

LEASEHOLDERS MAJOR WORKS PAYMENT POLICY

1. Introduction

Cheltenham Borough Council (CBC) along with Cheltenham Borough Homes (CBH) wishes all leaseholders to be aware of their financial responsibilities for covering the costs of major works and encourages leaseholders to save towards these costs wherever possible to avoid payment problems. Failure to pay such charges is a breach of the lease, but recognises that large bills for major works can cause financial hardship for some leaseholders.

Where leaseholders are unable to meet the charges for major works, guidance will be provided on the options available and CBC and CBH officers will work with them to ensure they can pay the charges in the shortest possible period that is appropriate to their financial circumstances.

2. Standard payment method

Where a lease requires payment of a contribution to the cost of the works, the preferred option is for leaseholders to pay their charge on demand.

2.1 Other payment options

In appropriate circumstances CBC and CBH officers would endeavour to make alternative arrangements with leaseholders to spread the cost over a jointly agreed time period. CBC and CBH officers will provide guidance on the following payment options to leaseholders who are charged for major works. These are:-

- Personal savings
- Private finance (borrowing)
- Service Charge loans from Cheltenham BC
- Discretionary deferred payment
- Capped Service Charge Fees
- Voluntary charge on the property

2.2 Personal Savings

Officers will encourage leaseholders to save towards the cost of major works and repairs. Where possible, as soon as CBH are aware that major works are to be carried out, they will be required to consult and write to the leaseholder giving an estimate of the cost and their likely contribution. This is the most cost effective way of paying for all parties.

2.3 Private Finance (borrowing)

Officers will advise those leaseholders without savings to obtain independent financial advice on taking out a private loan. Leaseholders may find adding the amount to their mortgage, or seeking a private loan to be the cheapest method of borrowing.

2.4 Service Charge Loan

A leaseholder has the right to request a loan from the Council to cover the costs for major works done to the property demanded as part of the annual service charges, provided that: -

- The property was purchased within the last 10 years under the Right to Buy Scheme under a long lease.
- The cost of the charge for major works exceeds £2,330 less the amount of any service charges already requested within the same financial year.
- The minimum loan must exceed £780.
- The cost of the charge does not exceed £30,950 less any outstanding loans made previously under the policy.

The stated financial limits apply to 2009/10 and will increase in line with inflation as measured by the annual Retail Prices Index (RPI).

The repayment terms and period are specified within the 1992 Housing (Service Charge Loans) Regulations and are as follows :-

- Over 3 years – Less than £1,500

- 5 years – More than £1,500 but less than £5,000
- 10 years – More than £5,000

Leaseholders have the option to repay over a shorter period. The Council requires all loans to be repaid either by direct debit or standing order.

Principle / interest payments:

- The loan should be paid in equal instalments of the principal debt and interest combined.
- The rate of interest can be the higher of the standard national rate as set by the Secretary of State (currently 3.13%) or the applicable local average rate (currently for 2008/09 3.93%). As the local average rate is higher than the standard national rate, this means the Council is governed to charge the local average rate.

Security:

Loans shall be secured on the property concerned as specified in the legislation. Loans will only be granted to leaseholders who are residing at the property.

2.5 Discretionary deferred payment

The Council is aware that it is not always possible for a leaseholder to pay for a major works bill in one go or be able to borrow money from banks and building societies. A leaseholder may not be eligible for a Service Charge Loan or in the case of being eligible, may not be able to take up the option on the grounds of affordability. Therefore the Council, at its discretion, could offer various methods of payments to help leaseholders, based on individual circumstances. The Council would offer discretionary loans to leaseholders once they have proved to officers that they have not been able to obtain a loan from elsewhere. Officers will consider each individual leaseholder's circumstances, taking into account their ability to repay the loan and the amount of equity that they have in their property, before arriving at a decision. This discretionary loan option will only be given to a leaseholder in extreme hardship.

In these circumstances, the council will consider the following options

2.5.1 Two year payment plan

Invoices raised from £1,000 up to a maximum of £5,000 can be repaid over a period of two years. These bills would be raised on the Council's debtor system with a payment plan for the leaseholder to adhere to.

2.5.2 Extended Payment Option

If a leaseholder is unable to pay the full invoice within the 24 month period, they can request to extend the repayment period up to a maximum of 5 years. The interest rate applicable for the extended 3 years period will be charged at the same rate as a Service Charge Loan as detailed in paragraph 2.4.

The leaseholder would be able to apply for an extended payment option if they are entitled to any of the means-tested benefits or allowances listed below:

- Income Support
- Council Tax Benefit
- Working Tax Credit
- Any Disability Allowance
- Invalidity Pension
- State Retirement Pension as the only source of income

2.5.3 Capped Service Charge Fees

There is a discretionary power to cap service charge fees at £10,000 over five years under the "The Social Landlords Discretionary Reduction of Service Charges (England) Directions 1997".

2.6 Voluntary Charge on the property

If none of the above payment options assist a leaseholder facing extreme hardship, a legal charge (known as a Voluntary Charge) can be secured on the property with the Land Registry. Interest will be charged as detailed in paragraph 2.4. Once the property is sold, assigned, or passed on through inheritance, the charge would be immediately repayable to the Council. The leaseholder

will be required to pay the monthly interest to the Council but if this was not possible then the Council could accrue the interest to be paid from the proceeds of the sold property.

Application process:

The leaseholder may apply in writing for alternative payment options, as outlined above within six weeks of a demand for the major repairs works (or within six weeks of approval of this policy for existing outstanding repair costs). This decision is delegated to the Assistant Director - Community Services.

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