulations 1992. This also applies to the one-off payment.

6.2.2 The Legal implications relating to the date by which Enfield must agree the contribution for 2015/16 is set out 3.3 of the report and in Appendix 1.

6.3 Property Implications

None implicit in this report

7. KEY RISKS

7.1 If this revised scheme is not approved the Council will not benefit from the reduction in its LBGS contribution in 2015/16.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

London Councils proposals accord with the principles and priorities of the Grants Scheme, as agreed, following extensive consultation in 2012.

8.2 Growth and Sustainability

Not implicit in this report

8.3 Strong Communities

Participation in the London Boroughs Grants Scheme works to promote the strong communities theme across the Borough.

9. EQUALITIES IMPACT IMPLICATIONS

Corporate advice has been sought in regard to equalities and an agreement has been reached that an equalities impact assessment/analysis is neither relevant nor proportionate for the approval of this report. However London Councils should be responsible for completing an Equalities impact assessment as part of the budget preparation process, as the administering body for the fund.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

Not implicit in this report.

11. PUBLIC HEALTH IMPLICATIONS

The operation of the Grants Scheme provides services to Enfield residents that would not otherwise be available.

Leaders' Committee

London Councils Grants Scheme - Budget Proposals 2015/16

Item no: 9

Report by: Frank Smith **Job title:** Director of Corporate Resources
Date: 9 December 2014
Contact Officer: Frank Smith
Telephone: 020 7934 9700 **Email:** Frank.smith@londoncouncils.gov.uk

Summary

This report considers the proposed budget for the Grants Scheme for 2015/16 and makes a recommendation to the Committee on the appropriate level to recommend to constituent councils for approval.

These proposals were considered by the Grants Committee at its meeting

on 26 November. The Grants Committee agreed to recommend that the Leaders' Committee approve these proposals.

Recommendations

The Leaders' Committee is asked to agree:

- an overall level of expenditure of £10.5 million for the Grants Scheme in 2015/16 (inclusive of £2.5 million gross ESF programme, which includes a sum of £500,000 to fund all existing commissions for the period April to June 2015);
- that taking into account the application of £1.25 million ESF grant and a transfer of £250,000 from reserves, borough contributions for 2015/16 should be £9 million, the same as for the current year;
- that further to the recommendations above, constituent councils be informed of the Committee's recommendation and be reminded that further to the Order issued by the Secretary of State for the Environment under Section 48 (4A) of the Local Government Act 1985, if the constituent councils have not reached agreement by the two-thirds majority specified before 1 February 2015 they shall be deemed to have approved expenditure of an amount equal to the amount approved for the preceding financial year (i.e. £10 million);
- that constituent councils be advised that the apportionment of contributions for 2015/16 will be based on the ONS mid-year population estimates for June 2013; and
- that subject to the approval of an overall level of expenditure, the Committee agrees to set aside a provision

services to ensure delivery of the Committee's programme of approved commissions, including ESF administration of £120,000.

London Councils Grants Scheme - Budget Proposals 2015/16

Introduction

1. This report details the indicative overall budget requirement for the London Boroughs Grants Scheme for 2015/16 of £10.5 million, comprising:
 - The cost of the borough scheme of priority, pan-London commissioned services of £8 million, which includes the cost of administering the borough scheme, equating to £435,000 or 5.44% (4.44% excluding central recharges) of the proposed grants programme of £8 million plus the membership subscriptions for boroughs for London Funders of £60,000; and
 - The gross cost of the ESF programme of £2.5 million, including £120,000 administration costs, offset by ESF grant of £1.25 million and a transfer from reserves of £250,000, leaving a net cost of £1 million to be funded by boroughs.
2. The proposed total expenditure budget of £10.5 million will be funded by borough contribution of £9 million, ESF grant income of £1.25 million and a transfer from reserves of £250,000. The proposed borough contribution of £9 million remains at the same level as for the current year.
3. The Leaders' Committee will need to reach a view on both the appropriate overall level of expenditure and to recommend the budget to constituent Councils.

Approval of Expenditure

4. The statutory basis of the Grants Scheme is Section 48, Local Government Act 1985. Constituent councils agreed to some changes to the operation of the Scheme as part of the establishment of the new ALG on 1 April 2000: these changes mean that the budget for the London Councils Grants Scheme must be approved by the London Councils Leaders' Committee. This will need to happen before any budget that is recommended to constituent councils by the Grants Committee can be formally referred to them as a basis for consideration in their respective council chambers.
5. The budget proposals contained in this report were considered by the Grants Committee at its meeting on 26 November and the recommendations of the Grants Committee are reflected in this report. If Leaders do not accept the recommendations of the Grants Committee, and instead agree to recommend a different budget figure to Boroughs, the Grants Committee will need to meet urgently to consider the implications for the Grants programme.

6. Section 48(3) of the Local Government Act 1985 requires that at least two-thirds of the constituent councils in Greater London must approve the proposed overall level of expenditure on grants to voluntary organisations and other costs incurred in "the making of grants". This is not a decision that can be delegated to the Grants Committee although that Committee is able to make decisions with regard to allocation of that expenditure once overall expenditure has been approved. This means that when the Committee decides on an overall level of expenditure, subject to the agreement of the London Councils Leaders' Committee, it will recommend it to the London Boroughs and the Cities of London and Westminster and at least 22 of them must agree through their respective decision-making arrangements to ratify and give effect to that overall level of expenditure. Once 22 councils have given their approval, the overall level of expenditure and contributions to it are binding on all constituent councils.

Timing of Decisions

7. The Committee needs to make its recommendation in good time so that constituent councils are able to consider the budget proposal within their own decision-making arrangements and make a response within the timescales laid down for the Scheme. The Scheme approved by the boroughs provides that constituent councils shall be asked to agree to the Committee's recommended level of overall expenditure not later than the third Friday in January, in this case 16 January 2015. All constituent councils will have received copies of this report and will be informed of the Committee's recommendation as to overall expenditure for next year, once the decision has been taken.
8. The City of London Corporation has been the Designated Council for the Scheme since 1 February 2004. Bearing in mind the issues raised above, it is essential for the Committee make a recommendation today, to provide sufficient time for constituent councils to consider the matter before the 1 February deadline, and enable the City of London Corporation to approve the levy on constituent councils by the deadline of 15 February 2015.
9. In the event that constituent councils are unable to reach agreement by the two-thirds majority required on an overall level of expenditure before 1 February 2015 the Secretary of State for Communities and Local Government has powers to intervene and set the budget at the same level as the preceding year. Section 105 of the Local Government Finance Act 1992 inserted a new sub-section (4A) into section 48 of the Local Government Act 1985 which states that:

"4A. The Secretary of State may by order provide that if -

- *a scheme requires the total expenditure to be incurred under the scheme in any financial year -*
 - *in the making of grants; and*
 - *in the discharging by the designated council of its functions under the scheme, to be approved in accordance with the scheme by some or all of the constituent councils; and*

- *the total expenditure to be incurred in any financial year is not approved as required by the scheme before such date as may be specified in relation to that financial year in the order, the constituent councils shall be deemed, subject to any order which has been or may be made under subsection (5) below, all to have given their approval for that financial year to total expenditure of an amount equal to the amount that was approved or, as the case may be, deemed to have been approved for the preceding financial year".*

Contributions by constituent councils

10. Section 48(3) of the 1985 Act provides that the amount of contributions to the London Councils Grants Scheme shall be determined so that expenditure is borne by constituent councils in proportion to the population of their respective areas. Section 48(4) of the 1985 Act states that the population of any area shall be the number estimated by the Registrar-General and certified by him to the Secretary of State.

11. Under The Levying Bodies (General) Regulations 1992, arrangements made under section 48 of the 1985 Act (and also section 88) use total resident population as the means of apportionment and it is no longer necessary for the Registrar General to certify the estimates. The Regulations came into force on 11 December 1992. Regulation 6(8) is of particular importance, stating that:

"A levying body shall secure that the expenses to be met by levies issued by it under these Regulations by reference to the relevant precepting power conferred by section 48 or 88 of the Local Government Act 1985 are borne by the relevant authorities in a proportion calculated by reference to the total resident population of the area of each relevant authority on 30th June in the financial year beginning two years before the beginning of the financial year in respect of which the levy is issued, as estimated by the Registrar General."

12. The Designated Council is defined as a levying body further to Sections 74 and 117 of the Local Government Finance Act 1988, which means that the levy will have to be approved formally at a meeting of the Court of Common Council of the Designated Council before the payment requests are sent to constituent councils. The Court of Common Council will consider this matter before the deadline of 15 February 2015. The Levying Bodies (General) Regulations 1992 then require the approved levy to be sent out to constituent councils by 15 February in any year. The term levy refers both to the total contributions from constituent councils and to the apportionment of that total between them.

Summary Timetable

13. To summarise, the timetable for the approval of the budget for 2015/16 is expected to be as follows:

Date	Action
20 November 2014	London Councils Executive considered the overall budget and subscription proposals for London Councils for 2015/16.
26 November 2014	Grants Committee considered proposed budget and borough contributions for 2015/16 and makes recommendations to Constituent Councils, subject to approval of Leaders' Committee
9 December 2014	This meeting is asked to approve the level of budget and borough contributions for 2015/16, as recommended by the Grants Committee on 26 November
10-12 December 2014	Constituent Councils formally notified of the approved level of budget and borough contributions for 2015/16
15 December 2014 – 31 January 2015	Constituent Councils to individually ratify the overall level of expenditure for 2015/16 through their respective decision-making arrangements
1-15 February 2015	The City of London Corporation, as the Designated Councils for the Grants Scheme, approves the levy for 2015/16 on Constituent Councils
15 February 2015	Constituent Councils informed of level of approved expenditure and borough contributions for 2015/16

Budget Proposal for 2015/16

14. Appendix A to this report sets out detailed information relating to the proposed budget for 2014/15. The budget assumes:

- A core, pan-London scheme of commissioned services to meet service priorities agreed by the Grants Committee of £7.565 million, which includes the membership subscriptions for boroughs for London Funders of £60,000;
- An additional gross sum of £2.38 million relating to the ESF commissioned services programme. A sum of £1.88 million relates to the new ESF programme due to start in the summer of 2015 under new funding arrangements managed by the LEP. In addition, at its meeting on 26 November, the Grants Committee agreed that the Leaders' Committee, in advance of the start of the new ESF programme, approve a sum of £500,000 to continue the 10 existing ESF commissions for the period April-June 2015;
- An indicative gross grant payments budget of £9.945 million, compared to £9.48 million for the current year.
- In addition to the indicative gross grant payments budget of £9.945 million, the proposal includes a provision for the administration of commissions of £555,000. This is split between the administration of the S.48 commissions of £435,000, which equates to 5.4% (or 4.4% excluding central recharges) of the boroughs commissioning budget of £8 million and reflects the actual cost of the current monitoring arrangements that came into effect in April 2013. For the £2 million gross S.48/ESF commissions, administration amounts to £120,000, or 5.99%, which reflect the more complex monitoring arrangements of the ESF commissions.
- The proposed total programme of commissions of £10.5 million will be funded by ESF grant income of £1.25 million, a transfer from reserves of £250,000 and

borough contributions of £9 million, the same level as for the current financial year.

15. In making this proposal, the Committee asked Leaders' Committee to note its view that projects are:

- Effective (meeting or exceeding targets and record on equality and diversity is strong);
- Economic (no overspends and underspends swiftly redirected); and
- Efficient (projects have to compete for funding and operate with management fee caps. Programme management expense has to be controlled).

Administration of Commissions

16. The staffing costs figures within the proposed 2015/16 budget options reflects all of these posts, together with the apportionment of time spent on Grants Committee activities by other London Councils staff, such as Grants Committee servicing and Public Affairs. The staffing budget also includes a £10,000 provision for maternity cover and the vacancy level of 2%.

17. In terms of dedicated staff, the overall number of staff is 5.06 fte posts (5.11fte 2013/14) split between the S.48 programme of 4.20 fte posts (4.25) and 0.86 fte posts (0.87) dealing with the ESF programme.

18. In addition, an apportionment of time spent by Corporate Resources, Corporate Governance other than Committee Servicing, the Chief Executive's office, and London Councils Political Advisors are included in the central recharges figure for supporting the Committee's functions; as well as a notional rental figure for office space occupied at Southwark Street. As detailed in the report on the financial results for 2013/14 that was presented to this Committee in July 2014, a change in London Councils accounting policies for recharging central overhead costs during 2013/14 has led to an increase in overall costs charged to the Committee, which for 2015/16 is estimated to be £16,000. The purpose of the review was to establish a methodology for apportioning central cost in a more relevant and equitable manner that is free from the risk of cross subsidisation of funding streams and externally funded projects. This revised methodology was tested and signed off as fit for purpose by the external auditors during the course of the audit of the 2013/14 accounts, which was concluded in September 2014.

19. All estimates of administration expenditure levels have previously been based upon a threshold of 5% of the budget for payments to commissions in respect of the borough funded S.48 scheme, as agreed by Grants Committee in the review of non-grants expenditure levels conducted in early 2009. However, it is clear from a review of staffing costs during 2013/14 and in the current year that it is becoming increasingly difficult to contain all administrative costs within the 5% envelope, especially after the introduction of the new monitoring arrangements were introduced in April 2013 and the increase in recharges, as detailed in paragraph 18 above. As a result, it is proposed to vire £35,000

of uncommitted funds from the S.48 budget for payments to commissions to cover the estimated shortfall in administrative costs. This leads to a proposed administration costs for the S.48 payments of £435,000 for 2015/16, compared to £400,000 for the current year, which equates to 5.44% of the proposed £8 million programme. If central recharge costs of £80,000 are excluded, the amount reduces to £355,000, or 4.44%.

20. For the ESF programme, the claimable amount is limited to 5.99% of the total budget as stated in the DwP EPMU guidelines, equating to £120,000. Total administration costs for

2015/16 are, therefore, estimated to be £555,000, compared to £520,000 for 2014/15.

ESF Grant Income

21. The proposed budget includes gross expenditure of £2.5 million on activities commissioned under London Councils approved priorities, including administration costs of £120,000, which attracts grant income at 50% as a consequence of London Councils status as one of London's ESF co-financing bodies, thus reducing the net cost of this activity to £1.25 million. Both the gross expenditure and the ESF income it attracts are reflected in Appendix A.

Use of Reserves

22. Audited reserves at the end of March 2014 were £1.95 million, inclusive of £773,000 relating to the ESF commissions. The projected position on Grants Committee reserves is shown in the table below.

	Borough £000	ESF £000	Total £000
Audited reserves as at 1 April 2014	1,177	773	1,950
One-off payment to boroughs 2014/15	(800)	-	(800)
Projected transfer from reserves in 2014/15	-	(103)	(103)
Projected surplus/(deficit) for the year	52	-	52
Projected reserves as at 31 March 2015	429	670	1,099
Proposed use of reserves in setting 2015/16 budget	-	(250)	(250)
Projected residual reserves	429	420	849
Indicative total expenditure 2015/16	8,000	2,500	10,500
Forecast reserves as a % of indicative expenditure	5.4	16.8	8.1

23. Following discussions at the Grants Executive meeting in September 2013, it was agreed that it would be appropriate to retain a minimum level of reserves £300,000 to support the future S.48 borough programme of approximately £8 million. This equates to 3.75% of the programme value. The projected residual level of reserves as at 31 March 2015, of

£429,000, or 5.4% of the borough programme, therefore, clearly achieves this revised reserves benchmark. For the ESF programme, reserves attributable to this area of the programme continue to accumulate due to slippage and are therefore likely to be fully utilised in the subsequent years – effectively acting as an earmarked reserve, so benchmarking a desirable level of future reserves is not appropriate. However, during 2015/16, members will be asked to give some consideration as to how the residual S.48/ESF reserves should be applied once all transactions relating to the 2013-15

commissions are finalised in the summer of 2015, before the start of the new ESF funding arrangements that have been devolved to the LEP.

24. As detailed paragraph 14, the Grants Committee has proposed that funding continue for the 10 existing ESF commissions for a further quarter, covering the period April-June

2015. The Leaders' Committee is asked to agree this proposal.

Borough Contributions

25. Paragraphs 10 to 12 of this report set out the legal position relating to contributions payable by constituent councils to the London Councils Grants Scheme. Contributions for

2015/16 have been calculated using the ONS mid-year population estimates for June 2013 and are set out in Appendix B.

Other Issues

26. The Committee wished Leaders' Committee to note its view that the brand of the programme need to evolve to reflect the changes that have occurred to a more modern, competitive and conditional programme.

27. In addition, the Committee wished Leaders' Committee to note that it recognised a clear need for stronger relationships between the programme and boroughs. The Committee agreed to the establishment of and task-and-finish group of London Councils and borough officers and project managers to make proposals on this by March 2015.

Summary

28. This report recommends the proposed budget for the Grants Scheme for 2015/16 and makes a recommendation on the appropriate level to recommend to constituent councils for approval. Specifically, the report proposes an overall level of expenditure in 2015/16 of

£10.5 million, which requires borough contributions of £9 million (refer to Appendix B). These proposals were considered by the Grants Committee at its meeting on 26

November. The Grants Committee agreed to recommend that the Leaders' Committee approves these proposals.

Recommendations

29. The London Councils Leaders' Committee is asked to approve:

- an overall level of expenditure of £10.5 million for the Grants Scheme in 2015/16 (inclusive of £2.5 million gross ESF programme, which includes a sum of £500,000 to fund all existing commissions for the period April to June 2015);
- that taking into account the application of £1.25 million ESF grant and a transfer of

£250,000 from reserves, borough contributions for 2015/16 should be £9 million, the same base level as for the current year;

- that further to the recommendations above, constituent councils be informed of the Committee's recommendation and be reminded that further to the Order issued by the Secretary of State for the Environment under Section 48 (4A) of the Local Government Act 1985, if the constituent councils have not reached agreement by the two-thirds majority specified before 1 February 2015 they shall be deemed to have approved expenditure of an amount equal to the amount approved for the preceding financial year (i.e. £10 million);
- that constituent councils be advised that the apportionment of contributions for 2015/16 will be based on the ONS mid-year population estimates for June 2013; and
- that subject to the approval of an overall level of expenditure, the Committee agrees to set aside a provision of £555,000 for costs incurred by London Councils in providing staff and other support services to ensure delivery of the Committee's programme of approved commissions, including ESF administration of £120,000.

Appendices

Appendix A – Proposed revenue income and expenditure budget

2015/16; Appendix B – Proposed borough subscriptions 2015/16;

Background Papers

Grants Committee Budget Working Papers 2014/15 and

2015/16; Grants Committee Final Accounts Working Papers

2013/14;

Grants Committee Revenue Budget Forecast Working Papers 2014/15; and

London Councils Consolidated Budget Working Papers 2014/15 and 2015/16.

Grants Committee Income and Expenditure Budget 2015/16

Item 9 Appendix A

Expenditure	Revised Budget 2014/15 £000	Developments £000	Inflation £000	Original Budget 2015/16 £000
Payments in respect of Grants				
	7,540	-35	0	7,505
London Councils Grants Programme	60	0	0	60
Membership Fees to London Funders (for all boroughs)	1,880	500	0	2,380
European Social Fund Co-Financing				
Sub-Total	9,480	465	0	9,945
Operating (Non-Grants) Expenditure	2	0	0	2
	13	0	0	13
Contractual Commitments	0	0	0	0
External audit fees	10	0	0	10
CoL Finance/Payroll/Legal SLA	25	0	0	25
GLE ESF Management Fee				
Maintenance of GIFTS Grants IT system	321	25	3	349
	19	0	0	19
Salary Commitments	10	0	0	10
Officers	350	25	3	378
Members				
Maternity provision	6	0	0	6
	2	0	0	2
Discretionary Expenditure	39	3	0	42
Staff training/recruitment advertising	12	-12	0	0
Staff travel	59	-9	0	50
Supplies and service				
Research	800	-800	0	0
One-off payment to boroughs				
Total Operating Expenditure	1,234	-784	3	453
Central Recharges	86	16	0	102
Total Expenditure	10,800	-303	3	10,500
Income	8,600	0	0	8,600
	400	0	0	400
Core borough subscriptions Contribution to grant payments	9,000	0	0	9,000
Contribution to non-grants expenditure	1,000	250	0	1,250
	1,000	250	0	1,250
Other Income				
ESF Income				
Transfer from Reserves	800	-550	0	250
Central Recharges	0	0	0	0
Total Income	10,800	-300	0	10,500
Net Expenditure	0	3	-3	0

Borough Subscriptions 2015/16

Item 9 APPENDIX B

ONS Mid-2012 Estimate of Population ('000)	%	2014/15 Base Borough Contribution (£)		ONS Mid-2013 Estimate of Population ('000)	%	2015/16 Base Borough Contribution (£)	Base Difference from 2014/15 (£)
224.96	2.71%	243,687	Inner London	229.70	2.73%	245,610	1,923
7.60	0.09%	8,233	Camden	7.60	0.09%	8,126	-106
260.07	3.13%	281,720	City of London	264.00	3.14%	282,286	566
252.12	3.03%	273,108	Greenwich	257.40	3.06%	275,229	2,121
179.85	2.16%	194,822	Hackney	178.70	2.12%	191,078	-3,744
211.05	2.54%	228,619	Hammersmith and Fulham	215.70	2.56%	230,640	2,022
155.93	1.88%	168,910	Islington	155.60	1.85%	166,378	-2,533
310.20	3.73%	336,023	Kensington and Chelsea	314.20	3.73%	335,963	-60
281.56	3.39%	304,998	Lambeth	286.20	3.40%	306,024	1,025
293.53	3.53%	317,965	Lewisham	298.50	3.55%	319,175	1,211
263.00	3.17%	284,893	Southwark	272.90	3.24%	291,802	6,909
308.31	3.71%	333,975	Tower Hamlets	310.80	3.69%	332,327	-1,648
223.86	2.69%	242,495	Wandsworth	226.80	2.69%	242,509	14
			Westminster				
2,972.04	35.77%	3,219,447	Outer London	3,018.10	35.86%	3,227,147	7,700
190.56	2.29%	206,423	Barking and Dagenham	194.40	2.31%	207,865	1,442
363.96	4.38%	394,258	Barnet	369.10	4.39%	394,666	408
234.27	2.82%	253,772	Bexley	236.70	2.81%	253,095	-677
314.66	3.79%	340,854	Brent	317.30	3.77%	339,278	-1,576
314.04	3.78%	340,182	Bromley	317.90	3.78%	339,919	-263
368.89	4.44%	399,598	Croydon	372.80	4.43%	398,622	-976
340.67	4.10%	369,029	Ealing	342.50	4.07%	366,223	-2,806
317.28	3.82%	343,692	Enfield	320.50	3.81%	342,699	-993
258.91	3.12%	280,463	Haringey	263.40	3.13%	281,644	1,181
242.38	2.92%	262,557	Harrow	243.40	2.89%	260,259	-2,298
239.73	2.89%	259,686	Havering	242.10	2.88%	258,869	-817
281.76	3.39%	305,215	Hillingdon	286.80	3.41%	306,665	1,450
259.05	3.12%	280,615	Hounslow	262.40	3.12%	280,575	-40
163.91	1.97%	177,555	Kingston upon Thames	166.80	1.98%	178,353	799
202.22	2.43%	219,054	Merton	203.20	2.41%	217,275	-1,779
314.08	3.78%	340,226	Newham	318.20	3.78%	340,240	14
284.62	3.43%	308,313	Redbridge	288.30	3.43%	308,269	-44
189.14	2.28%	204,885	Richmond upon Thames	191.40	2.27%	204,657	-228
193.63	2.33%	209,749	Sutton	195.90	2.33%	209,469	-280
262.57	3.16%	284,428	Waltham Forest	265.80	3.16%	284,211	-217
5,336.33	64.23%	5,780,553		5,398.90	64.14%	5,772,853	-7,700
8,308.37	100.00%	9,000,000	Totals	8,417.00	100.00%	9,000,000	0

MUNICIPAL YEAR 2014/2015 REPORT NO.

MEETING TITLE AND DATE:

CMB
25th November 2014

REPORT OF:

Joint Chief Operating Officer

Contact officer and telephone number:

Sean Scott – Head of Home Ownership
020 8375 8181 /
sean.scott@enfieldhomes.org

Agenda - Part:	Item:
Subject: Enfield Homes – Leaseholder Financial Assistance Package Review	
Wards: All	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

This report proposes changes to the existing repayment terms offered to Council leaseholders who are facing bills following major works undertaken in the blocks where they live. The existing repayment terms (known as a Financial Assistance Package or FAP) are inflexible and result in leaseholders facing large monthly repayments, presenting significant issues of affordability. There are major external and enveloping works underway and planned throughout the Council's flatted stock which will result in bills to leaseholders of approximately £24m over the next 2-3 years. It is important that we have a repayment framework that supports leaseholders in dealing with these bills and enabling officers to successfully recover income for the HRA.

The risk of leaving the existing FAP in place is that recovery of major works charge income would be reduced with increased enforcement and cash flow likely to be affected.

Charging interest to all leaseholders would increase the amounts payable by the leaseholders and is likely to decrease satisfaction and lead to an increase in complaints and administration costs. We are not aware of any other local providers that do not offer any interest free period.

It is proposed that non-resident leaseholders are given different payment options due to the commercial nature of their ownership.

2. RECOMMENDATIONS

- 2.1. That an interest free payment period of 2 years is made available to resident leaseholders facing Major Works bills from the date of invoice.
- 2.2. That resident leaseholders have extended payment options following the interest free period with interest initially set at 5.5% and reviewed annually.
- 2.3. That resident leaseholder charges are limited to £300 per month (or 10 years).
- 2.4. That a 5% prompt payment discount is offered.
- 2.5. That non-resident leaseholders are able to agree payment terms subject to interest being payable from 14 days after invoicing.

3.1 BACKGROUND

- 3.1.1 LBE in its capacity as Landlord is obliged to maintain and repair the shared, communal, exterior and structural parts of its blocks. Leaseholders are responsible under the terms of their leases to contribute their share of the cost of this.
- 3.1.2 LBE has 4564 leaseholders representing 28.3% of dwellings in the council owned stock. Latest figures indicate that in excess of 47% of the 4564 leaseholders are subletting their property. Leaseholders do not need permission to sublet their properties but there is an obligation in the lease for leaseholders to notify us if they do sublet. There may be cases where this condition has not been met and these would not be included in the figures. In addition 141 of the identified properties have been let back to the Local Authority via the Private Sector Housing team as temporary accommodation.
- 3.1.3 Many of the blocks have received limited repairs and maintenance since they were built, with much of the stock being erected in the 1950s-1960s.
- 3.1.4 The limited investment over the past 50-60 years has resulted in a backlog of works and commitment to meet the Government's Decent Homes Standard has meant that these are being carried out within relatively short timescales to meet the agreed deadline.
- 3.1.5 With only short term plans available due to previous Capital funding methods where permission to spend was required on an annual basis from Central Government, many of the leaseholders have received little to no notice of these works or their costs, other than the statutory minimum consultation which could be as little as 60 days. There is also evidence that many original Right To Buy (RTB) leaseholders had little advice on their service charge or

major works contributions when they originally applied for the RTB. This is something that has been addressed in our current process for dealing with RTBs.

- 3.1.6 Statutory consultation for Major Works is specified in the Commonhold and Leasehold Reform Act 2002. The timescales are set and involve serving to each leaseholder an initial Notice of Intention (NOI) giving 30 days' notice of any intended works. Once this period has expired, a Notice of Estimates (NOE) advising of the associated costs is issued giving a further 30 days.
- 3.1.7 Leaseholder bills vary for the works dependant on the blocks construction, condition, layout and materials. There are no Reserve Funds at the blocks meaning that the current owner will be meeting the full cost of the remedial works. There is no real evidence to show that the works demonstrate any increase in value to the individual properties.
- 3.1.8 The only support to leaseholders in meeting these costs is by way of a Financial Assistance Package (FAP) that Enfield Homes administers on behalf of the Council. There is no requirement to offer a Financial Assistance Package and the lease states that any invoice must be paid within 14 days of it becoming payable. There is an implied obligation under the new discretionary regulations within Florrie's Law that a package will be in place to support leaseholders in the repayment or capping of charges.
- 3.1.9 The payment of variable service charges and consultation requirements are specified in the Housing Act 1985 and the Commonhold and Leasehold Reform Act 2002. If leaseholders dispute their service charges they are entitled to make an application to the First Tier Tribunal who are commonly referred to by their previous title Leasehold Valuation Tribunal (LVT) who will determine whether the costs are reasonable and therefore if they are recoverable. They will also assess whether the correct consultation has been carried out, failure of which automatically limits recovery to £250.
- 3.1.10 There is a risk associated with evidencing statutory compliance and demonstrating that costs are reasonable at the LVT.
- 3.1.11 The average legal costs of defending an application are in the region of £5,000 - £20,000 dependant on the complexity and these costs are generally not recoverable from the applicants. There is also a large amount of officer time involved as well as costs of consultants and specialist advice and costs can often run into thousands of pounds.
- 3.1.12 The costs for a leaseholder to make an application are as follows:

Disputed charge	Application fee
not more than £500	£50
more than £500 but less than £1,000	£70
more than £1,000 but less than £5,000	£100
more than £5,000 but less than £15,000	£200
more than £15,000	£350

- 3.1.13 If the case proceeds to a hearing there is an additional £150.00 payment so the maximum cost is £500.00. These costs can be split amongst leaseholders or applicants.
- 3.1.14 There are no grounds for refusing an application and it is common for the LVT to add additional challenges and arguments to any application received. Even for cases that fall outside the LVT jurisdiction (such as the FAP term) we will be expected to prepare and present a defence and significant workloads and costs can be incurred.
- 3.1.15 With large Major Works bills and/or limited ability for leaseholders to pay it is likely that more applications will be received and the greater the risk of non-recovery.
- 3.1.16 Our enforcement options in the event of non-payment are to apply to court for a Judgement to determine that the amount is payable. Any dispute or defence is likely to result in the case being passed across to the LVT.
- 3.1.17 A successful judgement will usually result in a Charging Order where a charge is placed on the property to secure the debt. If payment is still not received we are entitled to apply for Forfeiture of the lease. If there is a mortgage provider they will usually pay the charges to avoid forfeiture to protect their interest in the property. Many lenders will then insist that mortgagors repay these within 12 months and failure to do so will result in the property being repossessed.
- 3.1.18 In order to forfeit the lease the service charges must either be agreed by the leaseholder or have been determined by the LVT to be reasonable.
- 3.1.19 There are some minor variations to the standard lease terms across the stock dependant on the year bought but none of which are likely to impact on the ability to recover major works charges.
- 3.1.20 Local Authorities discretion to cap service charges under the Social Landlords Reduction of Service Charges (England) Directions 1997 allowed them to reduce or waive service charges so that the service charges do not exceed £10,000 for a property over any 5 year period. The introduction of new Directions in August 2014 known as Florrie's law allow Social Landlords to make reductions of any amount including fully waiving recovery of charges.
- 3.1.21 Florrie's Law introduced mandatory capping of charges over a 5 year period where a successful bid for grant funding is made after 12 August 2014 from government sources to carry these out. Charges will not be capped for all works as not all programmes are being funded through government grants and much of the funding was agreed prior to 12 August 2014 for the programmes already planned. These directions only apply to resident leaseholders. There are however also Discretionary Regulations that give Social Landlords the ability to offer reductions, or to fully waive service charges for leaseholders.
- 3.1.22 The Greater London Authority (GLA) Decent Homes Backlog Funding requirements have also been amended in view of Florrie's law and additional protections built into the application process. The following is taken from the

Invitation to Bid document issued by the GLA in August 2014 under the section titled Leaseholder Charges.

"...In the assessment and management of this programme the Mayor will want to see that the financial impact on leaseholders have been considered and that borough landlords are offering appropriate support to their leaseholders. For avoidance of doubt this only applies to resident leaseholder that have the property as their only or principal home at the time the work begins.

Local authorities completing bids for the 2015/16 funding will need to answer the following questions in order that the GLA are able to ascertain the extent to which leaseholders are affected by decent homes funded programmes of work. Local authorities must set out what protections are in place for leaseholders with high charges and what if anything the GLA can do to support.

...c) What help financial or otherwise will the council be giving to all affected leaseholders, such as loans or deferred payment arrangements? The expectation would be that a minimum of 2 years deferred interest free payment would be available."

3.2 Current Financial Assistance Package for LBE Leaseholders

3.2.1 Report 162 was submitted to Cabinet in December 2009 with recommended revisions to the Financial Assistance Package. These were agreed in Key Decision 2978. The key features of this were:

- 2 year interest free up to £3,000 subject to payment at Notice of Estimates (NOE)
- 3 years interest free above £3,000 subject to payment at NOE
- Discretionary loan option
- Interest was specified at Housing Mortgage Rate + 0.25%.

3.2.2 The aim of the revised package was to enhance the payment options available to leaseholders to improve their ability to pay by giving them extra time.

3.2.3 The lease does not allow us to compel leaseholders to pay at NOE stage meaning that this is a voluntary payment that we are unable to enforce until invoicing takes place.

3.2.4 In effect anything that has been paid onto the account is deducted from the invoice amount to give a revised balance payable within the remaining agreement term or our standard payment term of 14 days. In reality this has meant that in the current financial climate many leaseholders have failed to make payments and will have 14 days to pay the full amount outstanding.

3.2.5 There was nothing preventing us from enabling leaseholders to make voluntary payments onto their accounts prior to the amendments to the FAP. In summary the package has actually been changed to the detriment of leaseholders as a result of the recommendations that were intended to assist them.

3.2.6 Capping is rarely if ever considered with only 1 case that has been capped at £10,000 and which was agreed as a commercial decision due to individual circumstances.

3.3 Major Works Costs

3.3.1 The average bill in the 2009 report was estimated to be £5,900 per leaseholder.

3.3.2 The following table details estimated figures for works that are due to be invoiced in 2014/15.

Anticipated Billing Based on Estimates 2014/2015	Highest Costs
Lift Refurbishment/Replacement	£6,733.90
Door Entry System	£3,195.57
Block Refurbishment Works	£26,787.34
Water Safety Works to Communal Tank	£1,950.51

3.3.3 There are five leasehold properties in the N18 area that have received estimates for £26,787.34 for Block Refurbishment works as well as £705.50 for Water Tank Works. Based on the current maximum timescale of 36 months these leaseholders would need to pay £763.69 per month. The Notice of Estimates for these properties was sent in January 2013 but no payment has been made to any of the accounts in pre-payment. Invoices are anticipated to be raised in 2014/15 which would mean that there would be 18 months remaining of the FAP term and to clear the balance these leaseholders would then need to pay £1,527.38 per month. Based on the most recent sales in October and November 2013 the average value of these properties was £160k - £170k. Total costs billed for 2012/13 were £2.7m and for 2013/14 were £1.57m. Approximately £667k of costs have been invoiced so far for 2014/15 and there is a further £10.7m anticipated to be invoiced in the remaining year meaning that these should already be in pre-payment to qualify for the full payment period in the existing FAP.

3.3.4 We are currently holding £866,896.54 of major works prepayment across 667 accounts and £1,521,170.39 has already been invoiced and is outstanding across 560 accounts.

3.3.5 The prepaid amount against the forecasted billing amount implies that there is insufficient take up of the pre-payment option to cover the intended billing amounts. With the credit amount held offset against the anticipated invoices

for 2013/14 this would leave £9.8m of outstanding debt to be collected. This is in addition to the debit balance brought forward.

3.4 Views of LBE leaseholders

3.4.1 We know from surveys and consultation that we have undertaken that leaseholders would like to see changes made to current repayment options. Feedback on the existing FAP obtained from the 2013 Leaseholder Conference can be found in Appendix A.

3.5 Current recovery action

- 3.5.1 There are 560 Major Works arrears cases amounting to £1,521,170.39 and there are varying stages of enforcement and recovery action being taken on these accounts.
- 3.5.2 There are 24 cases being disputed but none of these are formal disputes with the LVT. There have been 6 cases disputed formally within the last 2 years with the most common reason being quoted as unreasonable costs due to the timescales to pay even though the LVT has no jurisdiction over this.
- 3.5.3 We have successfully defended all disputed LVT applications with limited or no reduction in charges as a result of the tribunal hearing. However costs are estimated to be between £5,000 - £20,000 for each case. In most cases these costs are not recoverable from the applicants.
- 3.5.4 We offer bi-monthly evening surgeries to discuss payment issues. We also signpost to independent debt / money advice agencies or provide 1-1 welfare advice to leaseholders during office hours.
- 3.5.5 The most common issue with collection is the affordability of the monthly amount required to meet the timescale within the existing FAP. As demonstrated by the figures in paragraph 3.3.4 Leaseholders are not utilising the interest free period offered and we are unable to enforce that they do this. They struggle to pay when they receive the invoice and as this is on average 18 months – 2 years from the notice of estimates they have a relatively short timeframe to clear the balance.
- 3.5.6 As the current FAP is based on pre-payments and from the date that estimated costs are supplied, reporting has to be carried out on a manual basis as there are no system based reporting tools available. The move to the invoice based package recommended, supported by a planned IT system upgrade in 14/15, will enable the development of system generated reporting and monitoring.
- 3.5.7 A full review of the Major Works income and arrears process is required. This needs to be developed and aligned with the HIT work plan as part of the process mapping and workflow development already being undertaken.

3.6 Benchmarking

3.6.1 The table attached at Appendix B demonstrates the current FAPs in place for other local authorities and housing providers. Islington have indicated that they treat resident and non-resident leaseholders differently.

3.7 Proposed Amendments to Financial Assistance Package

3.7.1 Standard Repayment options for resident Leaseholders

2 years interest free option available to resident leaseholders commencing from date of invoice

3.7.2 Additional Payment Options for Resident Leaseholders

All resident leaseholders to have the following additional options, designed to ensure that bills of up to £36,000 equate to a maximum of £300pm:

Major Works Bill	Maximum payment term
£7,200 - £10,800	up to 3 years / 36 months
£10,801 - £14,400	up to 4 years / 48 months
£14,401 - £18,000	up to 5 years / 60 months
£18,001 - £21,600	up to 6 years / 72 months
£21,601 - £25,200	up to 7 years / 84 months
£25,201 - £28,800	up to 8 years / 96 months
£28,801 - £32,400	up to 9 years / 108 months
Above £32,401	10 years / 120 months maximum

If additional costs once added push the balance into another bracket the extended payment period will be consolidated and appropriate term agreed from the original invoice date.

3.7.3 Standard Repayment Options for non-resident leaseholders

Non-Resident leaseholders ability to agree payment terms subject to interest being payable from 14 days after invoice date.

3.8 Interest

3.8.1 Charging interest is permitted within the lease specified at 2% above the base

rate of the Council's bankers if any of the management charge or any part of it is not paid within 14 days of it becoming due.

3.8.2 The average cost of borrowing to the Housing Revenue Account (HRA) is 5% and it is recommended that interest should be charged for any extended payment period to cover this. It is recommended that Leaseholders pay interest at 5.5% being made up of 5% to cover the cost of borrowing plus 0.5% to cover the Council's administrative costs. This is in line with the proposal to the Cabinet on the Financial Assistance Package in 2009/10.

3.8.3 It is not possible using the existing IT system to calculate interest and at present this would need to be calculated and administered manually. There may be functionality available using the system developments planned in December 14 or that could be developed and/or purchased separately. A cost analysis would need to be completed to determine the feasibility of this and establish the level of interest and how this would be recharged and recovered.

3.8.4 Alternatively there are third party companies that offer an interest calculation model. Costs, processes and system requirements would need to be fully ascertained for this model in order to determine feasibility.

3.8.5 If it is not possible or feasible to calculate interest charges an administration charge could be established which would be added to the amount due and would be relatively simple and cost effective to administer.

3.9 Advance Payment

3.9.1 Informal pre-payment will still be encouraged and to support this payment within 14 days of invoice should be eligible for a 5% discount for resident leaseholders.

3.10 Additional items for the proposed revised FAP

3.10.1 Mandatory loans must be offered as per regulations.

3.10.2 Discretionary loans should no longer be offered as they are not popular and are ineffective with a limited application and take up rate.

3.10.3 Voluntary charges should continue to be offered in exceptional circumstances and subject to existing criteria however a review of the interest rate should be undertaken. Interest is currently stated as 8% per year but can only be calculated on a manual basis.

3.10.4 Buybacks should be offered on a case by case basis subject to criteria already set out.

3.10.5 Capping should remain on a case by case basis. A procedure for considering and authorising these needs to be devised.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Interest could be charged to all leaseholders from 14 days after they are invoiced. This option would reduce the financial implications but is likely to decrease leaseholder satisfaction. None of the other benchmarked organisations adopt this approach.
- 4.2 An interest free period could be offered to non-resident leaseholders from 14 days after they are invoiced. This option would have an additional cost of approximately £600k.
- 4.3 The extended repayment options could be offered to all leaseholders. This option would have an additional cost of approximately £800k.
- 4.4 The existing Financial Assistance Package could remain unchanged. This option would have no direct financial implication but is likely to result in an increase in challenge and legal costs in line with the increased level of invoicing anticipated. There is a possibility of repossession by LBE or mortgage lenders of leaseholders and or their tenants which would have an impact on Homelessness applications and the associated costs.
- 4.5 Detailed costs of the options are contained in the Financial Implications in section 6

5. REASONS FOR RECOMMENDATIONS

- 5.1 The proposed package seeks to mitigate concerns raised by leaseholders and elected members about the inflexible arrangements currently on offer when leaseholders receive large major works bills whilst limiting the impact on the HRA.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

- 6.1.1 The outstanding debt for Leaseholder Major Works at the end of March 2014 was £1.39m (2012/13 debt was £1.88m). The invoices raised in 2013/14 totalled £1.5m.
- 6.1.2 The estimated leaseholders' major works bills for the 2014/15 to 2016/17 total £23.748m. The table below provides a profile of the proposed billing for these years.

6.1.3 Table 1- Major Works bills

Leaseholder Major Works	£'000
2014/15	11,314
2015/16	8,450
2016/17	3,984
Total	23,748

6.1.4. The average leaseholder charge for 2014/15 is £11,604 (based on £11.314m across 1042 Leaseholders) with the highest cost is estimated to be £26,787. In contrast, the estimated average charge in 2013/14 was £2,698 (£1.584m recharged across 587 Leaseholders).

6.1.5 Cost of the proposal

The current financial assistance package for leaseholders is a two year interest free option for charges less than £3,000 and a three year interest free option for charges above £3,000 applied from the Notice of Estimate. This is available to all leaseholders.

The 2 year interest free option is cost neutral because payment is made before invoicing. 3 year interest free would have a small cost because of loss of interest in year 3 however because bills up until now have been low with an average cost of £2,698 there has been little need for a 3 year interest free from date of estimate.

The estimated cost of introducing the options identified in Paragraph 3.7 of this report for residential leaseholders only, is £904k for the period from 2014/15 to 2016/17. The breakdown of the cost is shown below. This represents the loss of interest at 5.5% on the debt outstanding for a two year period.

However it should be noted that this is the full cost of the new package, the existing package would have a cost too. This is estimated to be £453k over the 3 year period. This is because these bills are larger so the third year interest free would apply and this has a cost. In addition the old package applies to all leaseholders whereas the new package applies to resident leaseholders only who make up 53% of the total.

6.1.8 Table 3 – Cost of proposals

	2014/15 £000s	2015/16 £000s	2016/17 £000s	Total
Estimated cash loss on early payment discount	30	22	11	63
Cost of outstanding Resident LH debt	225	321	295	841

6.1.9 If all leaseholders were to pay interest rather than the option being interest free then the proposal would be cost neutral to the HRA.

6.1.10 Given the increase in the average bill to leaseholders it is anticipated that collection rates could fall significantly and these recommendations are made to encourage payment and improve collection rates.

6.1.11 The current IT system does not allow for the calculation of interest on outstanding debt. However, as detailed in section 3.8.3 and 3.8.4 alternative ways of calculating this could be identified. The cost of any new IT system could be recharged to leaseholders.

6.1.12 The cost of extending the payment options identified in this report to leaseholders has not been reflected in the HRA Business Plan. However, if the proposal is approved, the HRA Business Plan will be updated to reflect the cost of the options.

6.1.13 The estimated invoice position for 2014/15 is £11.3m, with a contingency provision of £1.1m, giving a net position of £10.2m. A bad debt provision of 10% gives a total of £1.1m. This allocation will be reviewed at the end of the financial year and adjusted to take into account actual collection levels.

6.2 Legal Implications

6.2.1 Counsel has advised that the Council may operate a financial assistance package as provided for under, regulation 5 of the Housing (Service Charge Loans) Regulations 1992/1708 ('the Regulations'). The Council would be discharging its duty under s76(2) of Local Government and Housing Act 1989 by ensuring that in the event of the Financial Assistance Package not being self-funding any shortfall would be compensated for by other credits within the Housing Revenue Account and not with credits from the Council's General Fund.

6.2.2 Moreover, any shortfall is envisaged to be modest and possibly non-existent because the cost of the interest free payment period of 2 years would often be offset by the additional interest that would have to be paid by the leaseholder after the initial 2-year period. This interest rate being set in accordance with Schedule 2 of the Regulations.

6.2.3 The Council has justifiable reasons for making such a financial assistance scheme available to its leaseholders. The scheme is a discretionary one operated within parameters set by the Regulations. It is within the Council's lawful exercise of discretion to make elements of the scheme available to resident leaseholders only. Resident leaseholders use the property as a residence and moreover other local authorities tend to have similar differential schemes.

6.3 Property Implications

Property Implications have been supplied but only on a provisional basis as follows:

The Housing Act 1985 and the Commonhold and Leasehold Reform Act 2002 allows for a landlord (in this case the Council) to recover service charges and costs associated with major repair works. It is imperative that the Council follows the required processes stipulated by the regulations and ensures that leaseholders are consulted and that costs are reasonable and can be justified.

There is no guarantee that the proposed measures will result in a better debt recovery rate. As a result, the Council should ensure that the Council secures its position by being able to place a Charge on the property for the recovery of debt, which will only materialise once the property is sold.

7. KEY RISKS

- 7.1** The capital programme has been based on an assumed level of collection between 2014/15 to 2016/17 for the recovery of Major Works charges from leaseholders. There is a risk that if these charges are not collected then there will be insufficient resources available to support these.
- 7.2** Decreased satisfaction from leaseholders facing major works bills under the existing financial assistance package. This is likely to lead to increased legal challenges, risk of recovery and costs.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

The proposals aim to provide more opportunities for leaseholders in Enfield Council owned stock to afford their major works bills and remain in their homes.

8.2 Growth and Sustainability

Developing and sustaining a decent housing standard with mixed tenure sustainable communities. Ensuring the collection of income will enable the Council to meet its landlord responsibilities and ensure that housing standards remain high in its property portfolio.

8.3 Strong Communities

Developing good quality housing will help to create and maintain strong sustainable communities.

9. EQUALITIES IMPACT IMPLICATIONS

The provision of the payment options recommended are intended to make resident leaseholder major works bills affordable for them and for home ownership to remain a viable housing option.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

- 10.1** The proposals contained in this report will increase ability to monitor and recover major works costs.

11. HEALTH AND SAFETY IMPLICATIONS

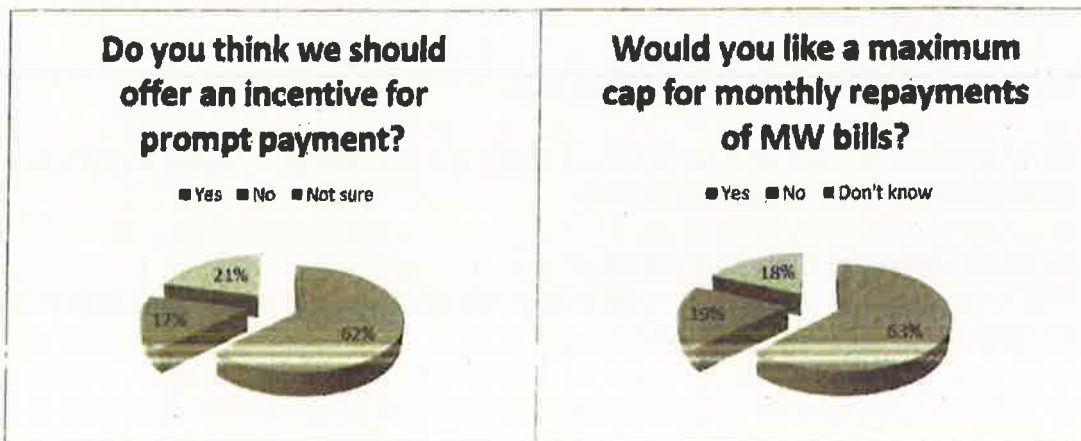
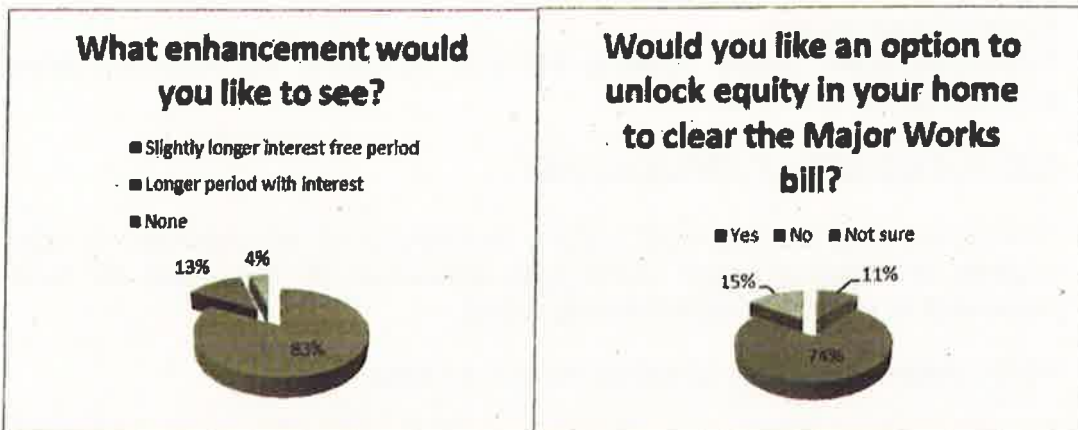
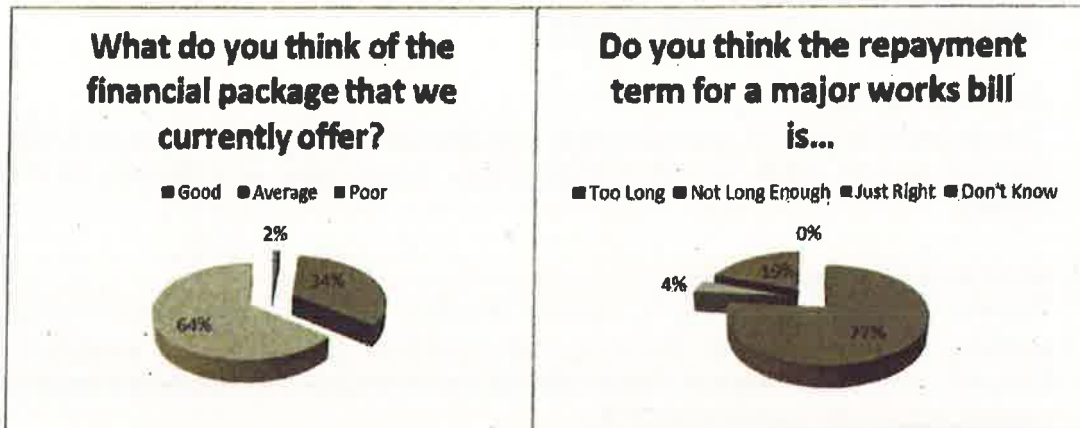
All properties owned and rented by Enfield are subject to rigorous health and safety checks as a matter of course.

12. PUBLIC HEALTH IMPLICATIONS

The provision of safe, clean affordable housing has a clear connection to individuals' health and wellbeing.

APPENDIX A

LEASEHOLDER FEEDBACK ON FINANCIAL ASSISTANCE PACKAGE MAY 2013



APPENDIX B

FINANCIAL ASSISTANCE PACKAGES OFFERED BY OTHER HOUSING PROVIDERS

	Early Payment Discount	Discretionary Loan/ Statutory Loan	Interest Free Loan	Voluntary Charge	Capping	Buy Back	Purchase of Equity
Ealing	2.5%	Up to 10 years	Up to 5yr with 3yr interest free	Yes	No	No	Yes
Haringey	5%	Up to 10years	Up to 3 years	Yes	Yes	No	No
Hackney	5%	Up to 25 years (Disc) Up to 10yrs (Statutory)	Up to 5yrs with 3yrs interest free	Yes	No	No	No
Barnet	2.5%	Up to 10yrs	Up to 2 yrs	Yes	No	No	No
Ascham	1.5%	Yes	Up to 2yrs	Yes	No	No	No
Ken & Chelsea TMO	No		Up to 3yrs				
Redbridge	No		Up to 2yrs				
Islington	5%	Up to 10 yrs	Up to 5 yrs	Min £3000	Yes	Yes	No
Southwark	No	Up to 10yrs	Up to 3yrs				
Enfield	No	Up to 10yrs (Disc & Stat)	Up to 3yrs	Yes	Yes	Yes	No



Leaseholder Repair Charges

As a landlord, or freeholder, the Council has a legal obligation to maintain its housing stock and keep it in a reasonable condition and state of repair. It does this through a combination of responsive, cyclical and programmed works.

Responsive repairs are carried out as and when repairs are required and are usually low level and charged through the annual service charge.

Cyclical works will be for routine longer term maintenance – such as painting of common areas and woodwork to keep elements in good condition and avoid the need for responsive repairs.

Programmed works are generally for the larger long term investment needed to maintain the properties and are for the overall upkeep and maintenance that is unlikely to be achieved using just cyclical and responsive repairs. They will usually involve access to hard to reach areas, often using scaffold, to assess these and ensure they are in good condition.

The programmed works are generally determined based on how long each component of the blocks is likely to last, as well as stock condition surveys that are carried out. We also consider other management information, such as estate inspection results and repair analysis. This information is used to prioritise the blocks that are most likely to need repairs and program them for inspection to specify the works needed. Works to similar blocks and areas are often also complete in the same project to make the best use of the budgets available as this will allow costs to be shared for onsite facilities, supervision, contract management and administration.

Programmed and cyclical works are generally called Major Works and are defined in legislation as being Qualifying Works for consultation where the costs are above £250 to any individual leaseholder. Failing to meet the consultation requirements will mean that a landlord can only recover up to £250 from each leaseholder, regardless of their costs and how much they should have been able to recover.

The scope of works for the blocks will be determined following these surveys and consultation with residents, leaseholders and other stakeholders. The Council will often include works that will make best use of any access arrangements, with a view to reduce future access costs and minimize disruption to residents.

Once the works are specified we notify leaseholders in line with our statutory consultation requirements, commonly known as Section 20. This involves issuing a notice advising what works we intend to do and we have to serve this if we believe the works will cost over £250 to any individual leaseholder. We must give a minimum notice period of 30 days.

Following the Notice of Intention a tender list of contractors is selected in line with the Council's Corporate Procurement process, to ensure that contractors meet all the necessary criteria in terms of financial stability, insurances, quality, experience and Health and safety. Any contractor nominated by a leaseholder must also be invited to tender, but they must also meet these requirements to be considered.

We then have to issue a further notice giving the estimated costs for the works with a further minimum notice period of 30 days. We will reply to any feedback we receive during this process and we have a statutory obligation under Section 20 to give regard to any observations made.

Once the consultation period is over the tenders are analysed and scored. A tender will be accepted from the contractor that has met the criteria, and been assessed as having the best price and quality, through a single stage selective tendering process.

As the full extent of works will often not be known until access is in place we build in a 10% contingency to the overall cost of the works. Any variations over this are flagged and notified to the project manager who will review and agree any variation required. We will also notify leaseholders if the result of any variation means that the overall price is likely to exceed the estimate given (including the 10% contingency).

The costs and progress of works will be thoroughly monitored and reviewed throughout the project so that once completed the full costs are known and the works can be signed off as being complete. The final account is then signed off through a robust validation process and individual charges for each leaseholder are determined.

If the works are less than initially thought, or the contingency is not used so that the price is lower than the estimate, the individual bill will take account of this.

The lease states that for communal works (including major works) leaseholders costs are worked out by Rateable Value. Rateable Values are figures assigned to each property in a block that are used to work out the percentage share that each property will need to contribute.

For tenanted properties the Local Authority as the landlord is responsible for the contributions for the properties they own and pays the same Rateable Value based amount for each of its properties. It funds the work to these properties through its own income streams, which includes the rent received from its tenants.

For any works carried out to individual properties, such as replacement of windows, the full costs are excluded from the common works bill and are passed directly to the individual property.

Please find an example of the breakdown of costs below

BREAKDOWN OF ACTUAL COST

	Variations - description	Estimate	Actual
Sub Total		£337,695.00	£337,695.00
Contingency		£20,000.00	£0.00
Variations	Asbestos Survey		£136.12
	Extraneous Electrical Services Single Phase supply		£1,280.00
	Extraneous Electrical Services Distribution Boards		£2,480.00
	Counterweight alterations		£2,140.00
	63 Amp Isolators		£1,576.00
	Provision of Clean Earth Cable		£1,477.14
	Repair of Neutral Supplies		£617.00
	Omit renewal of electricity supply		-£6,600.00
Subtotal + Variations		£357,695.00	£340,801.26
Fees @ 2.5%		£8,942.37	£8,520.03
Total		£366,637.37	£349,321.29

Total Block Cost	£349,321.29	
Block Rateable Value	28863	
Flat Rateable Value	190	
Rateable Value as a %	0.66%	(190/28863)
Contribution of Leaseholder	£2,299.52	(0.66% x £349,321.29)

