



POLICY AND RESOURCES SCRUTINY COMMITTEE – 11TH NOVEMBER 2014

SUBJECT: NATIONAL HOME IMPROVEMENT LOAN SCHEME

REPORT BY: INTERIM CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To inform members of a new initiative being launched by Welsh Government (WG) that will afford Welsh Local Authorities the opportunity to take advantage of a long-term loan scheme to fund interest-free Home Improvement Loans to private sector house owners. The report also outlines changes to the funding mechanism for the current “Houses Into Homes” scheme.
- 1.2 A Cabinet decision is required in respect of the options outlined in the report and consequently the views of the Policy and Resources Scrutiny Committee are first being sought.

2. SUMMARY

Home Improvement Loan Scheme

- 2.1 In January 2015 Welsh Government (WG) will launch a new initiative involving the provision of interest free, long term loans to Local Authorities to provide a source of capital funding for those Authorities who wish to offer Home Improvement Loans (HIL) to qualifying house owners. The loan to Local Authorities will be for a maximum 15 year period with Authorities having to make staged repayments to the UK Treasury in years 13 – 15.
- 2.2 The report outlines how the proposed Home Improvement Loan scheme will operate and highlights the links to the Authority’s existing Private Sector Housing Renewal Policy, particularly in respect of Loan assistance already available to homeowners.
- 2.3 As the proposed Home Improvement Loan scheme is prescriptive in its format Members are asked to consider only 2 options i.e. whether to adopt the scheme or not adopt the scheme as part of its Private Sector Housing Renewal Policy.

Houses Into Homes Funding

- 2.4 The Houses Into Homes scheme has been in operation since April 2012 and is essentially a recyclable loan scheme operated regionally, offering interest free loans to owners of long term empty properties to assist in bringing them back into beneficial use by way of sale or rent. Funding for the scheme has to date been provided by way of WG Capital grant, deployed regionally for dissemination and use by the individual Authorities within the region in response to demand. A report titled “Private Sector Housing Renewal Policy” was presented to Living Environment Scrutiny Committee on 20th March 2012 – this report outlined the principles of the Houses Into Homes scheme.

The WG Budget announcement in October 2014 identified a further £10m to support the scheme, however, future funding will now be by way of a long term loan paid direct to individual Local Authorities rather than by way of a capital grant paid and held regionally as are the current arrangements.

As the proposed Houses Into Homes funding arrangements have been decided by Welsh Government, Members are again asked to consider only 2 options i.e. whether to continue offering Houses Into Homes loans using capital grant funding only or whether to extend the scheme by utilising both capital grant and loan funding.

3. LINKS TO STRATEGY

- 3.1 The provision of loan assistance to house owners within the County Borough supports all 6 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 (Welsh Government, 2010) which sets out the national context on improving homes and communities, including the energy efficiency of new and existing homes
 - Caerphilly Delivers, Single Integrated Plan (Prosperous Caerphilly - P2) - Improve standards of housing and communities, giving appropriate access to services across the County Borough.
 - Local Housing Strategy (Aim 10) - To promote the growth of a private housing sector that is healthy, vibrant and well managed.
 - 2014/15 Service Improvement Plan.

4. THE REPORT

Home Improvement Loans

- 4.1 In January 2015 Welsh Government (WG) will launch a new initiative offering interest free long term loans to Local Authorities to provide a source of capital funding for those Authorities who wish to offer Home Improvement Loans (HIL) to qualifying house owners. The loan to Local Authorities will be for a maximum 15 year period with Authorities having to make staged repayments to the UK Treasury in years 13 – 15. The amount of Loan finance that will be offered to individual Authorities will be on the basis of the number of private sector homes in their area and will be paid to individual Authorities following the submission of the relevant claim. The October 2014 budget announcement identified funding for the loans scheme of £5m in 2014-15 and £5m in 2015-16. For this Authority this would mean an annual allocation of £270,581 for each of the financial years.
- 4.2 Welsh Government will issue Loan Agreement schedules to which individual Authorities must sign up before any funding can be forthcoming. The Council's Legal Department has had sight of the proposed Loan Agreement and officers have not expressed any reservations in respect of its content.
- 4.3 Research undertaken on similar loan products suggests that the potential repayment default is around 5%. Welsh Government have agreed that this risk can be shared between themselves and participating Authorities and have committed to funding 50% of any shortfall up to a maximum of 2.5% of the overall loan made to the Authority.
- 4.4 To participate in this initiative Welsh Government have set some "ground rules" and stated that Home Improvement Loans to eligible applicants must be provided within the following framework:

Minimum and maximum HIL value	£1,000 up to £25,000 per unit of accommodation
Maximum loan available per loan recipient	£150,000.
Maximum fee charged to a loan recipient.	A one off administration fee of up to 15% of the HIL amount may be charged.
Interest	HILs must be interest free.
Permitted improvement works.	Works to make a residential property safe, warm and/or secure.
Loans can be provided for the purpose of improving a residential property to/for:	<ul style="list-style-type: none"> • Continued ownership • Sale • Rent
HIL conditions.	<p>The HIL terms and conditions must specify:</p> <ul style="list-style-type: none"> • The purpose/works for which the HIL is provided. • That, in respect of privately rented properties, the property must be free of Category 1 hazards as defined by Housing Health and Safety Rating System (HHSRS). • That if the recipient sells the property during the term of the HIL the loan must be immediately repaid in full.
Maximum loan period.	Up to 5 years for private sector landlords, 10 years for owner/occupiers
Payment terms.	HILs can be drawn down by loan recipients in advance, in stages or on completion of the improvement works as determined by the Local Authority.
Repayment terms	Either staged repayments (monthly, quarterly or yearly) or full repayment at the end of the HIL term or on sale of the property if earlier.
Eligible loan recipients.	Owners of sub standard residential properties e.g. landlords and owner/occupiers who satisfy affordability tests. (** See note below)
Risk mitigation measures.	<p>Two or more of the following measures should be applied to each HIL:</p> <ul style="list-style-type: none"> • Loan to property value ratio. • First/second property charges. • Local Land Charges • Staged payments to the loan recipient • Default fees. <p>Staged repayments from the loan recipient.</p>
Part funding and financial viability.	<p>HILs must only be provided to fund financially viable improvement works.</p> <p>A HIL 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:	<ul style="list-style-type: none"> • Other funding options such as Arbed must be explained to loan applicants. • Other funding options can be used in conjunction with the HIL as long as there is no double funding of the works. • Loan applicants that can easily obtain commercial finance to fund the improvement works should be directed to appropriate sources of funding.
Regional arrangements	Arrangements should be made to ensure that the manner in which HILs are offered is consistent throughout the relevant region. (For this Authority the relevant region is Gwent and meetings have already taken place with

	partner Authorities to ensure compliance with this condition.
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** Affordability testing is a task that will require the expertise of an external provider. In the short term, as a pilot, it is intended that such testing will be undertaken by a partner Credit Union based within the County Borough. Affordability testing for the longer term will, however, be subject to a formal procurement exercise involving legitimate interested parties.

4.5 Members will be aware that Policy and Resources Scrutiny Committee at its meeting on 15th April 2014 endorsed a revised Private Sector Housing Renewal Policy which itself offered a Loan product similar to that outlined above. The report presented to the Committee on 15th April made direct reference to the impending national Home Improvement Loans scheme and the opportunities it would present by way of additional capital funding for loans. The report informed Members that the national scheme would be the subject of a separate report presented nearer the time of its introduction and this report, therefore, now outlines in more detail the principles of the national scheme.

4.6 Importantly, however, Members should note that the Authority's existing Loan scheme mirrors the principles of the national scheme and so the adoption of the national scheme would, in essence, provide the Authority with an extra funding source to support our existing scheme – there would be no additional administrative burden as a result of adopting the national scheme.

Houses Into Homes Funding

4.7 Since April 2012 this Authority has participated in the Houses Into Homes scheme in partnership with the 4 other Local Authorities within the former Gwent county. The principles of the scheme were outlined to members by way of a report on Empty Homes submitted to the Living Environment Scrutiny Committee on 20th March 2012. Essentially, however, the scheme involves offering interest free loans to owners of long term empty houses to assist in bringing them back into beneficial use.

4.8 Funding to support the scheme was provided by Welsh Government by way of a capital grant to the Gwent region which each member Authority could call upon as demand warranted. This Authority has to date offered 7 loans, utilising loan funding of £342k, which on completion of schemes will bring 15 empty homes back into use. Loans are repayable over 2 or 3 years and as the Loan fund recycles over this period further loans can be offered to demand.

4.9 The purpose of this report is to inform Members that a further £10m has been made available by WG to support the initiative. However, this additional capital is now only available by way of a Loan from WG as opposed to WG's previous investment in the scheme that came regionally by way of capital grant. Also, unlike the previous capital grant that was allocated to the region, future loan monies will be allocated to participating Authorities on an individual basis. Members are, therefore being asked whether they wish to take up the offer of loan finance to support additional activity within the Houses Into Homes scheme.

5. OPTIONS:

5.1 Home Improvement Loans

As the Home Improvement Loan scheme is prescriptive in its format, there are essentially only 2 options for Members to consider:

Option 1 – Decline the opportunity to formally adopt the Home Improvement Loan scheme to form part of the Authority's Private Sector Housing Renewal Policy.

Option 2 - Take up the opportunity to formally adopt the Home Improvement Loan scheme as an additional product in support of the Authority's Private Sector Housing Renewal Policy.

5.2 **Houses Into Homes Funding**

As the future funding mechanism for Houses Into Homes has been decided by Welsh Government there are essentially only 2 options for Members to consider:

Option A – To continue operating the Houses Into Homes scheme on the basis of the existing capital grant funded regime only.

Option B – To continue operating the Houses Into Homes scheme utilising both the capital grant funding element and also the Loan funded element.

6. **EQUALITIES IMPLICATIONS**

- 6.1. An EIA screening has 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 has been identified, therefore a full EIA has not been carried out.

7. **FINANCIAL IMPLICATIONS**

- 7.1 There are no adverse financial implications as a result of this report. If adopted the Authority would be able to secure substantial additional funds to support its existing Private Sector Housing Renewal activities, albeit the funding on offer from Welsh Government is loan funding which will have to be repaid in years 13-15.

8. **PERSONNEL IMPLICATIONS**

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

9. **CONSULTATIONS**

- 9.1 All comments from consultees have been incorporated into the report.

10. **RECOMMENDATIONS**

- 10.1 That the Policy and Resources Scrutiny Committee considers this report and recommends to Cabinet the adoption of Option 2 in para 5.1 above. i.e. to formally adopt the Home Improvement Loan scheme to form part of the Authority's Private Sector Housing Renewal Policy.
- 10.2 That the Policy and Resources Scrutiny Committee considers this report and recommends to Cabinet the adoption of Option B in para 5.2 above. i.e. To continue operating the Houses Into Homes scheme utilising both the capital grant funding element and also the Loan funded element now on offer from Welsh Government.

11. **REASONS FOR THE RECOMMENDATIONS**

- 11.1 To enable the Authority to benefit from additional funding to support interest free loans to eligible householders within the County Borough.

12. **STATUTORY POWER**

- 12.1 The Regulatory Reform (Housing Assistance) (England & Wales) Order 2002.

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Consultees: Cllr Gerald Jones, Deputy Leader & Cabinet Member for Housing
Cllr Hefin David – Chair Policy and Resources Scrutiny Committee
Cllr Sean Morgan – Vice-Chair Policy and Resources Scrutiny Committee
Nicole Scammell - Acting Director of Corporate Services.
Stephen Harris – Acting Head of Corporate Finance
Shaun Couzens - Chief Housing Officer
Graham North – Public Sector Housing Manager
Paul Smythe - Housing Repair Operation Manager
Lesley Allen - Principal Accountant
Fiona Wilkins - Principal Housing Officer (Private Sector)
Suzanne Cousins – Principal Housing Officer (Housing Portfolio)
Allan Elliott - Principal Housing Officer (Agency)
Gail Williams – Interim Head of Legal Services
Liz Lucas – Head of Procurement
Richard Crane – Senior Solicitor
David A. Thomas, Senior Policy Officer (Equalities and Welsh Language)

Background papers:

Report: “Private Sector Housing Renewal Policy” presented to Policy and Resources Scrutiny Committee on 15th April 2014.

Report: “Private Sector Housing Renewal Strategy – Empty Homes “ presented to Living Environment Scrutiny Committee on 20th March 2012.