

Shelton Lock Mobile Homes Park Rents and Management Service Charge

SUMMARY

- 1.1 The mobile home park at Shelton Lock is managed and maintained for the Council by Derby Homes for the payment of a fee.
- 1.2 Following consultation with residents and approval by the Derby Homes Board, changes to rents, rent policy, the management service charge, the introduction of charging capital financing costs and other more minor issues are proposed.
- 1.3 Subject to any issues raised at the meeting, I support the following recommendations.

RECOMMENDATIONS

- 2.1 To approve the proposed increase in ground rents at Shelton Lock Mobile Homes Park and agree the policy for future increases set out in paragraphs 3.1 and 3.2 of the report of the Director of Finance and Director of Policy. For 2005/06, the proposed weekly ground rents from January 2006 are:
 - small plot £10.80 - increase of £0.70 a week for 9 plots
 - medium plot £13.50 - increase of £0.90 a week for 24 plots
 - large plot £15.60 - increase of £1.00 a week for 5 plots.

These increases are much lower than inflation since 1994. Even by the end of 2011/12 projected rent levels are expected to remain below the 1994 level in real terms. In other words, had rents been increased in line with inflation since 1994 rents would be around 37% higher than they are now. Council tenants have experienced even greater increases than this over the same period.
- 2.2 To approve the phased introduction of capital financing charges in the trading account.
- 2.3 To approve the draft Service Level Agreement for the Park Homes site shown at Appendix 2 and agree a management fee of £12,228 for 2005/06.
- 2.4 To approve an annual review of the Service Level Agreement.

- 2.5 To approve the delegation of negotiation of a management fee for the provision of services outlined in the Service Level Agreement to the Director of Finance, or his representative, in consultation with the Chief Executive or other nominated Derby Homes officers.
- 2.6 To approve ending the current service charge of £0.30 a week for the communal aerial facility.

REASONS FOR RECOMMENDATIONS

- 3.1 Rents and other charges at the Mobile Homes Park have not been reviewed since an informal agreement was made with the former Director of Housing in 1994. The current service charge from Derby Homes does not cover the cost of managing the site. If action is not taken to change this, Council tenants will effectively be cross subsidising the Park's tenants.
- 3.2 It is proposed to phase in the introduction of appropriate ground rent levels over a number of years to avoid a single sharp increase.



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SUPPORTING INFORMATION

Background

- 1.1 The mobile home park at Shelton Lock is managed and maintained by Derby Homes under the Services Agreement with the Council signed in April 2002.
- 1.2 Since 1994 and as a consequence of an informal agreement with the former Director of Housing, the costs of running the site and all income generated have been separated from the rest of the Council's General Fund.
- 1.3 A fee for managing the site was set at £1,298 a year and has continued to be charged at that level since the creation of Derby Homes.
- 1.4 The informal agreement also covered the ground rents and it was agreed that, as long as the site broke-even during a rent year, rents would not be increased. The site has traded at a surplus and had built up a balance of £36,982 at 31 March 2005. This balance is held in a reserve account held by the Council.

Consultation

- 2.1 In the Housing Rents report to Cabinet in January 2005, it was recommended that Cabinet receive a further report to determine the proposed increase in ground rents following further consultation with residents. Residents of the site were understandably opposed to paying increased rents following a long period during which there have been no increases.
- 2.2 Consultation has also been ongoing with residents of the site about the establishment of a Service Level Agreement and a revised management fee to be charged to the account. The continuation of the historically low management fee means that, effectively, Council tenants have been subsidising the true cost of managing the site through the Housing Revenue Account.

Rent policy and rents

- 3.1 It is proposed to end the informal agreement with the residents of the site and reinstate annual reviews for ground rents. A survey of comparable sites in the Midlands shows that ground rents on the Park Homes site are considerably less than those of the other surveyed sites.

- 3.2 It is proposed to increase ground rents to a level that assumes an average rent increase of 2.5% had been applied since 1995, in line with the provisions of the Park Homes Charter 1994. This would be in excess of 30%, and it is therefore proposed that this increase be phased in over the next few years to avoid excessive increases in any one year.
- 3.3 Applying these principles and rates of increase, the proposed weekly ground rents for 2006 would increase by an average of 7% to:
- small plot £10.80 - increase of £0.70 a week for 9 plots)
 - medium plot £13.50 - increase of £0.90 a week for 24 plots
 - large plot £15.60 - increase of £1.00 a week for 5 plots.
- 3.4 To allow time for notification of the residents and a customary four- week notice period, it is proposed to implement the proposals from January 2006 and then annually from 1 April 2007. Under the Council's agreement with the residents, there must be at least a one-year interval between increases. Rents will therefore remain at this new level until April 2007 at which point an increase of around 9% will be required to cover the period 1 January 2007 to 31 March 2008. Subsequent increases are likely to rise by at least 7% a year until the account fully covers its costs.

Management Fee and Service Level Agreement - SLA

- 4.1 The management fee has been reviewed to determine the true cost of managing and maintaining the site based on the time spent by officers on housing management of the Park and a proportion of relevant overheads. It is also proposed to charge the trading account with the capital financing charges that represent a notional cost of the use of the land at the site. These charges have been assessed at £13,860 a year. Again, it is proposed to phase these in over the next few years. If implemented in full and immediately, the account would be in deficit, and a still greater increase in ground rents would be required.
- 4.2 Following consultation and negotiation with the residents at the site, a draft SLA has been developed. The draft SLA is attached to this report at Appendix 2. The intention is for Derby Homes to review the SLA annually.
- 4.3 At it's meeting on 28 July, Derby Homes Board approved the draft SLA and a management fee of £12,228.
- 4.4 The surplus on the trading account has averaged around £3,000 a year after charging the previous management fee of £1,298. By increasing the level of management fee to £12,228 and introducing capital financing charges, the account is projected to trade at a deficit, even after the proposed rent increases, since the full increase in rents will be spread over the next few years.
- 4.5 Appendix 3 shows a projection of the account to 2011/12, assuming implementation of the rent increase proposals from 1 January 2006, after allowing for notification and a customary 28-day notice period. The reserve account in future years shows a reducing balance and this will impact on the ability to finance any developments or improvements needed on the site during this time. The plan also assumes that the

tenants and Derby Homes can reduce the current high level of spending on water and cleaning. If this does not prove possible, then there may be further pressure on ground rents in future.

- 4.6 Derby Homes Board has recommended that the Council delegates negotiation of a management fee for the provision of the services identified in the SLA to the Chief Executive or other officers of Derby Homes. We do not agree with this and Recommendation 2.5 proposes an amendment since the request amounts to Derby Homes being able to set its own management fee for this particular service it provides to the Council.

Removal of service charge for communal TV aerial

5. To date, all but seven residents have confirmed that they do not use the communal TV aerial as most residents have had individual aerials installed. It is therefore proposed to remove the communal TV aerial system and charge the costs of any remedial work necessary to the trading account. The proposed removal of the service charge made for the provision of the aerial system will mean an annual loss of income of up to £550.

Interest on the Reserve Account

6. Since the creation of the reserve account, there has been no agreement to pay interest receivable on balances held. Derby Homes Board has recommended that the Council approves payment of interest on such balances from April 2005. However, this is contrary to the Council's policy which does not spread interest across General Fund revenue accounts in this way, but accounts for it corporately as a total amount.

OTHER OPTIONS CONSIDERED

7. Other options include raising rents by a different amount or not at all. Raising rents by less than the amounts proposed would mean that rents would not be set in line with the Park Homes Charter of 1994 and would remain artificially low. This would mean that the rental structure would not match that being implemented for other council tenants. Raising the management service charge by less than the amount proposed would effectively mean that the Housing Revenue account would continue to subsidise the General Fund tenants of the Mobile Homes Park site at Shelton Lock. A single increase in ground rents of around 30% might bring the account into balance much more quickly, but is very likely to be seen as excessive.

For more information contact: Officers: David Enticott email david.enticott@derby.gov.uk
Peter Morris email peter.morris@derby.gov.uk,

Background papers:

List of appendices:

Derby Homes Board reports dated 27 January and 28 July 2005
Council Cabinet Housing Rents Report dated 18 January 2005
Appendix 1 – Implications
Appendix 2 – Draft Service Level Agreement
Appendix 3 – Trading Account Projection

IMPLICATIONS

Financial

1. As set out in the report and Appendix 3.

Legal

- 2.1 The contract between Derby City Council and Park Home residents is contained within the written agreement. Part IV, Express Terms of the agreement, section 5 cover the variation of rent. This states:

“The Council shall have the right to vary the weekly sum payable under the agreement. The first variation shall take effect at any time from the date of commencement of the Agreement and any subsequent variations shall not take effect until a period of at least one year has elapsed from the date when the previous variation took effect. In determining the amount of the reviewed pitch fee regard shall be had to:

- the Index of Retail Prices;
- sums expended by the owner for the benefit of the occupiers of mobile homes on the park;
- any other relevant factors including the effect of legislation applicable to the operation of the park.”

- 2.2 The written statement is provided under the Mobile Homes Act 1983 and the Park Homes Charter 1994.
- 2.3 It has been custom and practice in the past to serve 28 days notice on the residents of the site of ground rent increase, although this does not appear to be a statutory obligation of the Mobile Homes Act 1983.

Personnel

3. The management fee is based on an assessment of time spent by appropriate staff in managing the site plus a share of relevant overheads.

Equalities impact

4. None

Corporate objectives and priorities for change

5. The proposals come under the objective of promoting independent communities.

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Service Level Agreement between Derby Homes (Contractor) and Derby City Council (Client) for the provision of services to Park Homes Mobile Home Park, Shelton Lock

Brief Summary of Service to be provided by Derby Homes

- To provide a responsive and planned management service to the residents of the mobile home park
- To provide advice to residents via the local office in writing or over the telephone or by e mail
- Organise and manage the maintenance of communal areas
- To maintain both the Trading and Holding account for the park in line with audit procedures

Period of Agreement

April 2002- April 2007 as part of the Service Agreement between Derby City Council and Derby Homes

Definition of Service to be provided by Derby Homes

Accounting Procedures

- Provision of rent payment service by office or other alternative method
- Issuing of rent statements
- The maintaining of rent accounts on Academy and updating as necessary
- Accounting of rent income and balances
- The processing of invoices relating to the operation of the Park as necessary
- The preparation of the Trading Account periodically
- Producing the year end accounts for external audit purposes
- The maintenance of the reserve account
- The collection of washer/dryer tokens from Park Homes to local housing office and accounting of these tokens through the cash office
- Rent arrears collection via letters, visits and telephone calls.

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Park Management

- To carry out at least 3 walkabouts per year to ensure that conditions of the park are being adhered to and identify any improvements needed. Walkabouts dates to be advertised on the site 2 weeks prior to walkabout dates.
- To ensure all fire extinguishers are checked annually, and certificates updated and retained.
- To ensure all insurance certificates are obtained for all mobile homes annually and pursue legal action to obtain possession of sites in the absence of appropriate insurance cover after 3 reminders have been issued.
- Organise skip deliveries 6 times per year at regular intervals and advertise these dates on the site.
- Deal with any complaints received relating to neighbour nuisance, noise or non compliance with written agreement.
- Checking references for new resident and completing assignment forms and collection of 10% of sale value.
- Organise the judging of the annual gardening competition.
- Attendance at 6 Forum meetings and organising these meetings, any publicity and paperwork required. These meetings will include 2 visits annually from the Finance Team.
- Dealing with all enquiries by phone, in person or by post or by e mail and providing general advice.
- Legal action including eviction of mobile home residents to ensure compliance with the terms of the agreement.
- The management of the ground maintenance contractor.
- Deal with issues arising from the communal TV aerial.
- Carry out responsive visits to requests and carry out between 6 – 12 visits to the mobile home park per year.
- To seek legal advice as necessary on the changing legislation of mobile homes.

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Repair & Maintenance Issues

- Repairs issues to communal areas including pathways, roads, car parks and shower blocks.
- Arrange quotes for estate improvement works required and follow up until work completed for example electric gates and fencing.
- Liaising with Arboricultural Officer when complaints are received and arranging necessary works.
- Consider requests for permits and inspecting work required in line with written statement and check work after authorisation (if permitted).

Service Standards

The service provided will comply with the Customer Care Charter for all Derby Homes tenants.

Limitation on extent of service

The services will be provided during normal office hours and out of hours where necessary for forum meetings.

Basis of Charging

Assessment of management time spent on the services provided plus on costs associated with Derby Homes central organisation and associated costs.

Client Responsibilities

The Director of Policy or his/her nominated officer will attend one forum meeting each year and discuss the performance of the Derby Homes and the working of this Service Level Agreement.

Hours of work

Staff normal working hours are 9.00 am to 5.00 pm, however individual officers working times will vary.

Actual local office opening hours will vary.

Enquiry Centre is open 8.00 am to 8.00 pm.

Care link out of hours service available.

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Key Contacts

Leigh-Anne Hilton – Estate Manager.

Termination of agreement

To be part of the Service Agreement process.

	2005/06 Budget	2005/06 Revised Budget	2006/07 Projection	2007/08 Projection	2008/09 Projection	2009/10 Projection	2010/11 Projection	2011/12 Projection
Expenditure								
Property Costs								
Repairs to Buildings	0	0	0	0	0	0	0	0
Maintenance Of Grounds	1,050	1,356	1,390	1,425	1,460	1,497	1,534	1,573
Electricity	1,290	600	615	630	646	662	679	696
Heating	0	1,000	1,025	1,051	1,077	1,104	1,131	1,160
Gas	1,842	300	308	315	323	331	339	348
Water - Metered	2,186	9,000	2,500	2,563	2,627	2,692	2,760	2,829
Sewerage - Environmental Charges	1,350	1,350	1,384	1,418	1,454	1,490	1,527	1,566
Cleaning Materials	150	7,000	1,200	1,230	1,261	1,292	1,325	1,358
Insurance - Property	0	100	103	105	108	110	113	116
	7,868	20,706	8,524	8,737	8,955	9,179	9,409	9,644
Running Costs								
Refreshments	25	30	31	32	32	33	34	35
Equipment - General	6,375	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Equipment - Repair & Maintenance	1,000	500	513	525	538	552	566	580
Telephones - Payphone Rental & Calls	491	200	205	210	215	221	226	232
Other Hired & Contracted Services	1,200	500	513	525	538	552	566	580
Sundries	30	50	51	53	54	55	57	58
	9,121	2,280	2,312	2,345	2,378	2,413	2,448	2,484
Other Department Costs								
Corporate Services	0	0	0	0	0	0	0	0
Valuation	0	0	0	0	0	0	0	0
Computer services / development	1,273	0	0	0	0	0	0	0
Management Charge	1,300	4,030	12,534	12,847	13,168	13,497	13,835	14,181
Accountancy	295	300	308	315	323	331	339	348
Technical Finance	767	770	789	809	829	850	871	893
Systems	613	610	625	641	657	673	690	707
Payroll	0	0	0	0	0	0	0	0
Financial Services	94	300	308	315	323	331	339	348
Audit	384	380	390	399	409	419	430	441
Cash Office	7	10	10	11	11	11	11	12
	4,733	6,400	14,963	15,337	15,720	16,113	16,516	16,929
Capital Financing Costs								
Capital Financing Charge	4,569	5,896	7,223	8,550	9,877	11,204	12,531	13,860
	4,569	5,896	7,223	8,550	9,877	11,204	12,531	13,860
TOTAL EXPENDITURE	26,291	35,282	33,022	34,969	36,931	38,909	40,904	42,917

	2005/06 Budget	2005/06 Revised Budget	2006/07 Projection	2007/08 Projection	2008/09 Projection	2009/10 Projection	2010/11 Projection	2011/12 Projection
Income								
Laundry Tokens	-1,700	-1,000	-1,025	-1,051	-1,077	-1,104	-1,131	-1,160
Miscellaneous Income	0	0	0	0	0	0	0	0
Service Charge - TV Relay	-245	-270	0	0	0	0	0	0
Rent	-22,502	-23,000	-24,000	-26,232	-28,068	-30,033	-32,135	-34,385
Commission On Sale Of Mobile Homes	0	-6,500	-5,250	-5,513	-5,788	-6,078	-6,381	-6,700
TOTAL INCOME	-24,447	-30,770	-30,275	-32,795	-34,933	-37,214	-39,648	-42,245
Transfer To / (From) Reserve	2,725	-4,512	-2,747	-2,173	-1,998	-1,695	-1,256	-672
	4,569	0	0	0	0	0	0	0

Reserve Account

	2005/06	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
(Surplus) Brought Forward From previous year	-36,982	-36,982	-32,470	-29,723	-27,550	-25,552	-23,857	-22,601
(Surplus) / Deficit for the year	-2,725	4,512	2,747	2,173	1,998	1,695	1,256	672
(Surplus)Carried Forward	-39,707	-32,470	-29,723	-27,550	-25,552	-23,857	-22,601	-21,929