



## **SERVICE CHARGE COLLECTION AND ARREARS RECOVERY**

### **PROCEDURE NOTE**

**July 2015 – v.6  
London Borough of Southwark  
Home Ownership Services  
Specialist Housing Services Division  
Housing & Community Services**

### **INTRODUCTION**

A service charge is a charge levied on a leaseholder (or freeholder on an estate) for any service provided to the property, or the estate on which the property is situated. Service charges represent a share of our costs for providing and maintaining services to our blocks and estates.

These may be day to day services for example cleaning, caretaking etc which are usually known as annual or revenue service charges, or charges for major works, often called capital service charges.

Payment can only be enforced if the costs for the service are 'reasonable', and the service was provided to a 'reasonable' level, and it was 'reasonable' to carry out the works or service.

The collection of Service Charge arrears is the most important core performance indicator in leasehold Management.

Before the start of the financial year the council will issue a reasonable estimate of the amount we expect the service charges to be. Under the terms of the lease leaseholders should pay the estimated charges in advance on 1 April, 1 July, 1 October and 1 January. Alternatively, we accept twelve monthly payments from April to March.

After the end of our financial year, we prepare our final accounts with details of what

was actually spent on providing the services to you. If we have over-estimated the

charges, you will receive a credit on your account, but if we have under-estimated the charges, you will receive an invoice for the extra.

Freeholders are invoiced on the actual costs in arrears. They will receive the annual service charge in October each year for the costs incurred for the previous year.

From October 2011 the estimated major works service charge invoice will outline the service charges (estimated) due in individual financial years over the course of the contract to reflect the expenditure during the tendering, works and defects liability periods.

We will therefore provide a breakdown of the total invoiced sum into the expenditure over individual financial years. This may break the invoice down into 1, 2, 3 or more years. For example, an estimated invoice in the sum of £2,125.00 may be broken down into £125.00 due in year one (current year), £1,500.00 due in year two and £500.00 due in year three.

As with the revenue service charge invoice, under the terms of the lease, leaseholders are liable to pay the invoice as broken down by the individual financial years by four equal instalments over a period of 12 months for each financial year on the payment days (April 1, July 1, October 1 and January 1).

Should the leaseholder choose to pay in accordance with the terms of the lease they would be expected to pay the sums due in accordance with the payment dates in each year.

If the leaseholder is unable to pay the major works service charge invoice amount in full on the payments dates for each year there are alternative options available;

The council is acutely aware that major works service charge invoices place an additional burden on leaseholders financial resources. The council is therefore able to extend the payment plan for resident leaseholders to 36 equal monthly instalments, interest free, from the date of the invoice. The option to pay over 36 months (interest free for resident leaseholders) will be on the total invoiced sum only. We will not permit the option to pay each part of the invoice in separate payment plans. In the event of a payment plan not being in place, we will collect the service charge in accordance with the terms of the lease.

In exceptional circumstances resident leaseholders may apply for an extension of the 36 months interest free period to 48 months.

### **Guiding Principles**

1. Each property will have a service charge account. The account will consist of a revenue service charge invoice for each financial year. Depending on the investment programme and the cycle of works many will also have an invoice(or invoices) for major works service charges. A collections officer taking arrears action with regard one invoice should always consider whether or not the action should include any of the other invoices, unless there are mitigating circumstances. **(See Appendix A – the IWorld service charge accounting system)**
2. Collection of service charge arrears is not made in a vacuum, but with reference to the lease, current legislation, case law and the council's policies and procedures.

3. Although procedures are standard for all cases, collections officers *should always* have regard to leaseholder's / freeholders circumstances, and first and foremost address their concerns.
4. The audit trail should be transparent.
5. Early and continual contact should be maintained to ensure that individual cases do not deteriorate.
6. Initial contact with the leaseholder should incorporate two factors:
  - a) benefit advice for those who are struggling to pay
  - b) any payment options schemes offered by the council

### **Benefit Advice**

Few benefits are available to full equity leaseholders, basically income support for the 'essential' elements of the service charge. There is inconsistent practice within the Department of Works and Pensions (DWP) around support for service charges to eligible claimants. DWP officials have commented that interpretation of the regulations are "for their officers to decide upon" given the circumstances of each claim. For example, service charges for major works service charges have been paid but in other cases the support is in the form of monthly payments to cover interest on loans taken out to pay the service charge.

### **Payment Options**

Southwark council has one of the largest array of payment schemes of any local authority aimed at assisting leaseholders to pay service charges. From allowing leaseholders to pay their annual service charges monthly to the more numerous and complex schemes to assist with major works service charges.

The full payment options can be found out the back of this procedure note in **Appendix B** but range from;

- a) Payments over period's interest free
- b) Service charge loans. In these schemes the amount of the major works service charge, together with any administration costs, are loaned to the leaseholder and secured as a mortgage charge on the property. The rules governing service charge loans are set out in statutory instrument number 1708/1992 made pursuant to the amendments to section 450 Housing Act 1985 by section 5 Housing and Planning Act 1986.

The regulations cover two schemes;

The mandatory scheme, which covers certain special (fairly restricted) circumstances where a loan must be granted and  
the discretionary scheme, which allows loans to be granted in other circumstances

The loans are made by the council. The loan is interest bearing but for discretionary loans the rate of interest can now be a 'reasonable rate' determined by the lender (see The Housing (Service Charge Loans) (Amendment) Regulations SI2000/1963).

The current rate (November 2012) is 0.5% above the base rate for the discretionary service charge loan and 2% above the base rate for the voluntary service charge loan.

The regulations allow for three basic types of loans:

- i) Those requiring monthly payments of capital and interest which act like a normal repayment mortgage.
- ii) Those requiring monthly payments of interest only during the term which can be linked to income support benefit
- iii) Those which roll up the capital and interest to be repaid on disposal of the property

c) Equity Loans / Equity Release. In these schemes the amount of the major works repair service charge, together with any administration/professional costs are expressed as a percentage value of the property.

Equity Loans: in these schemes the service charge is paid in lieu of the council taking a charge against the property to be paid on disposal in the form of a percentage of its eventual sale price. In a market where property prices are increasing the relevant percentage could be calculated by expressing the service charge as a percentage of the current property value, the rise in property prices covering the interest which would otherwise be due. However in stagnant markets or situations where property values are falling the initial percentage may have to be higher to ensure the landlord recovers the service charge, costs and interest. Equity loans are simple to administer (they are a charge on the property) but the relevant percentage may be difficult to ascertain, it requiring judgements around issues such as the state of the property market over the period until the property may be sold.

Equity Share: in these schemes the service charge is paid in lieu of the council taking a relevant proportion of the equity of the property and renting it back to the leaseholder. This may require the surrender of a full equity lease and grant of a shared equity lease. In these schemes the relevant proportion of the equity is more easily calculated – by expressing the service charge as a percentage of the current property value because the rent will cover the interest. Equity share schemes are more complex to administer than Equity Loan schemes both in terms of conveyancing and agreeing the new lease terms.

The power to assist leaseholders with Equity Loan and Equity Share schemes are set out in sections 308 and 309 Housing and Regeneration Act 2008 respectively. The statutory provisions are relatively simple, giving landlord's scope to devise their own schemes to sort local circumstances.

### **Waiving Service Charges**

All of the above schemes are designed to help leaseholders pay their fair share of the costs of providing repairs services. The Secretary of States Directions made pursuant to section 219/220 Housing Act 1996 set out the circumstances in which local authority landlords must waive service charges and also their discretionary powers to do so:

- the mandatory scheme was initially designed to deal with the conundrum of whether or not local authorities could charge for grant funded repair works i.e. whether the landlord local authority had incurred a cost. The mandatory directions dictate that the service charges in respect of certain grant funded or

assisted major works projects (more lately Private Finance Initiative or Community Challenge Fund schemes) should be capped at £10,000 in any five year period (or a lower amount as previously agreed by the Secretary of State on application).

- the discretionary scheme is now mainly limited to being able to cap major works service charges which exceed £10,000 in any five year period to £10,000 in cases of hardship.

### **Buy Backs**

It may be the case that the leaseholder can no longer sustain home ownership, in such cases consideration could be given to buying back the property and leaving the erstwhile leaseholder in situ as a periodic tenant. Indeed government policy supports such activity, pertinent capital regulations allowing local authorities to keep some of the cost of repurchase by offsetting 35% of the cost (after the first £50,000) against Right to Buy receipt pooling. Once again the detail of a buy back scheme will differ from landlord to landlord but some key considerations include:

- repurchase at sitting tenant value (rather than open market value with vacant possession)
- whether this value will suffice to redeem existing mortgages/service charge arrears
- repairs required to ensure property is 'fit for habitation' at the commencement of the new periodic tenancy.

### **Basic Responsibilities**

1. Each collections officer will be responsible for collecting current charges and arrears for a portfolio of approximately 1000 to 1500 properties. It is the collections officer's responsibility to liaise with colleagues in the division who are also dealing with that property and with staff in housing management or other departments who provide the services billed for.
2. The collections officer should familiarise him/herself with the terms of the lease or freehold transfer of the property concerned.
3. No action should be taken until the file has been read, and any relevant issues taken into account.
4. No action should be taken if there is any doubt about the legitimacy or accuracy of the charge. It is the collections officer's responsibility to satisfy him/herself that the charge is due and payable. In case of doubt always refer to the relevant manager.

5. It is important to establish who the homeowner is. If in doubt, order an office copy from land registry. If this shows a change of ownership, or if at any time a change of ownership, or contact details are notified, these must be reported to the (Assignments Section (correct at November 2012) immediately and confirmation indexed via I@W under the correct coding.
6. It is the responsibility of all officers in the Specialist Housing Division having any dealings with a homeowner to ensure that copies of all relevant papers, emails and correspondence are placed in the correct electronic house file. Missing information can result in inappropriate action.

### **Management Intervention**

Each month end, the statistics for the service charge sections are analysed for contracts and area trends. We examine the collection rates on a contract, area and individual basis. Areas of non and underpayment are discussed with the officers / managers concerned and the appropriate action is taken. *This in turn leads to a reiterative process* (described below).

### **Model Recovery Procedure**

*This procedure is to be used when there is neither response nor payment (see **Appendix B for agreed payment methods**) after an invoice has been issued. In cases where the leaseholder raises valid complaints about either the service charged for, or the cost of that service, the Collections Officer should consult his/her manager before proceeding.*

1. If an estimate invoice remains unpaid from a month of the date of the invoice, and there has been no contact from the leaseholder regarding either payment options, or lodging a valid complaint or question concerning the service billed for, then a first 'chaser' letter seeking payment should be sent. No reference to legal action should be made in the letter, but it must:

State the invoice number(s), the outstanding balance(s), detail the service(s) to which the invoice(s) relates,. Point out that failure to pay is a breach of the lease. Point out that interest can be added under the terms of the lease. Detail the relevant repayment options Request a response within 10 days. If there is an available mobile number logged correctly(SMS & Text indicator 'Y') on the system we will also send a text message as an additional reminder. The text includes a way to pay link and officer telephone number)

2. If no response is received within 10 days, the Collections Officer should send a second 'chaser' letter. This letter must:

Refer to the first letter/previous correspondence. State the invoice number(s), the outstanding balance(s), detail the service(s) to which the invoice(s) relates . Request a response within 10 days. If there is an available mobile number logged correctly(SMS & Text indicator 'Y') on the system we will also send a text message as an additional reminder. The text includes a way to pay link and officer telephone number)

3. If no response is received within 10 days, the Collections Officer should order an Office Copy from Land Registry (if no recent copy is on file), and send a third 'chaser' letter. This letter must:

State the invoice number(s), the outstanding balance(s), details of the service(s) to which the invoice(s) relates and the date(s). State that failure to pay the amount outstanding within 10 days may result in the Council taking legal action. Confirm that interest may now be added to the sum outstanding, also confirm that we will make the mortgagee aware of the debt, stating the amount due and what it is for, and that non-payment constitutes a breach of the lease. Advise the mortgagee that there are arrears on the property and should we not receive payment within 10 days we will commence legal action. Also send an occupier letter to the leasehold property advising leaseholder/possible tenants of substantial arrears on the property. If there is an available mobile number logged correctly(SMS & Text indicator 'Y') on the system we will also send a text message as an additional reminder. The text includes a way to pay link and officer telephone number)

4. If no response is received within 10 days we will then send a letter of demand, mortgage letter and occupier letter. This letter must:

State the invoice number(s), the outstanding balance(s), details of the service(s) to which the invoice(s) relates and the date(s). State that the Council will issue proceedings in the County Court for recovery of the debt without further notice. If there is an available mobile number logged correctly(SMS & Text indicator 'Y') on the system we will also send a text message as an additional reminder. The text includes a way to pay link and officer telephone number)

Should no payment be forthcoming from the leaseholder, and the mortgagee refuse to discharge the debt, then the Collections Officer will review the case in full and make a determination if the case should be referred to the Income Enforcement Team.

Before the referral is agreed the Collections Officer will be required to do back ground checks on the Council tax system to ensure there is no other corresponding address that we are unaware of and to evaluate if the leaseholder is actually living at the property. In the case of a LTD company being the registered owner the Collections Officer will be required to check on the below website:

<http://wck2.companieshouse.gov.uk/5371740a3b394701e321f208802b5e85/wcframe?name=accessCompanyInfo>

These checks are to verify if the company may have an alternative address, if the company is still active and inspect when it last filed accounts.

## 5. Actuals

The final account adjustments that result in a debit are due within one month of the date on the invoice as per the third schedule of the lease.

The adjustment amount needs to be paid separately from the current years charges as in the case when a leaseholder is making regular monthly payments based on the estimated amount but fail to address the additional actual amount.

If the additional amount is not settled in full in accordance with the lease then immediate recovery action will take place on this new invoice in line with the above procedure.

Subject to the approval of the relevant Team leader/Manager it is possible to agree an extended period for settlement of particularly high final account adjustment; all to be considered on a case by case basis.

The final account adjustments that result in credit should generally remain on the account so as to off set against the overall service charge balance. The credit amount can only be refunded to the leaseholder if a mutually acceptable payment plan is in place and the leaseholder is not in arrears on any other service charge account, including major works.

## 6. Freeholders

In the fall of every financial year we bill Freeholders for the actual charges incurred for the previous financial year. In accordance with the transfer these charges are due and payable (Immediately) or within one month of the date on the invoice. However, the Council appreciate these charges can sometimes be substantial and we therefore offer Freeholders the opportunity to spread their invoice over 12 months (Oct – Oct).

Should we not receive any contact from the Freeholder within a month from the date of the invoice we will commence the same procedure as outlined in point 1, however the clear difference is that we will be demanding the full amount at every stage, not just a proportion and we also ensure that the Transfer has all the correct covenants. Should we not receive any contact within 14 days of the first letter we then follow the procedure on as per point 2 above. If we have still not managed to enter into a payment agreement at this stage we follow on to point 3 as above, however, once again there is a sole difference at this stage, we will not inform the Freeholders mortgagee of any arrears on the said property.

If no response is received within 10 days we will then send a letter of demand and occupier letter. After 10 days of the date of the letter of demand, should we still have had no contact, the collections officer then prepares the account for the Enforcement Manager as per point 4 above.

## 7. If the Income Enforcement Manager decides to issue proceedings, then the Collections Officer should be prepared to attend court.

Of course, life is rarely this simple, and more often than not Collections Officers will find themselves involved in disputes with leaseholder over the standards of works and services. When this is the case the important point to bear in mind is the fact that whatever objections a leaseholder may raise to paying a charge, and however reasonable and valid such objections may appear, they must not be allowed as an excuse to pay nothing until the dispute is resolved.

The lease clearly states the following:

“(3)(a) To pay the Service Charge contributions set out in the Third Schedule hereto at the times and in the manner there set out  
(b) If any payment of or on account of Service Charge is not made on the due date for payment thereof for any reason including dispute as to

the amount properly payable then to pay interest thereon from the due date until the date of payment as well after as before any judgment upon the amount properly payable at 5% above the National Westminster Bank PLC Base Rate prevailing from time to time”

‘I’m not paying my annual service charges because the caretaking on the estate is no good.’ – Fine, pay the buildings insurance, grounds maintenance, communal lighting, etc., whilst we look into the caretaking issue.

‘I’m not paying this major works charge because I dispute the costs for scaffolding and preliminaries, and the painting wasn’t done very well.’ – Fine, pay 50% (60%, 70% pending further investigations) now, and we’ll sort the rest out when the final costs for the contract are agreed.

Where there are disputes it is the Collections Officer’s job to seek information from the relevant departments on the point(s) in question, and not merely refer the leaseholder to them. This is important because:

- a) You will then know that there has been a response, and what that response is.
- b) You will keep control of the situation.

If it appears that a dispute cannot be resolved, and a leaseholder is refusing to pay all, or a substantial part of, the charge, then you should consult with your line manager and the Income Enforcement Manager over possible future action.

It is up to **the individual collection officer** to liaise with the Team leader/Collection manager and/or the income enforcement manager whether or not to pass a case over to the litigation section:

The test being – *“Would we be successful in accordance with”*

- I. The terms of the lease
- II. Reasonableness
- III. Would we receive a counter claim
- IV. Timing of the invoice

We proceed to litigation **only** when all over avenues have been fully addressed.

### Leaseholders

Once the ‘particulars of claim’ are filed with the county court the Council will be informed whether or not the case is to be defended.

### Claim admitted/not defended

If the claim is admitted or the case is not defended the county court will award judgement in default.

### Claim defended

If the claim is defended the county court will, at its discretion, refer any matters regarding service charges to the First Tier Tribunal which has the power to decide on such matters as: the reasonableness of a service charge (whether it was reasonable to incur the cost in the first place and whether the standard of work or service

reasonably reflect the cost); by whom and to whom the service charge is payable; when and how much.

First Tier Tribunal cases are usually decided at a hearing where all the parties involved can attend to give oral evidence and explain their case in person. Whilst hearings are strictly managed procedurally by the claim of the tribunal the hearings are more informal than the courts and there are no rules of evidence, for example, oaths are not taken. Hearings can be dealt with on the fast track (where there are a limited number of simple issues) or standard track and will often involve a visit to the property by the tribunal members. Cases can be decided upon without a hearing on the basis of documents and written representations alone.

A more detailed explanation of the powers of First Tier Tribunals and the processes they employ are set out in the booklet "First Tier Tribunals, Guidance on Procedure" which can also be accessed on the website

<http://www.justice.gov.uk/global/forms/hmcts/tribunals/residential-property/index.htm>

It is not uncommon for defended claims to involve a counterclaim (usually for disrepair) which will be decided upon by the court.

If the FTT find in favour of the Council and the arrears are not paid the case is referred back to the county court for judgement and the process for undefended claim set out ante can be taken. The FTT may decide that some of the service charge monies are not due, in such cases the service charge account should be adjusted before monies are demanded and the case referred back to the county court.

If the service charge debt is not cleared on the terms set by the court the Council is able to take enforcement action:

- the first step is usually to approach the mortgagee to request payment; most will contact their mortgagor to request payment is made within a specific period, failing this they will pay the outstanding sum (adding it to the mortgage balance). Most mortgagees will insist that a forfeiture notice (section 146 Law of Property Act 1925) is served before taking similar action.
- alternatively (for example if there is no mortgage) the Council can return to court to enforce the debt judgement. Enforcement can take several forms: distraint; attachment of earning (or benefits); but far more common for homeowners is to put a charge on the property (at a rate of interest prescribed by the court). The charge will cover outstanding service charge balances together with costs.

The Income Enforcement Team may agree a payment with a leaseholder at any point after the proceedings have been issued on the following terms:

- when a debt inclusive of court fees and interest is less the £3,000 the amount can be spread over 2 months as long as the first payment is received in the month in which the arrangement is made

- when a debt is over £3,000 a monthly payment plan can be extended to the maximum period of 3 months as long as the first payment is received in the month in which the arrangement is made
- in cases of major works debts and strictly subject to the approval of the Revenue and Income Manager the Income Enforcement Team may offer an option to apply for one of the discretionary loans; subject to successful application and full terms and conditions as detailed above; the loan must complete (both application and registration) within 4 weeks of approval.

### Forfeiture

- as a final step the Council can apply for forfeiture i.e. to take possession of the property. The lease is rescinded as though it never existed. This is seen as a draconian remedy and one that should be used only as a last resort; the value of the property usually far outweighing the level of service charge arrears. First the Council must serve a notice on the leaseholder which complies with the provisions set out in section 146 Law of Property Act 1925 which includes:
  - stating the nature of the breach of lease
  - what must be done to remedy the breach
  - the timescales for remedying
  - the level of damages sought (costs etc).

Although forfeiture itself is correctly seen as draconian the 'section 146' notice was one of the earlier protections afforded to leaseholders. Prior to the legislation landlords often took 'walking possession' in accordance with the terms of the lease which dictate possession can be taken for breach of lease terms, even if the leaseholder was unaware of the breach.

On expiry of the notice timescales if the breach of lease is not remedied the Council is entitled to possession however in most cases the leaseholder is resident and are therefore afforded protection pursuant to the Protection from Eviction Act 1977. The Council must obtain a court possession order.

Note: at any time up to forfeiture the court may make an order for relief from forfeiture and indeed post forfeiture may make an order altering the terms of any previous judgement. If forfeiture is gained, the property is re-let and relief granted there are no grounds for the Council to determine a secure or assured tenancy. The Council could be in a position of being unable to surrender vacant possession. For this reason it is more usual to sell the property post forfeiture thus any relief will be granted in the form of money.

The Income Enforcement Team is required to instruct Legal Services of the Council in order to commence possession action.

### ***This procedure is a reiterative process***

If a leaseholder indicates that they intend to refer the matter to the First Tier Tribunal you must immediately inform both your line manager and the Litigation Officer. If a case is referred to the FTT then Collections Officers will be expected to assist in constructing the Council's case, and attend the Tribunal to give evidence.

If the FTT find in favour of the Council and the arrears are not paid the determination can be referred to the county court for enforcement and the process for undefended claim set out ante can be taken. There is no need to obtain money judgment as the FTT determination is sufficient for the purposes of serving a notice under the section 146 of the Law and Property Act 1925 as detailed above.

The Council would consider applying for a money judgment if there is no mortgage secured against the property so that the Council can place a charge against the title.

Further information on the litigation process can be found on the following pages:

<http://www.lease-advice.org/>

[http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/Leaseholdproperties/DG\\_191691](http://www.direct.gov.uk/en/HomeAndCommunity/BuyingAndSellingYourHome/Leaseholdproperties/DG_191691)

<http://www.justice.gov.uk/global/forms/hmcts/tribunals/residential-property/index.htm>

### Freeholders

The FTT does not have jurisdiction to consider service charge disputes concerning freehold properties. The disputes following issues of the claim form remain in the county court. There is also no lease liable for forfeiture.

The following methods of enforcement of the judgment are at the council's disposal:

- Bankruptcy
- Charging order
- Seizure of goods
- Attachment of earnings (benefits)

Should the judgment remain unsettled the Income Enforcement Manager is to decide on the appropriate course of enforcement.

Placing a charge against a property is favoured method of enforcement on the debts between £1,000 up to £10,000. For the judgment below £1,000 seizure of goods or attachment of earning should be considered, depending on circumstances of each case.

Bankruptcy proceedings will only be considered against the freeholder if the debt is over £10,000.

Otherwise all the principles applicable to leaseholders are to apply to apply equally to freeholders.

## **Appendix A**

### **The IWorld service charge accounting system**

The accounting system currently in use in Southwark (IWorld – BAR system), implemented in Feb 2012.

Please review the following folder for a how to use guide: **G:\Specialist Housing Services\Revenue and Income\BAR Project**

## **Appendix B**

**Payment Schemes – Please see payment options leaflet stored @: G:\Specialist Housing Services\Revenue and Income\Collections\Collections Procedure**

### *Revenue Service Charges*

The terms of the lease state that payment should be by four equal payments on the Council's 'payment days' – 1 April, 1 July, 1 October and 1 January. However, we also accept payment by equal instalments over 12 months (or less), or payment of the full amount on or before 1 April.

(Note: Leaseholders whose only income is from some basic state benefits may qualify for assistance from the Benefits Agency for payment of annual service charges. If you suspect a leaseholder could qualify, you should direct them to the Benefits Agency or the CAB. There is no such assistance for Capital Works charges).

### **Paying a major works bill**

On receiving a major works service charge bill, you should contact us to arrange payment within 30 days. Contact details for the officer dealing with your account will be given on the invoice. You may make payment by any of the following methods:

- By setting up a standing order with your bank

- By telephoning the 24 hour automated credit and debit card line 0845 6000 611. Please choose option six and quote your invoice reference number
- By sending a cheque to cashiers, PO Box 11767, SE16 3ZF
- By sending a cheque to Home Ownership Services, 153-159 Abbeyfield Road, Rotherhithe, London SE16 2BS
- Online on the council's web site [www.southwark.gov.uk/onlinepayments](http://www.southwark.gov.uk/onlinepayments)

We recognise that major works invoices can be a substantial financial commitment, and offer a number of options for spreading the cost. On the following page you will find a comparison of the main options for an example amount of £5,000. Further detail for each option is given on subsequent pages of this booklet.

Should you have any further queries about your account, you can call the Collections team on 0207 525 5936, or through Home Ownership Services' general contact number, 0207 525 1400.

For an example amount of £8000.00 (using charges and rates as of July 2015)

Option	Monthly instalment amount	Repayment period	Total repayable	Conditions
Payment over 1 year (interest free)	£666.66*	12 months	£8,000*	<ul style="list-style-type: none"> <li>• Repayment must start immediately</li> <li>• If you miss a payment the full amount in accordance with the Lease will <b>become due</b> and <b>interest is added</b> until balance is paid</li> </ul>
Payment over 3 years (interest free)	£222.22*	36 months	£8,000*	<ul style="list-style-type: none"> <li>• Repayment must start immediately</li> <li>• If you miss a payment the full amount in accordance with the Lease will <b>become due</b> and <b>interest is added</b> until balance is paid</li> <li>• Not available to leaseholders who sublet</li> </ul>
Payment over 4 years (interest free)	£166.66	48 months	£8,000*	<ul style="list-style-type: none"> <li>• Repayment must start immediately</li> <li>• If you miss a payment the full amount in accordance with the Lease will <b>become due</b> and <b>interest is added</b> until balance is paid</li> <li>• Not available to leaseholders who sublet</li> </ul>
Discretionary service charge loan	5 years: £149.86*	Variable – up to 25 years	5 years: £9,091.74*	<ul style="list-style-type: none"> <li>• There must be sufficient equity in the property to secure the loan</li> <li>• Final amount payable includes admin fee (currently £550) and redemption fee (currently £100)</li> <li>• <b>Your home may be at risk if you do not keep up repayments</b></li> </ul>
	10 years: £78.67*		10 years: £9,540.58*	

If you are on a low income and cannot afford the above options we may consider allowing you to secure the debt through a voluntary charge on your home. No monthly payment is made, but the debt (plus interest) is repaid when you sell your home:

Voluntary charge	n/a	Repaid on sale of property: example after 5 years	£9,718.60* inc £550 admin fee £100 redemption fee	<ul style="list-style-type: none"> <li>Debt, including interest, is repaid in full when home is sold.</li> </ul>
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\*Based on current interest rates and charges (as of July 2015) and the example amount of £8,000. **Please note these amounts are intended as a guideline only: your account officer will tell you the exact amount and terms of repayment.**

### Repayment options in detail

**Please note that you may also wish to take independent financial advice when considering repayment options.**

#### **1. 12 month interest-free repayment**

The simplest way to spread payment is to settle the invoice over 12 months. You will incur no interest and pay only the amount of the original invoice, spread over 12 equal instalments.

This option is available to all leaseholders, but you should apply to us in writing first.

#### **2. 36 month interest-free repayment**

You may settle the invoice over 36 months (3 years) without paying interest or extra charges. Payment is made in 36 equal monthly instalments.

If this option is agreed, you must start paying immediately. If you miss a payment, the whole amount will become due and interest may be added until the balance is paid.

The extended interest free payment schemes **are restricted to resident leaseholders only**. In those instances where leaseholders occupy an alternative dwelling as their principle home, the statutory and contractual repayment requirements as set out in the lease will apply.

#### **3. 48 Month interest-free repayment**

In exceptional circumstances, resident leaseholders may apply for an extension of the 36 months interest free period to 48 months

#### **5. Service charge loan**

A service charge loan is effectively a mortgage, as it is secured against the property. As with a mortgage, **you should be aware that your home may be at risk if you do not keep up repayments**. The interest rate will be lower than for an unsecured loan.

To apply for a loan, you should either telephone Home Ownership Services (Collections Team) on 0207 525 5936, email [hsg.homeownership@southwark.gov.uk](mailto:hsg.homeownership@southwark.gov.uk) or write to us at:

Home Ownership Services  
Specialist Housing Services Division  
Housing & Community Services  
153-159 Abbeyfield Road, London, SE16 2BS

Please quote the account / invoice number on any correspondence.

In response, we will write to you enclosing an application form, information sheet and a quote calculator sheet, which will enable you to work out the length of loan and repayment amount most suitable for you. You should respond to us within 3 weeks indicating whether or not you would like to apply for a loan.

#### **Credit checks**

As part of the application process, we will check the information you have given us on any other debts secured against your property, such as your mortgage. This will ensure that the amount of debt(s) secured against the property, including the proposed loan, is not greater than the value of the property.

Once we are satisfied that there is sufficient equity in your property and that your financial circumstances are sufficient to enable you to meet your chosen payment amount, we will write to you confirming acceptance.

### **Finalising**

If there is already a mortgage secured on the property, we will finalise the loan by seeking the consent of the company or companies involved: this is a formality. We will then instruct our solicitors to register the charge, after which we will write to you to inform you of the date of the first payment. This will usually be a minimum of one month after our letter of confirmation.

### **Mandatory loans**

There are two types of service charge loans: discretionary, described above, and mandatory (or 'statutory').

A **mandatory loan** applies under a limited set of conditions. If you receive a Major Works bill **within** 10 years of your flat being bought under RTB, and the invoice is for a minimum of £2,147 and a maximum of £28,882 under current figures, and you apply for the loan within 6 weeks of receiving the invoice, the Council is required to offer you a mandatory loan.

The Council must offer you this loan **whether there is sufficient equity in your property or not**. There is a variable repayment period set out by regulations: £714.00 - £2,146.00 within 3 years; £2,147.00 - £7,144.00 within 5 years; and over £7,145.00 within 10 years. However, the interest rate you will be charged, which is also regulated, will probably be higher than for an equivalent discretionary loan.

## **6. Voluntary charge**

If you are on a low income and cannot afford any of the above options, we may consider allowing you to secure the debt through a voluntary charge on your home.

This means that you do not have to make any payments, but the debt will continue to attract interest and will be paid off when your home is sold.

## **7. Equity loan and equity share**

In the past few years we have been lobbying the government for powers to provide more ways to help you pay major works service charges.

We can now offset major works charges by taking on an equity share in your property in one of two ways:

- **The equity share scheme**, in which the Right to Buy lease is surrendered and a new shared ownership lease granted. Our percentage share of the equity would be equivalent to the amount of the charges as a percentage of the property's total value.
- **The equity loan scheme**, where this is done by means of a legal charge.

In both cases, we will need to carry out a valuation of your property to verify the cost of the works as a percentage of the value.

When the property was sold or reassigned in future, the council would redeem their percentage share of the equity.

### **8. Other repayment options**

You may prefer to arrange finance from other sources than the Council. A number of alternatives may be available:

- **Extending your mortgage.** If you already have a mortgage from a bank or building society, they may be willing to extend the mortgage to cover the cost of the invoice.
- **Securing a bank loan.** You may also wish to investigate reputable high street sources of finance, such as loans from your bank, or building society, if these offer a lower rate of interest.
- **Securing a loan from London Mutual Credit Union (formerly Southwark Credit Union).** This is a financial co-operative existing for the benefit of its members living or working in Southwark and Lambeth and which provides “reasonably priced” financial services. For more information, see <http://www.creditunion.co.uk/> or telephone 0207 787 0770.

## Help with debt

If you are having problems paying your major works service charges, please contact us immediately and we will do our best to help you. **Do not borrow money to pay off your debts without first contacting us or seeking independent advice.**

In the event that prioritising your debts becomes difficult, you may wish to contact the **National Debtline**, which offers free independent and confidential advice. They can be contacted on **0808 808 4000** (freephone) or via their website [www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk).

You may also qualify for benefits and tax credits in certain circumstances, even if you are not already in receipt of benefits, as major works charges may increase your housing costs. You can find an online checker at:  
[http://www.turn2us.org.uk/benefits\\_search.aspx](http://www.turn2us.org.uk/benefits_search.aspx)

## Contacts

Citizens Advice Bureau [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

Community Legal Advice <http://www.communitylegaladvice.org.uk/> 0845 345 4 345

Consumer Credit Counselling Service <http://www.cccs.co.uk/> 0800 138 1111

National Debtline <http://www.nationaldebtline.co.uk/> 0808 808 4000