

Committee	Dated:
Community and Children's Services	08/06/2018
Subject: Leaseholder Discretionary Loan Arrangements – options for amendment	Public
Report of: Director of Community and Children's Services	For Decision
Report author: Jacquie Campbell, Assistant Director, Housing and Neighbourhoods	

Summary

In September 2017, your Committee approved a revision to the support offered by the City to help its leaseholders with the costs of major works. The support includes a discretionary provision to offer an interest-free period of up to three years on loans to leaseholders who are owner-occupiers.

At the request of Members, officers have looked at the potential for restricting eligibility for the interest-free period to lower-income households only. This report sets out the options for Members to consider.

Recommendation

Members are asked to:

- Consider the options set out in paragraphs 10 and 11 and to direct officers as to their preference.

Main Report

Background

1. Local authority landlords have a duty under the Local Government and Housing Act 1989 to maintain a Housing Revenue Account (HRA) and to ensure that this does not fall into debit. As part of this duty, the landlord is required to recover from its leaseholders the cost of works to their homes.
2. Under regulations added to the 1989 Act in 1992 and then in 2008, local authority landlords are also required to offer loans to assist leaseholders in paying these costs. These loans (for which the interest rate is regulated by the Government) are mandatory for leaseholders who have bought their homes under Right to Buy legislation, and their successors for 10 years from the start of the lease.

3. In addition to the mandatory loans, City of London leaseholders, under the terms of their lease, have the right to spread payments for major works over a 10-year period. This applies to all leaseholders, and interest is payable.
4. An additional benefit is currently offered by the City of London to leaseholders who occupy their property as their main home. This discretionary arrangement offers an interest-free period of up to three years.
5. In September 2017, your Committee reviewed the discretionary arrangement and agreed to increase the maximum loan eligible for an interest-free period to £72,500. The change was ratified by the City's Finance Committee, and details of the revised loans scheme have been widely publicised to residents.

Current Position

6. The discretionary arrangement of an interest-free period on loans is currently offered to all leaseholders who occupy the property as their main home. There is no income threshold and no means testing. Only leaseholders who use the property as a second home or as a rental property are ineligible.
7. Since the approval of the current scheme, Members have asked officers to investigate the possibility of restricting eligibility to the interest-free period to lower-earning leaseholders. The purpose of this is to safeguard the HRA by making sure that higher-earning households are not given an effective subsidy in the form of the interest-free period.
8. Enquiries of other boroughs has revealed that, where discretionary loan arrangements are offered, it is unusual to restrict eligibility in this way. However, the terms of discretionary loan arrangements are entirely up to the individual local authority, so there is nothing to prevent the City from introducing such a measure.
9. Members have stated that any change to eligibility will be introduced after the final bills for the Great Arthur House work have been sent out. This would ensure that those leaseholders will not be adversely affected by the change by finding that they are no longer eligible for interest-free periods on their loans.

Options

10. Officers have explored ways in which eligibility might be restricted without creating an excessive additional workload associated with loan applications. Any scheme which is time-consuming to administer will require us to pass the administration costs onto the leaseholder making the application, which would further increase their financial burden. Therefore, we have focused on two options that would be relatively simple to implement. These are to restrict eligibility to:
 - option 1: Households in receipt of a state benefit or Council Tax Reduction
 - option 2: Households whose combined income and savings are below the thresholds set for eligibility for the City's Housing Waiting List.
11. The remaining options are :

- option 3: For Members to set an alternative financial threshold for eligibility
 - option 4: For Members to leave eligibility as it currently stands.
12. Option 1 would be the simplest option to implement and administer, as applicants would simply have to provide evidence of being in receipt of benefits. It would have the advantage of targeting the lowest-income households for support. It would also give the greatest saving to the HRA. However, it would restrict eligibility to such a degree that a fairly low number of leaseholders would qualify for the interest-free loan period.
13. Option 2 would allow a higher number of households to qualify for support, while ruling out high-income households. For the purposes of the Housing Waiting List, the combined earnings of two household members would be taken into account. Therefore, in a family, the income of adult children, who might not stay living at the parental home, would not be included.
14. The disadvantage of this option is that each loan application would need to be means-tested. As with applicants for housing, loan applicants would need to be asked to provide evidence of income and savings, and would be required to sign a declaration that they had not withheld information. This, in itself, would not require a great deal of additional work, and officers could incorporate this into existing workloads. We would, however, be reliant to a large degree on the leaseholder's honesty, as the work required to uncover, for example, undisclosed savings accounts, is much more time-consuming. If an intention to defraud were suspected, it would require the attention of the City's Anti-Fraud Team.
15. For Option 3, Members do have the option of setting an alternative financial threshold for eligibility that does not relate to any currently used within housing. In this instance, we would need an indication from Members as to the threshold that they think would be appropriate.
16. The final option, Option 4, is to take no action at this point, but to review the discretionary scheme at a later date when we have a greater indication of the likelihood of take-up, based on the Great Arthur House project.

Proposals

17. It is proposed that Members now consider the options and advise officers of their preference.
18. If Members wish to proceed with changing the current discretionary arrangements and reducing eligibility, officers will then develop any necessary procedures accordingly and will amend the information for leaseholders.
19. As final Great Arthur House bills have not yet been produced and the current arrangements were only publicised to leaseholders in January 2018, it is proposed that any change should not be implemented until the beginning of the 2019/20 financial year.

Corporate & Strategic Implications

20. The discretionary arrangements for leaseholder loans are offered as a measure to contribute to the Community and Children's Services Business Plan theme of 'Independence, Involvement and Choice'. It fits within the following Corporate Plan outcomes:
- Communities are cohesive and have the facilities they need
 - Our spaces are secure, resilient and well-maintained.

Financial Implications

21. The City is responsible for the management of the HRA and should recover all sums of money owed by leaseholders. Under the current discretionary arrangements, the cost to the HRA of a 50% take-up of interest-free loan periods would be £682,000. Any measure that reduces the eligibility for these arrangements will also reduce the expense to the HRA. As we do not currently have access to financial data on our leaseholders, it is not possible to estimate the extent of this reduction.

Legal Implications

22. Leading Counsel's advice was sought in relation to the changes proposed to the discretionary arrangements in September 2017. Leading Counsel advised that it was open to the City to adopt those proposals and offer the current arrangements. The City may vary the terms of the discretionary arrangements by restricting eligibility as it sees fit.

Health Implications

23. There are no direct health implications arising from this report. However, Members will be aware that the City's leaseholders are facing high bills for the cost of major works to their homes, and financial uncertainty and worry do have an impact on mental health. There are alternative arrangements which may be offered to residents experiencing severe financial hardship as a result of service charge bills.

Equalities Implications

24. An Equalities Analysis (EA) was carried out at the commencement of the Housing Service Review – Leaseholders & Freeholders (Report to Housing Management & Almshouses Sub-Committee 04 July 2016). In summary, the EA found that reviewing the financial support offered to leaseholders would not negatively impact on any of the protected characteristic groups. To continue to meet our Public Sector Equality Duty, individual needs will be taken into account, where appropriate, when making decisions.

Appendices

- Appendix 1 – Paying for major repairs to your property: a brief guide for leaseholders (City of London leaflet, January 2018)

Background Papers

Financial Support with Major Works for Leaseholders – paper to Community and Children’s Services Committee, 8 September 2017 and Finance Committee, 12 September 2017

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