



Leicester
City Council

OSMB
CABINET

WARDS AFFECTED - ALL

9 DECEMBER 2009
14 DECEMBER 2009

PRIVATE SECTOR DECENT HOMES : LOANS PILOT

Report of the Strategic Director for Adults and Communities

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to propose a scheme for providing loans to private homeowners to make homes decent. This is in the context of an allocation from DCLG, through the Regional Housing Group (RHG), for loan finance together with a reduction in the available capital for grants.
- 1.2 This allocation can be used to provide continued support for the One Leicester outcomes that more people will live in decent homes and that people can continue to live independently at home.
- 1.3 The report also proposes that Renewal Services are withdrawn in those areas where a high level of improvement has been achieved.

2. SUMMARY

- 2.1 The Regional Housing Group has introduced a pilot loans fund for Decent Homes. The pilot is limited to four authorities, including Leicester, and runs until March 2011. A total of £2m is available which is additional to the private sector renewal allocations made to the individual authorities. The report proposes how loans can be used in Leicester to support our One Leicester outcomes.
- 2.2 Leicester's private sector renewal allocation for 2009-10 was lower than anticipated. This resulted in a reduction in the capital programme (from £1.95m per annum planned to £1.68m per annum), which will delay progress with dealing with Decent Homes in the private sector. Work can continue in existing declared areas but progress will be slower. It is expected that the 2010-11 allocation will be further reduced.
- 2.3 The Government is promoting loans to take the pressure off a declining capital budget, whilst still being able to assist vulnerable homeowners to bring their homes up to the decent homes standard. Where vulnerable people are not eligible for the loans, perhaps because they do not have sufficient equity, they will be offered grant assistance.

- 2.4** The Corporate Plan target for 2009-10 is to bring 350 private sector homes per annum up to the decent homes standard and 400 per annum after that. The target is unlikely to be achieved with the level of resources currently available.
- 2.5** The proposed principle is that households will be assessed in the first instance for a loan. Grant assistance will only be considered where a loan is not affordable or the maximum loan is not sufficient to bring the home up to the decent homes standard. This is a major change in the approach previously adopted in Leicester's Renewal Strategy.

3. RECOMMENDATIONS

Private Sector Decent Homes

- 3.1** That the current policy of prioritising investment in Home Improvement Areas continues. The Home Improvement areas are: Swainson Road, Abbey Lane North, Windsor Avenue North, Halifax Drive and Belgrave Village.
- 3.2** That the Council introduce a new system of offering 'affordable' loans and/or grants to homeowners in order to achieve Decent Homes.
- 3.3** That the general policy for offering assistance through Decent Home Loans is as set out in Appendix A, and the Divisional Director, Housing Strategy & Options, is given delegated authority, in consultation with the Cabinet Lead for Housing, to amend the details of the policy in response to outcomes and changing conditions.
- 3.4** That the loan products to be made available are as described in Appendix B.
- 3.5** That the scheme is publicised as the "East Midlands Regional Loan Fund: Administered by Leicester City Council".
- 3.6** That loans to make homes decent are made available to owners of suitable empty homes that agree to lease their empty properties to "Home Come". The loans will be repayable over the five years of the lease.
- 3.7** That whilst the above recommendations described discretionary services to be provided by the Council in general, all valid applications will be considered on their individual circumstance and merit. In exceptional cases the Divisional Director, Housing Strategy & Options, to have delegated authority to approve applications outside of the general policy.
- 3.8** That the Council withdraws 'Renewal Services' in the following renewal areas, where a high level of improvement has already been achieved; Evington Valley Renewal Area ph2; New Humberstone non-statutory Renewal Area; and St Saviours non-statutory Renewal Area.

4. REPORT

- 4.1** Providing a decent home with good energy efficiency supports the One Leicester vision themes of “Improving well-being and health”; “Reducing our carbon footprint”; and “Creating thriving safe communities”. The work of improving private sector homes, and improving the older areas more generally, are included in the list of agreed five-year outcomes. However the Corporate Plan targets are unlikely to be achieved with the level of resources available this year and anticipated to be available next year.
- 4.2** Providing loans to homeowners instead of grants will make funding more secure in the longer term, as when loans are repaid the finance can be reused. However, this ‘recycling’ will not help in the short term. Also there may be an initial resistance to taking loans, which could impact on outputs. The loan allocation from the RHG is ring fenced and cannot be used for providing grant assistance.
- 4.3** Not only has the private sector renewal allocation reduced but the credit crunch and subsequent collapse in the housing market has reduced the capital receipts available to help fund the Housing Capital Programme as was done in previous years. The Housing Capital Programme for 2009-10 agreed in January 2009 was based on an estimated allocation from the Regional Housing Group (RHG) of £2.5m. The confirmed allocation was £2.1295m. The two issues have combined to substantially reduce the funding available for Private Sector Decent Homes.

The Affordable Loan/ Grant Option for Decent Homes

- 4.4** The Regional Housing Group (RHG) has established a fund of £2m for a pilot loans scheme 2009-11. Leicester, Derby, Nottingham and Mansfield are involved. The intention is that loans should be offered instead of grants where;
- a) there is a safety margin of equity in the home (20% equity after the loan has been taken), and
 - b) the owner can afford repayments, or
 - c) is eligible for an equity share type loan
- 4.5** The loans will be administered through a specialist lender, Art Homes Ltd (AHL), who are FSA regulated and are able to offer financial advice to potential borrowers as well as being able to sell the most appropriate products. AHL are a non-profit making subsidiary of the Midland Heart Housing Association. They were set up by a consortium of 7 Local Authorities in the West Midlands and have operated successfully since 2004. The East Midlands Regional Housing Board has brought the model to this region. The range of subsidised loan types requiring different levels of loan repayments are set out in Appendix B. An undertaking of not seeking repossession is provided.
- 4.6** Where none of the products are affordable or there is insufficient equity, a grant or mixture of grant and loan assistance will still be offered. A proposed Loan/ Grant option for Leicester is shown in Appendix A.

- 4.7** In order to be confident that the funded works will be completed to a satisfactory standard and to time, homeowners taking up the offer of loans will be required to use our in-house Home Improvement Agency service. The costs for this service will not be added to the loan. The Home Improvement Agency will draw up the specification, obtain quotes from selected builders and supervise and inspect the work, before releasing the payment to the builder, with the agreement of the owner.
- 4.8** Moving to the principle of “loan first” is a major change to the basis of Leicester’s renewal programme and its strategy for tackling decent homes in the private sector. However, it is set in the context of;
- a) the need to use limited resources as effectively as possible, and
 - b) the change in the ratio between the value of homes and the cost of work. For example, the average level of grant aid used to be some £13k on houses valued at under £30k. The average grant is now £7k on a properties usually valued at over £100k.
- 4.9** The proposed scheme will ensure that vulnerable households living in homes below the decent homes standard, with insufficient equity or are unable to afford repayments will still receive grant aid.
- 4.10** The majority of loans to be made are expected to be of the equity share type. However for those people who can afford a repayment loan the interest rate will be 1½% over bank base rate. At present that means the rate would be 2% but it will vary as bank base rate changes.
- 4.11** The RHG has asked that the scheme be ‘branded’ as recommended to assist with the roll out of the scheme across the region as/when that is decided upon. The Leicester scheme is based on the experience of other local authorities that have already introduced loans based policies.

Withdrawal of Renewal Services

- 4.12** Leicester deals with private sector decent homes on an area by area basis by declaring Home Improvement Areas (formerly Renewal Areas). Once substantial improvement has been achieved the programme moves on. It is recommended that home improvement grants and environmental works cease in the older renewal areas. This is because a high level of individual home improvement and general environmental improvement has already been achieved. More details are set out in Appendix C.
- 4.13** In these areas it is proposed that enquiries for assistance with home improvements from eligible homeowners that had been received by 1st October 2009 will still be dealt with.

5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1. Financial Implications – Danny McGrath

- 5.1.1** The current year's Capital Programme contains provision of £50,000 for the loan scheme. The Council will administer the scheme in Leicester but Art Homes Ltd will actually make the loans.
- 5.1.2** All the improvements through the loan scheme will be managed by the Home Improvement Agency but the fee of 12% of the cost, together with the loan set-up costs, will be met by the Council from the capital provision for Renovation Grants.
- 5.1.3** The amount available for loans in future years will be dependant upon the allocation of funds through the Regional Housing Group.

5.2 Legal Implications - Zoe Ayris

Local authorities have powers to provide loans and grants to private sector home owners under the Housing Grants, Construction and Regeneration Act 1996. This was amended by the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 in order to widen the circumstances in which authorities could offer assistance. However the powers of the Act and Regulations are only exercisable if the authority has adopted an appropriate policy for the provision of such assistance and have given public notice of the adoption of the policy.

The proposed loan scheme is initially to be run as a 2 year pilot and operated by this and 3 other councils, the lead council being Nottingham City. Nottingham City Council will hold the fund for the pilot scheme.

Although ART will administer the scheme for the Council, there has been no procurement exercise by the Council as Nottingham City has led on the pilot scheme. Some form of initial waiver of Contracts Procedure Rules may therefore be necessary in order for the Council to enter into the appropriate agreement with ART in respect of the 2 year pilot. If in the future the Council intends to extend the scheme, it would be advisable for a full procurement exercise to take place, dependent on the proposed value of service to be provided at that time.

The loan will be secured by a legal charge on the property between ART Homes and the home owner(s). The Council will however have an agreement with ART Homes which will require that any money recovered under their legal charge will be re-invested into the loan scheme to fund future loans. At the time of writing, Legal Services has only recently received the form of agreements proposed to be entered into, and therefore no detailed implications on that documentation can be made.

6. OTHER IMPLICATIONS

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities		
Policy	YES	
Sustainable and Environmental		
Crime and Disorder		
Human Rights Act		
Elderly/People on Low Income	YES	

7. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

Housing Grants, Construction and Regeneration Act 1996
 The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 – SI 1860/2002
 “Financial Assistance for Private Sector Renewal in Leicester” - Richard Groves, Doug Wright and Deborah Carlo (Centre for Urban and Regional Studies at University of Birmingham) 2006

8. CONSULTATIONS

Regional Housing Group
 Regional Loans Pilot Steering Group
 ART Homes Ltd

9. OFFICERS TO CONTACT ABOUT THIS REPORT

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Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

PROPOSED SCHEME FOR LEICESTER**1. Owner Occupiers**

Assistance is to be offered to vulnerable homeowners on a 'loan first' basis. Grant aid will only be offered if no loan can be provided or is insufficient to bring the home up to the decent homes standard. In Home Improvement Areas (HIAs) low-income households can also be considered for assistance. The grant aid to be provided in qualifying cases will be limited to £10,000.

In the HIAs assistance will be offered through a Discounted Loan, that is that 20% of the eligible cost will be grant aided with 80% to be loan funded. Applicants can also be considered for loan assistance towards improvement work beyond the decent homes standard, such as energy efficiency measures beyond 'thermal comfort' and replacing all the windows to achieve a standard appearance and specification rather than just those in need of replacement.

The financial adviser working for AHL will determine the most appropriate loan type that can be afforded by individual applicants (see Appendix B).

The major difference with the current policy is that assistance will be 'loan first' in place of grant only. Assistance will continue to be targeted to Home Improvement Areas and vulnerable households throughout the city. The current policy of offering modest grants of £2,100 to vulnerable households towards works that make a property 'wind & watertight' has proved very effective in achieving decent homes or at least making incremental improvements that move the property towards that standard. These small grants will be replaced by providing interest free unsecured loans of up to £3,000 which are repayable over three years.

The administrative costs of setting loans up will be borne by the council so that borrowers use their loan funding solely towards the cost works on their home.

2. Landlords of Long Standing Empty Homes

The Corporate Plan has a target of reducing the number of Empty Homes that have been empty for 5 years. HomeCome already has a scheme for leasing properties from landlords which are then offered nominations from the Council's Housing Register. Many homes that have been empty for long periods of time do not meet the Decent Homes standard and the work involved cannot be taken on by HomeCome. It is proposed that a capital and interest loan be offered to the landlord where they agree at least a 5 year lease to HomeCome.

Loan Type	Eligible households	Purpose	Maximum Loan	Minimum Loan	Eligible areas
Discounted Property Appreciation Loan – discounted by 20%	Vulnerable and low-income households. Must be owner occupiers	Bringing the property up to the decent homes standard.	£15,000 or 80% of free equity in the property if less	£3,000	Declared HIAs only
Standard Property Appreciation Loan	Vulnerable households. Must be owner occupiers	Bringing the property up to the decent homes standard	£15,000 or 80% of free equity in the property if less	£3,000	Citywide
Capital and Interest Repayment Loan/ Interest Only Loan/ Interest Roll Up Loan	Vulnerable households. Owner occupiers (all types) HomeCome lessors capital and interest only	Bringing the property up to the decent homes standard	£15,000 or 80% of free equity in the property if less	£3,000	Citywide but in HIAs the loan will be subject to discount
Unsecured Loan	Vulnerable households.	Incremental improvements that make a property wind & watertight or to deal with dangerous wiring or to improve energy efficiency beyond thermal comfort	£3,000	£500	Citywide

LOAN PRODUCTS

There are five basic loan products. These are:

1. Capital and Interest Repayment Loan
2. Interest Only Loan
3. Interest Roll Up Loan
4. Equity Share Loan e.g. 'The Property Appreciation Loan' (PAL)
5. Discounted Property Appreciation Loan
6. Unsecured Loan

1 Capital and Interest Repayment Loan

This is a traditional loan with monthly repayments of interest and capital required over a set term. An affordable loan ought to have an interest rate below that available in the commercial sector.

2 Interest Only Loan

This again is a traditional product, available both through commercial lenders and through "affordable" lenders. There is a requirement with this product for interest payments to be met on a monthly basis. In respect of the vulnerable client group this product is mainly relevant to homeowners who can qualify to receive the interest being paid by the Department for Work and Pensions (DWP).

In these circumstances it can be a suitable option for vulnerable homeowners.

3 Interest Roll Up Loan

This product works by the interest being charged on the loan not being paid as a regular payment of any type, but being added to the loan itself. The original loan increases each year by the amount of interest charged. The loan is normally called an "interest roll up" loan or a "no service" loan.

This is only really suitable for loans that will be repaid within a limited period, say less than 10 years.

4 Property Appreciation Loan (PAL) or Equity Share Loan

The PAL is a loan product that does not have any monthly repayment requirements nor is there any interest charged on the loan. The loan provides a return to the lender by linking the loan to house price inflation. The loan is repaid upon the eventual sale of the property; when ownership changes hands; or when the borrower decides to redeem.

The PAL loan is expressed as a percentage of the value of the property and when the loan is redeemed, the same percentage is repaid but of the increased value. In the event that the value falls in the interim, then the same capital sum as the original loan would need to be repaid.

For example, a £5,000 loan on a £100,000 house becomes a 5% PAL loan. If the house has increased in value to £150,000 when the loan is redeemed, then 5% of the increased value i.e. £7,500 will need to be repaid.

5 Discounted Property Appreciation Loan

The discounted PAL works in exactly the same way as the PAL outlined above, with the exception that the council agrees to give the homeowner a discount on the loan.

So in the example above, instead of taking a 5% stake on a £5,000 loan against a £100,000 property, the council could agree to take a 4% stake in the property. This 4% stake would have a value of £4,000; therefore the homeowner would have effectively received a £1,000 contribution towards the cost of the works.

6 Unsecured Loan

For small loans (less than £3,000) it is more cost effective to offer unsecured loans that can be repaid on a monthly basis over three years.

EXIT STRATEGY FOR WITHDRAWING SERVICES FROM RENEWAL AREAS

Leicester deals with private sector decent homes on an area by area basis by declaring Home Improvement Areas (formerly Renewal Areas). Once substantial improvement has been achieved the programme moves on. During the life of a Home Improvement Area (HIA) contact is made with all households within the area. Advice and assistance is provided to ensure that all eligible households of given every opportunity to apply for grants and other forms of assistance. The main targets are all vulnerable households living in non-decent homes. Over time significant improvements in both housing conditions and the environment more generally are achieved.

The rate of new grant enquiries within Evington Valley Renewal Area ph2; New Humberstone non-statutory Renewal Area; and St Saviours non-statutory Renewal Area has now stopped and all eligible households that were interested in obtaining assistance have been dealt with. By ceasing the availability of home improvement grants and environmental works in these older areas resources can be better targeted to the newer HIAs and potentially further HIAs can be declared.

Declared Areas	Date declared	Number of dwellings
Evington Valley Renewal Area ph2	November 1999	437
New Humberstone non-statutory Renewal Area	January 2001	768
St Saviours non-statutory Renewal Area	March 2002	779
Swainson Road Home Improvement Area	February 2006	198
Abbey Lane North Home Improvement Area	November 2006	339
Windsor Avenue Home Improvement Area	November 2006	304
Halifax Drive Home Improvement Area	June 2008	266
Belgrave Village Home Improvement Area	June 2008	142

After withdrawing renewal services from the three renewal areas residents will still have access to services under the citywide home maintenance strategy and action with any empty homes will continue. The three areas will be brought into the 'Hot Lofts' programme so that any homes still with below standard levels of insulation can be dealt with.

Renewal Area	Homes made Decent with grant aid
Evington Valley ph2 RA	67%
New Humberstone RA	50%
St Saviours RA	46%

The detailed summary of activity in the New Humberstone RA is shown overleaf and is typical of the three areas.

Summary for New Humberstone Renewal Area	
Total number of Dwellings	768
Owner-Occupied Dwellings	473
Customers who completed grant enquiry forms	330
Number of properties fully improved at date of declaration	66
Number of properties now fully improved	235

76 households could not get a grant because of issues with their means tested contribution to the costs of work and 89 others did not feel able to go ahead with improvements for a variety of reasons.

More than 500 dwellings in the area have benefitted from environmental schemes, including front wall schemes, facelift schemes and alleyway improvements.

The total expenditure on environmental works in the three renewal areas to date is:

Renewal Area	Environmental Works Expenditure £s
Evington Valley Renewal Area Ph2	1,103,609
St. Saviours Renewal Area	473,000
New Humberstone Renewal Area	1,062,085

Work will continue in the Home Improvement Areas, namely Swainson Road, Abbey Lane North, Windsor Avenue North, Halifax Drive and Belgrave Village.