



City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing Services
Date:	14 April 2025
Classification:	General Release
Title:	Major Works service charges payment options
Wards Affected:	All
Policy Context:	The Housing (Service Charge Loans) Regulations 1992 S.I. 1708/92 (“the 1992 Regulations”) enable Local Authorities to assist leaseholders by introducing alternative ways in which they may meet their service charge payment obligations under the terms of their lease
Key Decision:	Yes Decision is likely to result in both significant impact and significant expenditure/savings
Financial Summary:	Leaseholder contributions represent a significant source of capital funding within the HRA business plan. Over £20m is estimated to be recharged in 2025/2026 and represents a potential £440m of capital funding over the next 30 years.
Report of:	Strategic Director of Housing and Commercial Partnerships

1. Executive Summary

- 1.1. The last review of major works service charge payment plans was undertaken in January 2024. Following this the Cabinet Member for Housing Services agreed to the introduction of the 'Voluntary Service Charge Loan' payment option for leaseholders. This introduced a new interest bearing payment option that allowed leaseholders to repay the capital and any interest owed when the property was sold (assigned). The loan was available to invoices over £20k to leaseholders who were in financial hardship and couldn't secure lending from elsewhere.
- 1.2. Major works service charges have continued to rise in the last year as building costs increase. This, combined with the continuing cost of living crisis, is creating a significant financial burden for a number of our leaseholders. The introduction of a longer interest free period, as well as the easing of eligibility criteria on our existing loan options, could provide significant relief for leaseholders in challenging financial times.
- 1.3. As of 1 March 2025 no leaseholders have taken up the option of the existing 'Voluntary Service Charge Loan' or 'Discretionary Service Charge Loan' payment plans. Currently, leaseholders who opt for payment plans will select our interest free option which is currently 5 years.
- 1.4. All new and amended payment options are attached as an appendix in table format at the end of this document.

2. Recommendations

That the Cabinet Member for Housing Services:

- 2.1. Approves an additional interest free payment option of 8 years for resident leaseholders with invoices over £30k.
- 2.2. Approves an additional interest bearing payment option for resident leaseholders with invoices over £30k. This would be made up of an 8 year interest free period plus an additional 5 years interest bearing at 1.5% above the Bank of England Base rate.
- 2.3. Approves the introduction of an 8 year interest free period into the existing 'Discretionary Service Charge Loan' payment option. The option would remain at a total maximum duration of 25 years. Also, approves that the requirement for leaseholders to evidence that they are unable to obtain alternative borrowing is removed.
- 2.4. Approves the introduction of an 8 year interest free period into the existing 'Voluntary Service Charge Loan' payment option. Also, approves that the requirement for leaseholders to evidence that they are unable to obtain alternative borrowing is removed. Also, approves that the existing financial assessment and financial hardship requirements are removed.

3. Reasons for Decision

- 3.1. Major works costs to leaseholders are increasing and Westminster City Council are set to invoice over £20m to leaseholders in 2025/2026. This is against a total forecast of £78m of expenditure for planned maintenance. The proposal to extend existing interest free periods and remove administrative barriers to our existing discretionary loan options will provide additional support to our most financially vulnerable leaseholders.
- 3.2. The proposal will also have a positive effect on our collection rates by offering longer repayment period and fewer administrative burdens on our teams.

4. Background, including Policy Context

- 4.1. Westminster City Council manages approximately 8,986 leaseholders. About 50% of these leasehold properties are either sublet or have a different correspondence address. Leaseholders are required to contribute towards 'management charges' which include repairs, maintenance and renewal of common parts. These can also include 'Major Works' charges.
- 4.2. As of 28 February 2025, there were 7,737 major works accounts with invoice balances. The total outstanding balance of these invoices was £20,019,821. These balances are a combination of estimated charges and final account charges. Estimated charges will receive a further adjustment (credit or debit) once the final accounts are issued.
- 4.3. The major works accounts are broken into the following ranges:

Balance Range	Feb-25	Value	% of count	% of debt
Up to £100	456	£14,808.98	5.89%	0.07%
Up to £1000	5153	£482,899.85	66.60%	2.41%
Up to £2000	450	£658,024.29	5.82%	3.29%
Up to £5000	584	£1,873,934.46	7.55%	9.36%
Up to £10000	423	£3,097,211.36	5.47%	15.47%
Up to £20000	411	£5,630,628.71	5.31%	28.13%
Up to £50000	240	£7,122,653.23	3.10%	35.58%
Over £50000	20	£1,139,660.32	0.26%	5.69%
Total Accounts with Balances	7737	£20,019,821.20	100.00%	100.00%

- 4.4. All payment options affected by this decision are, and will remain, only available to leaseholders who are resident in their property.
- 4.5. An additional £20m is expected to be billed in 2025/2026.
- 4.6. Currently there is no take up of our 'Discretionary Service Charge Loan' payment option. Also, no leaseholders have taken up our 'Voluntary Service Charge Loan' payment option.

5. Financial Implications

- 5.1. Leaseholder contributions represent a significant source of capital funding within the HRA business plan. It is broadly assumed that 35% of the annual major works programme is eligible to be recharged and the corresponding income is then factored into the business plan as part of the capital financing process. Over £20m is eligible to be recharged in 2025/2026 and a potential £440m of capital funding over the next 30 years.
- 5.2. The previous measure taken in January 2024 of introducing the 'Voluntary Service Charge Loan' payment option has had no impact on cashflow. This is since as of 1 March 2025 no leaseholders have entered into this payment option.
- 5.3. The measures outlined in this paper will make these payment options more attractive to leaseholders and we do expect these payment options to be utilised. These plans do represent full cost recovery, however they recover the costs over a longer period. The extension of the interest free periods to 8 years is not anticipated to have a significant impact to the current HRA business plan.
- 5.4. Currently 70 of our resident leaseholders utilise the existing 5 year interest free payment option. No leaseholders currently use our 10 year interest bearing option. We would expect this number to increase with the introduction of three more years to the plan however the anticipated impact of this on the HRA business plan is considered negligible.
- 5.5. The 'Discretionary Service Charge Loan' can run over a maximum of 25 years and capital is repaid over this period. A 'Voluntary Service Charge Loan' however, could run over 30 years with no capital repayment. Therefore, the income generated by the loan would not be seen during the current HRA business plan. This would reduce the council's ability to fund the existing capital programme. A contingency for this has already been factored into the existing HRA business plan and is explained further in 5.9 below.
- 5.6. No leaseholders currently use our Voluntary or Discretionary service charge loan payment options. It is worth highlighting that although this decision would remove the requirement for a financial assessment from the Council's side, any charge being placed on the property would be subject to the mortgage lender's consent. These two options are also only available to resident leaseholders with invoices over £20k. With the introduction of more favourable terms we would expect more of the loan options to be utilised.

5.7. Looking at the estimated 2025/2026 major works charges we will be issuing 337 invoices over £20k. 50% of those can be assumed non-eligible for the ‘Voluntary Service Charge Loan’ payment option as they would be non-resident. Assuming a low take up rate 1.5% of leaseholders for the “Service Charge Loan” options, the impact would be as follows:

Bill Range	No of Properties	Average Charge	Proportion of LH MW Income	Estimated take up of Voluntary Charge Plan	Income Lost (15 yrs)	Income Lost (30 yrs)
£20,000 +	337	£ 40,282	80%	1.5%	£ 3,054,382	£ 6,108,765

5.8. The more leaseholders that take up the ‘Voluntary Service Charge Loan’ payment option, the greater the potential loss of income for the current HRA business plan.

5.9. In order to fully assess the impact of the changes to our payment options it is recommended that the take up of payment options is analysed over the next 2 years. £2 million has already been removed from the latest HRA business plan as recommended by the previous major works payment options paper in January 2024. This was to account for lost income from the ‘Voluntary Service Charge Loan’ option. No further contingency is needed at present, however this will be reviewed once a proper analysis of leaseholder take up has been completed.

6. Legal Implications

6.1. The Housing and Planning Act 1986 amended the Housing Act 1985 to provide local authorities with the power to grant loans in respect of service charges. The legislation provides two service charge loan schemes: a mandatory code (The Right to a Loan) where the council must, upon request, grant a loan to cover the costs of larger service charges in respect of repairs; and a discretionary code which gives local authorities the power to grant loans either to help leaseholders who do not comply with the mandatory rules or to ‘top up’ mandatory loans which do not cover the whole amount of the service charge being demanded.

6.2. The Housing and Planning Act (1986) set down discretionary powers to grant loans in all other cases where the leaseholder (including their assignees) are liable under the terms of the lease to pay service in respect of repairs. The terms of a discretionary loan may be on such terms as the council may determine and must be secured as a mortgage on the flat. Originally there was no discretion as to the interest rate to be charged however the Housing (Service Charge Loans) (amendment) (England) Regulations 2000 gave local authorities freedom to set their own rates for discretionary loans.

- 6.3. The statutory instrument 1992/1708 (the Housing (Service Charge Loans) (Regulations) came into force on the 17 August 1992. The regulations were aimed at two groups:
- (i) leaseholders who, despite adequate income, could not get a loan in the private sector because of negative equity or because their block was 'system built' and
 - (ii) people who would not be able to secure a private loan
- 6.4. Schedule 16 of the Housing Act 1985 provides that the rate of interest shall be whichever is for the time being the higher of :
- (i) The standard national rates; or
 - (ii) The applicable local average rate
- 6.5. The standard national rate is the rate for the time being declared as such by the Secretary of State after considering interest rates charged by building societies in the UK and any movement in those rates. On 1 April 2009 the Standard National Rate of interest was 3.13%.
- 6.6. The applicable local average rate as defined by Schedule 16 of the Housing Act 1985 and amended by Schedule 11 of the Local Government and Housing Act 1989 is calculated by adding 0.25% to the average rate at which the Council itself borrows.
- 6.7. The Council can in relation to leases which are within the tenth anniversary of the grant charge an interest rate that is higher of the standard or locally determined rate. On other cases, under Regulation 5 of the 1992 Regulations the Council has freedom to set its own interest rates for discretionary loans provided such rates are reasonable.

7. Climate Impact

- 7.1. The decision will have no climate impact.

8. Equalities Implications

- 8.1. The availability of extensive and inclusive payment options for all resident leaseholders will help prevent cases of financial hardship and loss of ownership of the property.

9. Consultation

- 9.1. Consultation is not required on the extension of major works payment options. Once approved, notification of the new payment method will be published extensively through the appropriate communication channels.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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APPROVED BY

Name and Title	Date sent	Date approved
Strategic Director for Housing and Commercial Partnerships	21/03/2025	25/03/2025
Financial Consultant - HRA	26/03/2025	28/03/2025
Legal	01/04/2025	03/04/2025
Portfolio Advisor	03/04/2025	03/04/2025

APPENDICES

New Payment Options to Be Introduced

Invoice Value	Resident Status	Term	Payment Term Narrative
£30,000 and above	Resident Leaseholders Only	8 years	If you receive an invoice for more than £30,000 you can spread payments over eight years in 96 equal monthly payments. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form. No interest is charged
£30,000 and above	Resident Leaseholders Only	13 years	If you receive a bill for more than £30,000 you can spread payments over thirteen years in 156 equal monthly payments. No interest is charged for months 1-96. Interest is charged on the balance remaining at month 96 at 1.5% above the Bank of England Base rate for months 97-156. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form.

Payment Options to Be Amended

Payment Option	Existing Terms		Proposed Amendments
Discretionary Service Charge Loan	Invoices valued at £20,000 and above		None
	Leaseholder must prove they are unable to secure alternative borrowing via their mortgage company or a personal loan		Remove these Terms
	Not available where the leaseholder is a company or housing association		None
	Non-resident leaseholder applications are reviewed on a case by case basis		None
	The loan is secured via a legal charge on the property for a maximum of 25 years		None
	Interest will be charged at a variable rate of 1.5% above the Bank of England base rate and will be reviewed annually		Amend to - Years 1 to 8 will be interest free. Interest is charged on the balance remaining at the end of year 8 at 1.5% above the Bank of England Base rate for years 9 to 25. Interest is calculated monthly
Voluntary Service Charge Loan	Invoices valued at £20,000 and above		None
	Available to leaseholders who meet the eligibility criteria, including a financial assessment, financial hardship and those who are unable to secure borrowing from their mortgage company or a personal loan		Remove these Terms

Not available where the leaseholder is a company or housing association		None
Non-resident leaseholder applications are reviewed on a case by case basis		None
The loan is secured via a legal charge on the property		None
Interest will be charged at a variable rate of 1.5% above the Bank of England base rate and will be reviewed annually		Amend to - Years 1 to 8 will be interest free. Interest is charged on the balance remaining at the end of year 8 at 1.5% above the Bank of England Base rate until the loan is repaid. Interest is calculated monthly

Full table of Payment Options - including proposed additions and amendments

Invoice	Term	Available to	Payment options available
Up to £2,000	12 months	All Leaseholders	If your invoice is under £2,000 you can spread your payments over 12 equal monthly payments. No interest is charged.
£2,000 and above	24 months	All Leaseholders	If you receive an invoice for more than £2,000 you can spread payments over 24 equal monthly payments. You must complete an extended payment instalment form. No interest is charged.
£2,000 and above	60 months	Resident Leaseholders Only	If you receive an invoice for more than £2,000 you can spread payments over five years in 60 equal monthly payments. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form. No interest is charged.
£20,000 and above	120 months	Resident Leaseholders Only	If you receive a bill for more than £20,000 you can spread payments over ten years in 120 equal monthly payments. No interest is charged for months 1-60. Interest is charged on the balance remaining at month 60 at 1.5% above the Bank of England Base rate for months 61-120. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form.

£30,000 and above	96 months	Resident Leaseholders Only	If you receive an invoice for more than £30,000 you can spread payments over 8 years in 96 equal monthly payments. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form. No interest is charged.
£30,000 and above	156 months	Resident Leaseholders Only	If you receive a bill for more than £30,000 you can spread payments over thirteen years in 156 equal monthly payments. No interest is charged for months 1-96. Interest is charged on the balance remaining at month 97 at 1.5% above the Bank of England Base rate for months 97-156. This option will not be made available where the property is sublet, owned by a company, or owned by a housing association. You must complete an extended payment instalment form.
£20,000 and above	300 months	Resident Leaseholders. Non-resident leaseholders are assessed on a case by case basis	If you receive a bill for more than £20,000, Westminster City Council offers a Discretionary Service Charge loan. This option will not be made available where the property is owned by a company or owned by a housing association. Where the property is sublet, we will review the application on a case by case basis. The service charge loan will be secured by a way of a legal charge on the property for a maximum of 25 years. Interest will not be charged on the first 8 years of the loan. Interest will be charged from year 9 at a variable rate of 1.5% above the Bank of England base rate and will be reviewed annually. You will also need to pay the administration costs involved.

<p>£20,000 and above</p>	<p>Voluntary Service Charge Loan</p>	<p>Resident Leaseholders. Non-resident leaseholders are assessed on a case by case basis</p>	<p>If you receive a bill for more than £20,000, Westminster City Council offers a Voluntary Service Charge loan. This option will not be made available where the property is owned by a company or owned by a housing association. Where the property is sublet, we will review the application on a case by case basis. The service charge loan will be secured by a way of a legal charge on the property. Interest will be charged at a variable rate of 1.5% above the Bank of England base rate and will be reviewed annually. The administration fees to set up the loan and to register the charge against the property can also be added to the loan.</p>
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BACKGROUND PAPERS

N/A

For completion by the **Cabinet Member for Housing Services**

Declaration of Interest

I have no interest to declare in respect of this report



Signed:

Date: 14/04/2025

NAME: **Cllr Liza Begum**

For the reasons set out above, I agree the recommendation(s) in the report entitled **Major Works service charges payment options** and reject any alternative options which are referred to but not recommended.



Signed:

Cabinet Member for Housing Services

Date: 14/04/2025