

REPORT TO: BOARD OF SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

REPORT FROM: SENIOR FINANCE MANAGER

DATE OF MEETING: 11 FEBRUARY 2020

SUBJECT: REVIEW OF FACTORING MANAGEMENT FEES

1. Introduction

1.1 This paper asks the Board to review the fees charged for Factoring Services, recommends a new fee level and seeks Board approval to the increase in the Factoring Management Fee (“the fee”) for the financial year 2020/2021.

2. Background

2.1 In line with the Factoring Policy paragraph 6.4 all standard charges, including management fees and administration fees, will be reviewed annually and approved by the relevant governing body.

2.2 The Cumbernauld low rise fee was set at £239.92 and new build fee at £133.58 for the current year. The low rise fee encompasses both service charge and administrative fee elements, and new build fees encompass an administrative fee element only.

2.3 The Aberdeen annual fee was set at £83.90 for the current year.

2.4 The Anderson annual fee was set at £128.25 for the period 1 July 2019 to 30 June 2020, so therefore the fee will be reviewed for the period 1 July 2020 to 30 June 2021.

2.5 The Glasgow annual fee was set at £133.58 for the current year.

2.6 The fees are required to be set at the minimum amount necessary to ensure that the income generated continues to cover the costs of providing the service.

3. Analysis

3.1 2020/2021 Fee Review and 2019/2020 forecast.

3.2 The fee income for the 2019/2020 year is based on the September 2019 actual values plus an estimate for the March 2020 income recovery using the latest unit numbers.

- 3.3 The direct costs and administration costs are based on known expenditure for 2019/2020 forecast to the end of the year. Attributed staff costs have been reduced to reflect estimated time spent on activities other than Cumbernauld Factoring.
- 3.4 The Cumbernauld 2019/2020 review shows a forecast surplus of £5238 or 2.8 per cent for the year ignoring any cash flow/bad debt issues. This is broadly in line with the original budget for 2019/2020.
- 3.5 The Cumbernauld 2020/2021 forecast factors in a two per cent salary indexation to Factoring staff, management wages and estates staff costs.
- 3.6 For Cumbernauld, factoring in small increases to fees to allow for wage indexation the impact on fees is proposed to be as follows; increases of 2.57 per cent to the low rise fee and 2.7 per cent to the new build administration fee, the forecast suggests a small deficit of £881 or 0.45 per cent.
- 3.7 A review of the 2019/20 income for Aberdeen shows a forecast annual income of £12,782.00 against the equivalent budget.
- 3.8 For Aberdeen it is proposed to apply a factoring fee increase in line with the agreed rental income increase, which stands at 2.7 per cent (calculated by using the November Retail Price Index plus 0.5 per cent). This rental increase is pending approval by the Board of Sanctuary Scotland Housing Association Limited (Sanctuary Scotland Housing Association).
- 3.9 A review of the 2019/20 income for Anderson shows a forecast annual income of £2,308.00 against the equivalent budget.
- 3.10 For Anderson it is proposed to apply a factoring fee increase in line with the agreed rental income increase, which stands at 2.7 per cent (calculated by using the November Retail Price Index level plus 0.5 per cent). This rental increase is pending approval by the Board of Sanctuary Scotland Housing Association.
- 3.11 A review of the 2019/20 income for Glasgow shows a forecast annual income of £18340.00 against the equivalent budget.
- 3.12 For Glasgow it is proposed to apply a factoring fee increase in line with the agreed rental income increase, which stands at 2.7 per cent (calculated by using the November Retail Price Index level plus 0.5 per cent). This rental increase is pending approval by the Board of Sanctuary Scotland Housing Association.
- 3.13 Property Factors Code of Conduct (“the Code”)
- 3.14 The Code requires that our charges are transparent.

- 3.15 The Cumbernauld low rise fee is made up of an administration charge and a charge to cover the services we deliver to the estates. The administration fee will increase to £120.45 with the service charge decreasing to £125.64 giving a total fee of £246.09.
- 3.16 The Cumbernauld new build fee is an administration charge with all services being recharged on a cost basis. It is proposed to increase the fee by 2.7 per cent to £137.01 per annum.
- 3.17 The Aberdeen fee is made up of an administration charge with all services being recharged on a cost basis. It is proposed to increase the fee by 2.7 per cent to £86.17 per annum.
- 3.18 The Anderson fee is made up of an administration charge with all services being recharged on a cost basis. It is proposed to increase the fee by 2.7 per cent to £131.71 for the period 01 July 2020 to 30 June 2021.
- 3.19 The Glasgow fee is made up of an administration charge with all service being recharged on a cost basis. It is proposed to increase the fee by 2.7 per cent to £137.19.

4. Appraisal

4.1 Risk Management

- 4.1.1 RM 3 Cost and income pressures; reviewing factoring fees ensures the service is not loss making and remains financially viable.
- 4.1.2 RM 9 Legislative/regulatory; the review of costs and fees is in line with the Factoring Policy, meets the standards of the Code and mitigates the risk of non-compliance with the Property Factors (Scotland) Act 2011.

4.2 Impact on diversity.

- 4.2.1 The review of our management fee and any recommended changes apply equally to all factored customers in each flat type and should not have any diversity implications

4.3 Value for money

- 4.3.1 It is expected that by spreading the cost of the Factoring Team over an expanded customer base management fees should be contained to the minimum necessary to cover costs and is a visible demonstration of Sanctuary Scotland's aim to deliver value for money.

5. Recommendation

- 5.1 The Board is asked to approve increases in the Management Fee for factored properties for the 2019/2020 financial year as follows:
- 2.57 per cent to the Cumbernauld low rise fee;

- 2.7 per cent to Cumbernauld new build fee;
- 2.7 per cent to the Aberdeen fee;
- 2.7 per cent to the Anderson fee; and
- 2.7 per cent to the Glasgow fee.