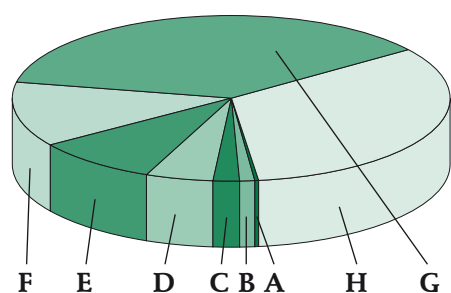


Banding the Management Charge

At the moment the Management Charge is levied on residential freeholders at a flat rate irrespective of the value of their properties. When the Charge was very low this was not controversial. Now that the Charge has risen, the fairness of a flat charge has become an issue. A considerable number of residents have suggested that it should be progressive; that is it should be related to the value of the property on which it is levied.

As everyone knows, there is a very wide range of property values in the Suburb. One way of showing the relative distribution of property values is to look at the number of properties in the Suburb in each Council Tax Band. Figures taken from the Inland Revenue website from show that most properties are in the higher tax bands with a significant minority of freehold properties in bands A-D.

NUMBER OF FREEHOLD PROPERTIES IN COUNCIL TAX BANDS



Source data: Inland Revenue website

Arguments against a progressive Charge

Those against a progressive charge argue that:

- the amenities of the Suburb are equally available to all who live there;
- those buying property do so in full knowledge of their commitment to paying the Management Charge.

Arguments for a progressive Charge

Those in favour argue that:

- amenities are not universally distributed throughout the Suburb and that while every freeholder benefits from the Suburb 'premium', this itself is related to the price of individual properties and is a better indicator of the relative benefits that the Suburb confers;
- as a matter of fairness, the charge should be related to the ability to pay and that freehold values, though crude, are the best available indicator of relative incomes.

It is not a simple matter. Some have lived for many years on modest incomes in smaller properties where values have risen fast. They will not find an increased Management Charge easy to meet.

How would a banded charge work?

One practical way of introducing a banded charge would be to relate it to the Local Authority Council Tax Bands. The bands and the weightings used have the advantage of being established by a public authority and therefore have some claim to objectivity.

The table in the next column illustrates the approximate effect on the level of the Management Charge if it were linked to Council Tax bands. The example assumes a Management Charge of £100.

The number of freehold properties in each band is also given so as to provide a better picture of the distributive effect.

Effect on the level of a Management Charge of £100 per freehold if it were linked to Council Tax Bands.

Council Tax Band	No of Freehold Properties	Approximate Management Charge
A	2	£40
B	25	£47
C	61	£51
D	173	£64
E	309	£74
F	409	£88
G	1235	£101
H	1092	£121

Source: Trust staff calculations

Before the Management Charge could be applied in this way the method would have to be agreed and the results checked by independent assessors. However, the indicative illustration shows the significant effect it would have

What is the legal position?

Such a change requires an alteration to the Trust's Scheme of Management. This alteration would require the approval of the Leasehold Valuation Tribunal and its approval takes some time to secure. If the Council should, therefore, decide to change the basis of the Management Charge to introduce banding, it is not expected to be able to get permission for this until 2007. Clearly a great deal of research and debate is needed and the views of freeholders are sought.