



## **CABINET – 25TH JULY 2018**

**SUBJECT: REVISED NATIONAL HOME IMPROVEMENT LOAN SCHEMES AND ASSOCIATED AMENDMENTS TO PRIVATE SECTOR HOUSING RENEWAL POLICY**

**REPORT BY: DIRECTOR - SOCIAL SERVICES AND HOUSING**

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### **1. PURPOSE OF REPORT**

- 1.1 To inform Members of the changes introduced by Welsh Government (WG) in relation to the Houses into Homes and Home Improvement Loan schemes, and the need to amend the Authority's Private Sector Housing Renewal Policy accordingly.
- 1.2 To advise Members of changes introduced by WG in relation to the financing of capital budgets for Home Improvement Loans and Houses into Homes schemes.
- 1.3 A Cabinet decision is required in respect of amendments to the Private Sector Housing Renewal Policy in relation to loans for owner occupiers and landlords, including a proposal to offer lifetime loans to help those homeowners most in need.

### **2. SUMMARY**

#### **2.1 Home Improvement Loan Scheme / Houses into Homes Scheme**

- 2.1.1 In February 2018, WG introduced amendments to the Houses into Homes and Home Improvement Loan schemes that will affect arrangements for loans currently offered by Caerphilly County Borough Council. The report outlines how the revised National Home Improvement Loan Scheme is required to operate.

#### **2.2 Financing of capital budgets for Home Improvement Loans and Houses into Homes Schemes**

- 2.2.1 In February 2018, WG introduced changes to the capital funding arrangements for Local Authorities who offer Houses into Homes and Home Improvement Loans. These changes were accepted, in principle, by the Cabinet Member for Homes and Places and Interim Head of Corporate Finance, to enable the Council to accept the award of funding within the specified timescale.
- 2.2.2 There were originally 2 separate sources of capital funding. Initially, non repayable, recyclable WG capital grant was provided for the Houses into Homes scheme, which was operated on a regional basis. In addition, WG provided a source of capital funding in the form of an interest free, long term repayable loan to Local Authorities, to fund loans for home owners and landlords and to return Empty Properties back into use.

2.2.3 Both sources of funding will now be merged to form a single pot for the Authority to utilise for repayable loans according to local need and demand. However the Authority must ensure that sufficient funding is available to allocate to loans in respect of Empty Properties to ensure that the all Wales sector target of 5,000 homes brought back into use is met.

### **2.3 Owner Occupier Repayable Financial Assistance - 'Lifetime Loans'**

2.3.1 In addition to requiring changes to the administration of existing loans available to owner occupiers and landlords, as a condition of accepting the revised award for loan assistance, WG require the Local Authority to also provide repayable financial assistance to low income owner occupiers, who fail Home Improvement Loan affordability criteria and are ineligible for other available grants. These 'lifetime loans' will be available to remove hazards within the home and to make the homes 'safe, warm and secure'.

2.3.2 Such assistance is to be provided at the discretion of the Local Authority and is required to be offered in addition to pre-existing financial assistance products. It should have been made available to the public by 30<sup>th</sup> June 2018 but WG are aware of our timeline for consideration by Cabinet.

2.3.3 As the changes to existing loans and the introduction of Owner Occupier Repayable Financial Assistance are prescriptive in their format Members are asked to consider only whether or not to agree to make the revised financial products available as part of the Private Sector Housing Renewal Policy.

## **3. LINKS TO STRATEGY**

3.1 The provision of loan assistance to house owners within the County Borough supports all six key priorities identified within the Caerphilly County Borough Council Private Sector Housing Renewal Policy. This policy is the strategic document upon which the Authority's private sector housing activities are based. By providing a framework for the improvement of conditions and management within the private sector the policy also links to:

- **Improving Lives and Communities; Homes in Wales** (WG 2010) which sets out the national context on improving homes and communities.
- **The Caerphilly We Want (CCBC, 2018 – 2023) Well-Being Plan: Positive Places –** Enabling our communities to be resilient and sustainable
- **Corporate Plan 2018-2023 Well-being Objective 3 –** Address the supply, condition and sustainability of homes throughout the County Borough and provide advice, assistance or support to help improve people's health and well-being.

3.2 The recommended course of action contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015:

- *A prosperous Wales*
- *A resilient Wales*
- *A healthier Wales*
- *A more equal Wales*
- *A Wales of cohesive communities*
- *A globally responsible Wales*

## **4. THE REPORT**

4.1 In January 2015 WG launched an initiative offering interest free long term loans to Local Authorities, providing a source of capital funding to enable them to offer Home Improvement Loans to qualifying house owners. The loan was for a maximum 15 year period with Authorities having to make staged repayments to the UK treasury in years 13 to 15.

- 4.2 To participate in the scheme WG set some 'ground rules' and required that Home Improvement Loans to eligible applicants be provided within a prescribed framework that mirrored the principles of a loan product previously endorsed by Cabinet in April 2014. These interest free loans required staged repayments or full repayment at the end of the loan term or on sale of the property if earlier and were available to owner occupiers and landlords for a variety of uses such as:
- A top up to grant assistance
  - To fund a means tested contribution towards grant
  - To refurbish and bring back into use a long term empty property
  - As assistance to those households who fall outside the qualification criteria for grant aid
  - As match funding to support other initiatives.
- 4.3 A report was submitted to Cabinet in November 2014 outlining how the scheme would operate and highlighting the links to the Authority's existing Private Sector Housing Renewal Policy. As the scheme was prescriptive Members were asked to consider adoption of the scheme as part of its Private Sector Housing Renewal Policy. Cabinet subsequently endorsed the proposal and 26 loans, worth £356,923.46 have since been awarded.
- 4.4 Since April 2012 this Authority has also participated in the Houses into Homes scheme in partnership with the other four Authorities in the Gwent region. The principles of the scheme were outlined to Members by way of a report on Empty Homes submitted to the Living Environment Scrutiny Committee in March 2012. Essentially this scheme offered interest free loans to owners of long term empty properties to assist in bringing them back to beneficial use for sale or rent. WG initially funded this scheme by way of a capital grant to the region which each member Authority could call upon as demand warranted. This Authority has to date authorised 11 Houses into Homes loans, utilising loan funding of £524,935.86, bringing 16 homes back into use to date. These loans were repayable after 2 to 3 years with the fund available for recycling.
- 4.5 Both of these Housing Loan Schemes were reviewed by WG in 2017 as it recognised that:
- Many Local Authorities do not currently have the resources to adequately run the schemes.
  - Utilisation of funding and demand for both schemes is low in many areas
  - Housing into Homes loans use capital grant funding when it would be more efficient to use the capital loan funding
  - Whilst the Home Improvement Loan scheme is funded by the capital loan funding, it does not meet the objective of assisting those most in need, which can only be done with capital grant funding.
- 4.6 Following this review WG confirmed that changes to the current loan schemes were necessary in order to ensure resources are used effectively, in light of the underutilisation of the funding over the previous two years.
- 4.7 In February 2018, WG introduced changes to the capital funding arrangements for Authorities who offer Houses into Homes and Home Improvement Loans. These revised arrangements were formally accepted, in principle, by the Cabinet Member for Homes and Places and Interim Head of Corporate Finance, to enable the Authority to accept the award of funding within the specified timescale. The 2 separate sources of capital funding are detailed below.
- A repayable, recyclable WG capital grant that was provided for the Houses into Homes schemes, and operated on a regional basis. This award of grant funding was up to

£1,087,580 for the Authority.

- A repayable, interest free, long term loan to Local Authorities provided for the Home Improvement Loans scheme and loans to return Empty Properties to use. This award of repayable funding was for £1,117,808 for this Authority.

4.8 These have now been merged to form a single pot, for the Authority to utilise according to local demand. However, the Authority must continue to ensure that sufficient funding is available to allocate for loans in respect of Empty Properties to ensure that the all Wales sector target of 5,000 homes brought back into use by 2020/21 is met. The financial award amounts remain unchanged. The original maximum 15 year period which applied in relation to the capital loan money, with Authorities having to make staged repayments to the UK Treasury in years 13 – 15, also remains (year 15 ends 31.03.2030). The previous regional arrangements in place for the capital grant funding have now ceased.

4.9 WG have also altered the loan schemes to provide Local Authorities with a toolkit of options to assist home owners and provide additional support in the form of subsidy from the funding pot to ensure Authorities are able to fulfil their obligations. The Local Authority can now use part of its funding award to partially cover the administration of the loans but the maximum it can claim is capped at 2.5% of the funding. Authorities will have the flexibility to use the funding to meet local priorities.

4.10 The funding must be used for the purposes of:

- Providing loans to owner occupiers to improve properties and bring Empty Properties back into use (owner occupier loans).
- Providing loans to the Private Rented Sector to improve properties and bring Empty Properties back into use (landlord loans)
- Providing repayable financial assistance to owner occupiers, who fail loan affordability criteria and are ineligible for other available grants, to remove hazards within the home and make the home 'safe, warm and secure', (lifetime loans).

4.11 The ability to use grant rather than loaned capital funding for lifetime loans and riskier homeowner loans reduces the risk to the Authority should the funding not be repaid or the repayment term is longer than expected. This funding is required to complement rather than substitute existing schemes therefore the Authority will be required to continue to provide housing grants. If unable to use all its funding due to lack of demand, then the Authority can discuss and agree with WG alternative uses for the funding.

4.12 This Authority does not currently offer lifetime loans to homeowners, however there is anecdotal evidence of both need and demand for this type of product, in addition to the products currently offered.

4.13 In addition to creating a new framework for Lifetime Loans WG has introduced a new prescriptive framework to replace the previous frameworks for Houses into Homes and Home Improvement Loans

4.14 **Revised Criteria for Owner Occupier Loans**

General Requirements	There must be consistency, from the perspective of the loan recipient, in respect of the eligibility criteria and terms.
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Maximum fee charged to a loan recipient	A suggested one off fee of up to 50% of the costs associated with administering the loan application up to a maximum of £500. A contribution towards the remaining costs of up to £500 may be made from the Grant Funding. The total fee and subsidy from the Grant Funding must not exceed the actual costs associated with providing the Owner Occupier Repayable Financial Assistance.
Minimum and maximum owner occupier loan value per unit of accommodation.	£1,000 up to £25,000
Interest	Must be interest free.
Permitted Improvement works	<p>Works which make a residential property safe warm and/or secure.</p> <p>This includes such works undertaken to Empty Properties on the condition that</p> <p>(i) the loan recipient occupies the property on completion of the works for the duration of the loan; and</p> <p>(ii) if the loan recipient dies, ceases to occupy the property or transfers/sells the property before expiry of the loan term the loan is repaid immediately.</p>
Owner Occupier Loans can be provided for the purpose of improving a residential property for:	Continued ownership
Owner Occupier loan conditions	<p>Terms and conditions must specify:</p> <ul style="list-style-type: none"> <li>the purpose/works for which the Owner Occupier Loan is provided.</li> <li>that if the loan recipient sells the property during the term of the Owner Occupier Loan the loan must be immediately repaid in full.</li> </ul>
Maximum loan period	Up to 10 years may be taken and the loan shall be repaid on the earlier of the death of the loan recipient, when the loan recipient ceases to occupy the property or on the transfer/ sale of the property.
Payment terms	Can be drawn down in advance, in stages or on completion of the improvement works.

Repayment terms	<p>Either staged repayments (monthly, quarterly or yearly) or full repayment at the end of the Owner Occupier Loan term or on transfer/sale of the property if earlier unless specified otherwise herein.</p> <p>The Authority will offer monthly repayments to satisfy Sundry Debt requirements.</p>
Eligible loan recipients	Owner occupiers of sub standard residential properties who pass affordability checks.
Risk mitigation measures	<p>Two or more of the following measures should be applied to each Owner Occupier Loan: loan to value ratio, first/second property charges, local land charges, staged repayments, default fees, staged payments to the loan recipient.</p> <p>The Authority currently applies loan to value ratio and first/second property charge.</p> <p>The Authority checks all Land Charge notifications of pending property sales against outstanding loan records to identify potential breaches of conditions.</p>
Part funding and financial viability	<p>Must only be provided to fund financially viable improvement works.</p> <p>May be provided to fund part of the improvement works provided that evidence of sufficient/adequate funding for the remainder of the works is provided.</p>
Other funding options	<p>Other funding options such as Arbed must be explained to loan applicants.</p> <p>Other funding options can be used in conjunction with the Owner Occupier Loan as long as there is no double funding of the works.</p> <p>Loan applicants that can easily obtain commercial finance to fund the improvement works should be directed to appropriate sources of funding.</p>

#### 4.15 Revised criteria for Landlord loans

General Requirements	There must be consistency, from the perspective of the loan recipient, in respect of the eligibility and terms.
Maximum fee charged to a landlord	<p>A one off fee to cover the costs of administering the loan.</p> <p>The sum of the fee charged must take into account the APR (annual percentage rate) of the Landlord Loan for the term of the loan. The fee expressed as an APR of the Landlord</p>

	<p>Loan must not be greater than the market rate of APR for loans of the same amount and term. WG suggest that the fee is reviewed annually to ensure it is below market rates. WG are proposing to provide a guideline APR for use by the Authority.</p>
Minimum and maximum landlord loan amount	£1,000 up to £25,000
Maximum landlord loan available per loan recipient	£250,000 per application - £25,000 per property for up to 10 properties. Once repaid the applicant can apply for further funding.
Interest	Must be interest free.
Permitted Improvement works	Works which bring an Empty Property back into use or bring a property up to the standard of Safe, Warm and / or Secure.
Landlord Loans can be provided for the purpose of improving an existing property or for bringing an Empty Property back into use to:	Sell or rent
Landlord loan conditions	<p>The Landlord Loan terms and conditions must specify:</p> <ul style="list-style-type: none"> <li>• the purpose/works for which the Landlord Loan is provided.</li> <li>• If after completion of works funded by a Landlord Loan the relevant property contains a category 1 hazard (as defined by Housing Health and Safety Rating System (HHSRS)) the property cannot be rented out.</li> <li>• that if the loan recipient sells the property during the term of the Landlord Loan, the loan must be immediately repaid in full.</li> </ul>
Maximum loan period	<p>A maximum of 2 years if the intention is to sell the property following the works.</p> <p>A maximum of 5 years if the intention is to rent the property following the works.</p> <p>A maximum of 10 years if the intention is to rent the property at Local Housing Allowance (LHA) rates following the works, with a 10 year commitment for Local Authority tenant nomination rights required.</p>
Payment terms	<p>Can be drawn down by loan recipients in advance, in stages or on completion of the works.</p> <p>The Authority will consider the circumstances of applications to determine payment terms.</p>

<p>Repayment terms</p>	<p>Either staged repayments (monthly, quarterly or yearly) or full repayment at the end of the Landlord Loan term or on transfer/sale of the property if earlier.</p> <p>The Authority will consider the circumstances of applications to determine payment terms</p> <p>Ability at Authority's discretion, to 'write off' the loan value at the end of a 10 year term if the landlord agrees to rent the property at LHA rates and give the Local Authority tenant nomination rights for a 10 year period. It is important to note that this funding will therefore be unavailable for recycling.</p>
<p>Eligible loan recipients</p>	<p>Owners of substandard/Empty Properties who pass affordability checks.</p>
<p>Risk mitigation measures</p>	<p>Two or more of the following measures should be applied to each Landlord Loan: loan to value ratio, first/second property charges, local land charges, staged repayments, default fees, staged payments to the loan recipient.</p> <p>The Authority currently applies loan to value ratio and first/second property charge.</p> <p>The Authority checks all Land Charge notifications of pending property sales against outstanding loan records to identify potential breaches of conditions.</p>
<p>Part funding and financial viability</p>	<p>Must only be provided to fund a schedule of improvement works which is financially viable taking into account the sum of the loan to be offered and any other funding available to the loan recipient.</p> <p>May be provided to fund part of the works provided that evidence of sufficient/adequate funding for the remainder of the works is provided.</p>
<p>Other funding options</p>	<p>Other funding options such as Arbed must be explained to loan applicants.</p> <p>Other funding options can be used in conjunction with the Landlord Loan as long as there is no double funding of the works.</p> <p>Loan applicants that can easily obtain commercial finance to fund the improvement works should be directed to appropriate sources of funding.</p>

4.16 Owner occupier repayable financial assistance is able to be provided at the discretion of the Local Authority. It is for the Authority to decide which problems or hazards will be eligible for financial assistance. It is only payable where:



- The applicant fails the affordability checks for a loan;
- The home is below standard of safe, warm and secure and / or has hazards as defined by the HHSRS; and
- Is ineligible for other forms of financial assistance from the Council, Welsh Government or other public sector bodies.

It was a condition that the product must be available to the public by 30<sup>th</sup> June 2018 but WG are aware of our Cabinet timeline.

#### 4.17 Criteria for Owner Occupier Repayable Financial Assistance

<p>General requirements</p>	<p>Will be offered at Authority's discretion to applicants who fail affordability checks for Owner Occupier Loans. May only be given for HHSRS hazards and in order to improve the house to a 'safe, warm and secure' standard and may not cover all costs requested in the application.</p> <p>Must be repayable.</p> <p>A Lifetime Loan is a lump sum loan, where any interest that may be payable is rolled up over the full term. The loan is repayable upon sale or disposal of the property.</p> <p>Where no equity exists in the property, the Authority <i>may</i> assume that equity will be available upon repayment. However, the Authority must be mindful that there is a higher chance of non repayment.</p> <p>The Authority currently applies loan to value ratio and first/second property charge for loan assistance.</p>
<p>Fee</p>	<p>The fee chargeable to the applicant is capped at £250 however this must be added to the Assistance.</p> <p>A £250 contribution towards the costs of administering the application may be used from the Grant Funding.</p> <p>The total fee and subsidy from the Grant Funding must not exceed the actual costs associated with providing the Assistance.</p>
<p>Terms and conditions</p>	<p>Terms and conditions must specify:</p> <ul style="list-style-type: none"> <li>• The purpose/works for which the Assistance is provided.</li> <li>• That the Assistance must be repaid upon the earlier of the death of the recipient, when the recipient ceases to occupy the property or on the transfer/sale of the property.</li> </ul> <p>The Authority checks all Land Charge notifications of pending property sales against outstanding loan records to identify potential breaches of conditions..</p> <p>If in the event of the death of the applicant the property has not been sold or the loan repaid within a period of 18</p>

	months by the executors of the applicant's estate the Authority will demand immediate payment of the loan together with all other sums then owing but unpaid.
Payment terms	<p>Can be paid in advance to successful applicants.</p> <p>Due to the vulnerability of the client group, the finite budget and the anticipated demand the Authority will impose a limit on indebtedness under the discretionary elements of Private Sector Housing Renewal Policy of £25,000.</p> <p>Due to the vulnerability of the client group the Agency service will be utilised to support clients with works associated with this loan.</p>
Eligible recipients of Owner Occupier Repayable Financial Assistance	Owner Occupiers of sub standard residential properties who fail affordability checks but are not eligible for other financial assistance schemes e.g. those which require the recipient to be in receipt of means tested benefits.

4.18 If Members approve the recommendations, in order to maximise take up of the loan products and to comply with WG guidance, the availability of the range of loan products will be promoted in various local publications, on the Council's website and through social media. –

## 5. WELL-BEING OF FUTURE GENERATIONS

5.1 This report contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act in that:

- Long Term – improving and future proofing properties. Reducing the number of empty homes and improving community cohesion and sustainability.
- Prevention - providing well maintained, safe, warm and secure homes; preventing disrepair and promoting low maintenance for the future. Sustaining communities.
- Integration – improved standards of housing and community environments. The provision of home loans accords with other objectives of the Authority and Welsh Government.
- Collaboration – joined up working arrangements within in-house teams and external partners and cost effective procurement arrangements.
- Involvement – Consultation and negotiation with property owners in relation to their needs and aspirations.

## 6. EQUALITIES IMPLICATIONS

6.1 An EIA screening has previously been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact was identified therefore a full EIA has not been carried out to date.

## 7. FINANCIAL IMPLICATIONS

7.1 The Authority has already been awarded funding of £2,205,388 to support the provision of loans, albeit £1,117,808 is required to be repaid to WG in years 13 -15. Should amendments

to the provision of loans to owner occupiers and landlord loans, in accordance with the specified criteria, and the provision of lifetime loans not be supported, then WG have indicated that they may withdraw the award of funding for loans.

- 7.2 Detailed monitoring of budget expenditure, recycling of the budget and loan recovery will be required to ensure that sufficient monies are available to facilitate repayment of the loan element of the funding to WG in years 13 to 15.
- 7.3 Arrangements are in place to register loans with HM Land Registry and with the Sundry Debtor Team for collection of staged loan repayments and for debt recovery, in consultation with Private Sector Housing. Annual monitoring of loan recipients will be undertaken to ensure ongoing compliance with loan conditions.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no personnel implications as a result of this report.

## **9. CONSULTATIONS**

- 9.1 All responses from consultations have been incorporated in the report

## **10. RECOMMENDATIONS**

- 10.1 That Members note the contents of this report regarding changes introduced by Welsh Government in relation to the funding of loan assistance
- 10.2 That Members agree the introduction of an Owner Occupier Repayable Financial Assistance product to be operated in the manner outlined in paragraphs 4.16 and 4.17, and that these paragraphs will be appended to the Private Sector Housing Renewal Policy.
- 10.3 That Members agree the proposed changes to the existing owner occupier and landlord loans products outlined in paragraphs 4.14 and 4.15 and that these paragraphs will be appended to the Private Sector Housing Renewal Policy

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To enable the Authority to continue to offer financial assistance to owner occupiers and landlords by way of loans and to offer an additional financial product, in the form of an Owner Occupier Repayable Financial Assistance, to eligible householders within the County Borough.

## **12. STATUTORY POWER**

- 12.1 The Housing Grants, Construction and Regeneration Act 1996.  
The Regulatory Reform (Housing Assistance) (England & Wales) Order 2002.

Author: Fiona Wilkins, Public Sector Housing Manager  
01443 811407 [wilkife@caerphilly.gov.uk](mailto:wilkife@caerphilly.gov.uk)  
Claire Davies, Interim Private Sector Housing Manager  
01443 811373 [daviec13@caerphilly.gov.uk](mailto:daviec13@caerphilly.gov.uk)

Consultees:

Christina Harrhy - Interim Chief Executive  
Shaun Couzens - Chief Housing Officer  
Cllr Dave Poole - Leader of the Council  
David Street - Director of Social Services and Housing  
Lisa Lane - Interim Monitoring Officer  
Cllr Lisa Phipps - Cabinet Member for Homes and Places  
Nicole Scammell - Head of Corporate Finance and S.151 Officer  
Stephen Harris - Deputy S.151 Officer  
Leslie Allen - Principal Accountant  
Nadeem Akhtar - Group Accountant  
Richard Crane - Senior Solicitor  
Mark Jennings - Housing Strategy Officer  
Anwen Cullinane - Senior Policy Officer, Equalities and Welsh Language

Background Papers:

- Report 'National Home Improvement Loan Scheme' presented to Policy and Resources Scrutiny Committee on 11<sup>th</sup> November 2014.
- Report 'Private Sector Housing Renewal Policy' presented to Policy and Resources Scrutiny Committee on 15<sup>th</sup> April 2014.
- Report 'Private Sector Housing Renewal Strategy - Empty Homes' presented to Living Environment Scrutiny Committee on 20<sup>th</sup> of March 2012