

**Report to:** Management Committee 11<sup>th</sup> March 2021

**For Approval**

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**7.1 Subject:** Review of Factoring Charges 2021

**Purpose of Report**

The purpose of this report is to consider and review factoring charges and commercial rents for financial year 2021/22.

**Introduction**

The Association's factoring income is generated from two sources

- Management Fees from factored properties
- Commercial rent - 1 property

Management fees and commercial rent funds the Association's administration costs in carrying out our factoring role and aims to ensure the factoring service is not unduly subsidized by rental income. Management Fees excludes common cyclical or major repair costs which are recharged to owners in addition to their management fee.

YHA currently factors 505 properties on behalf of other owners. The annual management fee was last reviewed from 1<sup>st</sup> April 2020 and is due again for review from April 2021.

**Benefits of YHA Factoring**

The continuing benefits of YHA providing a factoring service are:-

- YHA retains control of progressing common repairs in properties where we own flats.
- Allows the Association much more control in compliance with EESH and SHQS.
- Eliminates expense of employing a private factor to carry out factoring duties for each of the 456 YHA owned properties. (£66,576 based on an average of £146 per unit)
- Allows the Association to set budgets for future repairs based on our anticipated costs and knowledge/ planned and anticipated program of works.

- Minimizes risk of unexpected large repairs creeping up with little or no advance knowledge/planning.

### **Comparison with other Factors**

A comparison with other factor's management fees has been undertaken at March 2021 and information gathered is shown below.

Yorkhill's current average fee taking all our 4 fee levels into account (£146) sits at the midpoint in these comparisons however the majority of properties factored are paying £138.89 per annum with a few private blocks with higher charges bringing up our average to £146.

<b><u>Factor</u></b>	<b><u>Current Annual Management Fee</u></b>	<b><u>Management Fee 1/4/21</u></b>
West of Scotland HA	97.08	2021 increase to be agreed?
Milnbank HA	106.00	Charges frozen for 2021
Elderpark HA	127.91	Considering 0.5% from 2021
Govan HA	136.80	Considering 2-2.5% for 2021
<b><u>YHA Current Average</u></b>	<b><u>146.01</u></b>	
Southside HA	152.16	2021 increase to be agreed?
Charing Cross HA	156.00	Considering +2% from 2021
Partick HA	164.64	+1% increase from 2021
Glasgow West	184.00	+ £5 p/a to £189 p/a

### **2021-22 Increase Assumptions for Consideration**

Points to Note:

- The Management Fee should not be reviewed more than once in a 12 month period as per the terms of our factoring agreement. Reviewing and increasing fees from 1.4.21 complies with this arrangement.
- As the annual management fee is a fairly low annual figure a small percentage does not increase the overall income by much in financial terms. The Association has increased by a flat rate over the last 3 financial years (£10.00 2018/19, £5.00 2019/20, £5.00 20/21). This method has helped to increase the lower fees in small stages rather than one large increase at one time for owners. Figures for 2021/22 are based on both flat rate and RPI options for consideration.

## **Consultation with owners on our service provision**

Internal review - The Association regularly survey owners for their views on the factoring service and provide annual statistics in the ARC return to the Housing Regulator. Year on year YHA's figures compare significantly higher than the national average figures.

External review - Owners were independently consulted in 2019/20 to give their views on Yorkhill Housing Association as their factor with the report produced in early 2020. This research indicated that a significant majority of owners are very or fairly satisfied with the factoring service they receive from Yorkhill Housing Association (88% are very or fairly satisfied overall). Aside from being satisfied overall, the majority of owners are also satisfied with most aspects of the service provided e.g. maintenance, neighbourhood management etc.

- 74% of owners surveyed indicated their factoring charges were good value for money compared to 63% in the previous 2014 survey.
- 86% of owners surveyed indicated their insurance charges were good value for money compared to 72% in the previous 2014 survey.

## **Impact of Covid on common works 2020/21**

While Covid has impacted the work of the Association over the last 12 months, in terms of the factoring activity most cyclical and reactive external common repairs have been ongoing. Landscaping, stair cleaning, insurance, attic fan servicing, roof anchor servicing, reduced estate management and common and major repairs have been programmed and reviewed constantly throughout the year and carried out wherever possible.

## **Factoring anticipated Income –v- Expenditure 2021 based on recommendations in this report.**

<b><u>Income 21/22</u></b>	<b>£</b>	<b><u>Expenditure 21/22</u></b>	<b>£</b>
Management Fees	76,257.00	Employee Costs incl Finance and Admin	66,609.00
Commercial Rent	12,363.00	Overhead Costs	12,651.00
5% Admin Fee on Insurance premium	2,500.00	Direct Costs Owners	5,957.00
Alarm Testing 26 weeks: 50/50 split	780.00		
<b>Total Income 21/22 *</b>	<b>£91,900</b>	<b>Total Expenditure 21/22</b>	<b>85,217.00</b>

\*Excludes any sales and major repairs admin fee collected during 2

## **Proposed Management Fee Increase 1.4.21**

### **Option 1**

The Association normally consider CPI at October as a measure of increasing rent and factoring charges. Assuming CPI Increase to current management fee levels is agreed (currently 0.9% at October 2020, Income Generation for 2021 would be + £663.60.

This option would amount to an average fee of £147.32 and a management fee income of £74,396 excluding commercial rent.

Current Management Fee p/annum	+ CPI October 2020 0.9%	Annual Increase	Stock Type
<b>£138.89</b>	<b>£140.14</b>	<b>£1.25</b>	Original Stock
<b>£145.52</b>	<b>£146.83</b>	<b>£1.31</b>	Nairn St owners
<b>£173.95</b>	<b>£175.52</b>	<b>£1.57</b>	New Build (lifts)
<b>£205.00</b>	<b>£206.85</b>	<b>£1.85</b>	Private Block

### **Option 2**

**Assuming +£5 per annum increase for ALL owners).**

**Income Generation +£2,525.00**

**This option would amount to an average fee of £151 and an income of £76,257 excluding commercial rent.**

Current Management Fee p/annum	+ £5 p/annum Management Fee	% Increase	Stock Type
138.89	143.89	3.6%	Original Stock
145.52	150.52	3.4%	Nairn St owners
173.95	178.95	2.9%	New Build (lifts)
205.00	210.00	2.45%	Private Block

Committee members are asked to consider the above options and approve an increase of factoring charges effective from 1<sup>st</sup> April 2021.

### **Recommendation:**

- Increase all owners' management costs by £5 from 1.4.21. This amounts to an increase of between 2.4% and 3.6% for owners. This increase will affect owners in the original core stock by a slightly larger % increase and help to continue raising these historically lower fee levels in stages rather than one bigger increase at once in line with local Associations. Our owners satisfaction levels compliment this proposal.

- Consider floats remaining at £125 and £250 (new build and new business) respectively for the coming year with no change proposed. The Association are holding over £90k in credits at the end of February 2021.
- Consider admin fees for sales increasing from £115 to £125 for the coming year and £150 where less than 10 days' notice is given. The reason for this increase for 21/22 is due to the amount of additional work involved as sale dates are being regularly changed at the present time and costs are being apportioned several times before settlement actually takes place.
- Increase the weekly fire alarm testing at Lymburn Street from £57 per week to £60 per week from 1.4.21. This weekly fee is shared between all 31 owners.
- Introduce a 5% administration fee for administration of the buildings insurance policy effective from renewal on 28.4.21. This will generate an income of approximately £2,500 per annum and is permitted under the terms of the Property Factors Act providing the Association disclose the % being charged to owners.

## **7.2 Review of Commercial Rent - 18 Overnewton Street**

The Association obtained an independent valuation of the commercial rent for these premises from 1.4.19. The valuation was £12,000 per annum at that time and a new 3 year lease was entered into from then based on the valuation.

Commercial Rent charged April 2019	£12,000 per annum
Commercial Rent Charged April 2020	£12,230 per annum

It is intended that a further commercial valuation will be carried out at the end of the 3 year lease in April 2022 to ensure the Association continues to charge a competitive market rent for these premises.

While most of the staff associated with this business has worked from home during the pandemic, due to the nature of the business it has continued to trade over the last year. Committee are asked to consider two options regarding this commercial rent from 1.4.21.

- Option 1 Agree a rent freeze for 2021 in line with flats.
- Option 2 Consider increasing the commercial rent for these premises from 1.4.21 at the CPI rate at October 2020. This would increase the commercial rent by 0.9% from £12,230 to £12,340.

Recommendation: Approve Option 2.