

Committees: Community and Children’s Services – For Information	Dated: 11/03/2024
Housing Management and Almshouses Sub-Committee – For Information	17/04/2024
Subject: Financial Support with Major Works (Long Leaseholders)	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	4, 12
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: Judith Finlay, Executive Director of Community and Children’s Services	For Discussion
Report author: Liam Gillespie, Head of Housing Management, DCCS – Housing Division	

Summary

The purpose of this paper is to: set out the current range of options for financial support for leaseholders in relation to major works costs; provide Members with information on options offered by other landlords; and inform discussion on possible variations or alternative offers.

The Housing Division’s major works programme, amounting to approximately £110 million, is delivering multiple projects designed to improve the standard of the homes managed by the City Corporation across its social housing estates.

The cost of these projects is borne by the Housing Revenue Account (HRA), with an element charged back to long leaseholders through their service charges, in accordance with lease provisions. The scale and complexity of some of the projects means that the cost to individual leaseholders can be significant and may, in some cases, result in financial hardship. In recognition of this, several options are available to leaseholders to help them spread the cost of paying for major works, including a discretionary loan scheme first approved by Members in 2010.

The discretionary scheme was last considered by Members in 2017 in the context of the Great Arthur House curtain wall project, when the maximum loan and interest-free period was increased. Several projects of a similar scale are proposed or underway, including the Crescent House window replacement and repair scheme, and officers have been asked to consider the current arrangements for leaseholder support in response to those projects. However, the cost of these planned works for individual leaseholders is not yet finalised, so it is not yet possible to assess with real accuracy the implications for the current loans scheme, or the potential impact on the HRA of increasing current support.

Recommendations

Members are asked to:

- Note the report
- Inform officers of any potential alternative options they would like to explore further.

Main Report

Background

1. Our current major works programme, forecast to cost approximately £110 million, has already delivered many improvement projects to housing stock managed by the City Corporation, and multiple projects are currently underway or planned to bring buildings up to modern standards.
2. This work is funded through the HRA, which is financed by income from rent receipts and service charge contributions.
3. Tenants who exercise the Right to Buy their home will enter into a lease agreement with the City Corporation, which sets out rights and obligations in respect of their ownership of the long leasehold interest in the property. The terms of the lease describe the arrangements for the charging and payment of service charges, including those for repairs and major works to the residential block or estate in question.
4. The service charge contributions of individual long leaseholders, in respect of major works to their block or estate, can be significant and it is acknowledged that large bills for major works can cause financial hardship for some homeowners. Arrangements are in place to assist homeowners to spread the cost of these charges, or access loans through various means (as described below).
5. The loan arrangements for leaseholders were last considered by the Community and Children's Services Committee in September 2017, in the context of the Great Arthur House curtain wall replacement project. At that time, the maximum discretionary loan amount was increased to £72,500 and Members approved the setting of the interest-free period at a maximum of three years, depending on the amount borrowed.
6. Members are aware that other large-scale major works projects are planned, notably window replacement works at Golden Lane, which have the potential to result in significant charges for leaseholders. The precise costs have yet to be determined and officers are therefore not able to advise Members on the precise implications for the operation of the current discretionary loan arrangements.
7. Any change to the current arrangements would require clarity on the cost of current planned projects, as well as the implications for the HRA of extending the support currently in place.

8. This paper is intended to assist Members by describing the current arrangements and how they fit in with our wider duties in respect of the proper management of the HRA. The paper also includes information about practice elsewhere.

The Housing Revenue Account (HRA)

9. Section 74 of the Local Government and Housing Act 1989 (“the 1989 Act”) imposes a duty on local authority landlords with 200 or more homes to keep an HRA, through which sums are debited and credited in respect of core landlord services and the provision of housing (as defined in the Housing Act 1985, Part II).
10. The 1989 Act includes an obligation to ensure that the account for each year does not show a debit balance (s.76).
11. The City Corporation has legal and fiduciary duties to recover the cost of major works projects from long leaseholders as part of its duty to manage the HRA effectively. Failure to collect service charges due from leaseholders could compromise the HRA and mean that tenants were, in effect, subsidising private homeowners.
12. Failure to properly collect service charge contributions would also compromise our ability to deliver the current major works programme. However, we must also have due regard to the hardship faced by some long leaseholders when faced with substantial service charge demands for major works.
13. To balance the need to effectively administer the HRA, with consideration for the impact of major works on long leaseholders, a range of options are available to assist lessees in paying for major works items. These measures are intended to ensure that major works costs are recouped by the HRA in a way that reduces the potential for individual financial hardship as far as can reasonably be achieved while keeping firmly in mind our duty to properly manage the HRA.
14. Members will be aware that the HRA is subject to serious pressure due to the major works programme and the development of new homes in several locations. Currently, in addition to the £110 million for planned projects, there is an estimated £30 million worth of projects that are currently without allocated funding, arising out of the 2018 stock condition survey and further tests and surveys conducted as part of ongoing major works projects.
15. Members will also be conscious of the legal proceedings in respect of Great Arthur House, which resulted in the City Corporation being unable to recoup the majority of costs originally billed to leaseholders in that building, resulting in additional costs being borne by the HRA.
16. Further demands are being placed on the HRA which are non-negotiable, for instance, the cost of meeting new legal responsibilities on building safety compliance

Current Position

17. Appendix 3 includes a Major Works payment guide for leaseholders. The current support available to leaseholders is set out in the table in **Appendix 1** and is made up of :
- A mandatory loan scheme under the Housing (Service Charge Loans) Regulations 1992
 - A contractual loan scheme set out in the lease terms
 - A discretionary loan scheme originally approved in 2010 and revised in 2017.
18. Further to the options above, other measures are available through legislative provisions, or previous Committee approval, namely:
- purchase by the City Corporation of an equitable interest in a property under the Housing (Purchase of Equitable Interests) (England) Regulations 2009, essentially a form of shared ownership which reduces the leaseholder's service charge liability to the percentage they retain
 - a buy-back scheme, approved by Committee in 2010, in which the City Corporation purchases the property and the former leaseholder remains as a tenant (only available to the original Right to Buy purchaser and subject to funds being available for this purpose)
 - an equity loans scheme, subject to a means-testing process and available only to resident leaseholders.
19. The latter two options are available only in cases of extreme hardship, as a last resort measure, where it is demonstrated that the leaseholder does not have the means to pay for major works and is at risk of homelessness without support. Agreement is subject to a detailed assessment.
20. The discretionary loan scheme was last considered in detail by this Committee in 2017, when the current interest-free periods and loan parameters were agreed. In June 2018, Members made a further decision *not* to restrict the discretionary loan arrangements to leaseholders on lower incomes, but to allow any current owner-occupier to apply for the scheme.
21. Uptake of discretionary loans has been relatively low, with only eight outstanding at the time of writing, five of which relate to Great Arthur House. However, it should be noted that the Great Arthur House project was completed at a time when the economic picture was very different and loans through regulated lenders had more competitive rates. Uptake may be higher if a similar project were undertaken during the current economic conditions, as the interest-free period and competitive interest rate make the discretionary loan scheme a potentially more attractive option than a bank loan.

Barbican Estate

22. The Barbican Estate operates broadly similar arrangements to the HRA, however, it can be noted that the discretionary loan scheme differs in a number of ways:

- The statutory (mandatory) loan arrangement under the 1992 Regulations applies, however, very few leaseholders are eligible due to the restrictive criteria in the scheme.
- A lease-based arrangement in which payments can be paid over a maximum of 10 years, with interest, secured as a charge on the property; major works are classed as those costing more than 2.5% of the value of the property. This scheme is the same as that contained in HRA leases.
- A discretionary loan scheme in which the terms of the statutory loan (under the 1992 Regulations) are extended to those who did not purchase their home through Right to Buy (i.e. those who purchased through open market sales). The statutory maximum (£41,740) applies and there is no interest-free period as in the HRA scheme.

23. Therefore, the main difference between the HRA and Barbican offer is the extent of the discretionary loan schemes operated.

Other Local Authorities

24. Most local authorities will offer options to spread the cost of major works through instalment plans, lease provisions and discretionary loan schemes. In addition, some landlords offer voluntary charge arrangements, which are sometimes restricted to those in extreme hardship.

25. The arrangements of a sample of local authorities in London were researched and the details are shown in **Appendix 2**.

Instalment Plans

26. It is common for local authority landlords to offer instalment plans, often with partial or full interest-free periods depending on the duration of the plan, which allow leaseholders to spread repayments over several years. These are not loans and are not secured on the property.

27. The City Corporation does not currently offer this option to leaseholders. Our standard lease does allow leaseholders to spread costs across a maximum of 10 years, however, this takes effect as a secured loan and attracts interest, and so differs from the kind of instalment plans offered by some other local authorities.

Discretionary Loans

28. Many landlords offer a discretionary loan scheme, which is usually restricted to assist owner-occupiers. Appendix 2 shows a sample of arrangements operated by other local authority landlords in London. From the information publicly available, some of the landlords included in Appendix 2 appear not to offer a discretionary loan scheme.

29. Of those that offer discretionary loans, 10-year terms are most common, though some landlords do offer longer loan terms, bearing interest.

Review of Current Arrangements

30. Based on the landlords shown in Appendix 2, the City Corporation's current offer for leaseholders appears to be broadly similar, in that:

- a discretionary loan scheme is offered to owner-occupiers
- an interest-free period is available (again restricted to owner-occupiers)
- a maximum loan period is specified.

31. There are some ways in which the City Corporation's arrangements differ from those landlords researched:

- Unsecured interest-free instalment plans are not currently provided.
- A maximum loan amount is specified in the discretionary loan (however, it should be noted that there is no maximum stated in the lease arrangements).

32. Officers are of the view that the current arrangements are generally suitable, however, Members may wish to indicate whether they would like officers to consider any amendments to current options, or any new initiatives, in more detail.

33. Given the duties held in respect of the HRA, and the scale of demand currently placed on it (or expected to be), any measures which had the potential to reduce cashflow to the HRA, or increase its debt burden, would need very cautious consideration.

34. It should be noted that the HRA Five-Year Financial Plan presented to this Committee in January 2024 did not include any additional costs related to any changes in leaseholder loan arrangements.

Corporate & Strategic Implications

35. There are no strategic implications directly related to this report.

- Financial implications – N/A
- Resource implications – N/A
- Legal implications – N/A
- Risk implications – N/A
- Equalities implications – N/A
- Climate implications – N/A
- Security implications – N/A

Conclusion

36. We currently have a range of measures to assist leaseholders of City Corporation social housing estates to pay for major works costs, including a scheme contained

in the lease and a discretionary loan scheme which is partially interest-free and limited to resident leaseholders.

37. Comparison with other local authority landlords in London shows that the City Corporation's offer is broadly in keeping with options elsewhere. However, unsecured instalment plans, which are quite common from the research conducted, are not currently offered.
38. Uptake of the loan arrangements offered has been low, even in those blocks which have been subject to the most substantial major works projects.
39. Officers advise that the current arrangements are suitable and balance the need to recover major works costs with easing pressure on private homeowners who are obliged to contribute towards projects.
40. Officers will consider any changes to the current arrangements suggested by Members in more detail, including any potential impact on the HRA and its ability to support the current major works programme and other important commitments.

Appendices

- Appendix 1 – Summary of Current Financial Support Options for Long Leaseholders
- Appendix 2 – Instalment Options and Discretionary Loan Arrangements: other Local Authorities
- Appendix 3 – Major Works payment guide for leaseholders

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