

Committees: Housing Management and Almshouses Sub-Committee	Dated: 09/10/2024
Subject: Financial Support for Leaseholders	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	£
What is the source of Funding?	
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 Information
Report author: Liam Gillespie, Head of Housing Management, Department of Community and Children's Services	

Summary

At the March 2024 meeting of Community and Children's Services Committee, a report was presented to Members which outlined the current financial support arrangements for long leaseholders with major works service charges.

While noting the various schemes available, Members asked officers to consider various modifications or additional options, including an increased maximum loan term, uplifting the current cap on the discretionary loan, and the use of voluntary charges to secure loans.

This paper considers the implications of each of these options for the Housing Revenue Account (HRA).

Recommendation

Members are asked to:

- Note the report.
- Comment on the proposals in respect of each option.
- Indicate whether the officer suggestion of a policy document outlining the financial support package should be drafted for Member consideration at a later Committee.

Main Report

Background

1. At the 11 March 2024 meeting of the Community and Children's Services Committee, Members considered a paper outlining current financial support arrangements for long leaseholders on HRA estates, to assist them with paying for service charge bills relating to major works.
2. Members noted that the current support offer includes:
 - A contractual loan scheme contained in all leases, with a 10-year term and interest payable, available to all long leaseholders
 - A discretionary loan scheme, available only to owner-occupiers, with a 10-year term, up to three-year interest-free period and a maximum loan amount of £72,500.00
 - A scheme through which those in severe financial hardship, with no other means to pay, can apply for a charge to be placed on their property, with interest payable (subject to means testing)
 - A mandatory loans scheme contained in the Housing (Service Charge Loans) Regulations 1992, for those who purchased their home through Right to Buy within the last 10 years
3. Members asked officers to examine potential changes to the current offer, and suggested:
 - An increase to the maximum loan term of 10 years, it being noted that while this was a common maximum among local authority landlords, there were examples within London of loan terms up to 25 years
 - Increasing the maximum loan amount on the discretionary scheme
 - The use of voluntary charges on properties, through which the loan amount is secured on the property and realised upon sale or transfer, with no interim repayments

Current Position

4. 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.
5. 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.
6. 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.

7. This would also compromise our ability to deliver the current major works programme. However, we must also have regard to the hardship faced by some long leaseholders when faced with substantial service charge demands for major works.
8. 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.
9. It is suggested that any extension of the current offer to long leaseholders must be relatively cautious given the above duties to the HRA and the need to have adequate cashflow to finance the ongoing major works programme.

Options

10. The three potential modifications to the current financial support offer, which were suggested by Members, are considered below.

Increase in Maximum Loan Term

11. Members asked officers to consider the possibility of increasing the maximum loan period for loans from the current 10 years. Information obtained by officers on practice at a selection of other local authorities (available in the background papers) showed that 10 years was a common maximum, though some authorities had higher maximums, with a minority offering loans of up to 25 years.
12. Allowing leaseholders to spread costs over a longer period has cashflow implications for the HRA. While loans are secured and the interest is recoverable, the spreading of instalments across a longer loan term increases the debt due to the HRA. Although the number of loans currently outstanding is relatively few (only seven at the current time), this is likely to increase with the delivery of several upcoming projects with service charge implications for long leaseholders.
13. A significant increase in loan uptake would increase the burden on the HRA at a time when it is under pressure, not least due to the delivery of the current major works programme, and an uncosted additional works not currently included in the delivery plan.
14. The maximum term of the contractual loan (enshrined in the lease) is 10 years, and it is not suggested that this should change; in any case, this would likely require amendments to leases, which is a costly and complex process.
15. The discretionary scheme, available only to owner-occupiers, also has a ten-year maximum, and if Members are minded to consider an increase on the current 10

year maximum, officers recommend that this is confined to the discretionary scheme and therefore benefits owner-occupiers.

16. Given the current pressure on the HRA, while bearing in mind the likely cost burden of planned major projects on individual leaseholders, it is suggested that a reasonable solution is to increase the maximum term of the discretionary loan to 15 years and Members are asked to comment on this proposal.

Increasing £72,500 Cap on Discretionary Loans

17. The City Corporation's discretionary loan scheme, which includes up to three years interest free, is available to owner-occupiers and currently has a cap of £72,500. This upper amount was agreed in 2018 in response to the projected costs of the Great Arthur House curtain wall project to individual leaseholders.
18. Members suggested that officers consider the implications of increasing this maximum loan amount, given that planned major works projects may conceivably result in bills to individuals exceeding this cap.
19. To effectively manage the debt burden on the HRA, it is proposed that a cap is maintained, however, to reflect the potential for individual bills to exceed the current cap, an increase could be implemented to the maximum discretionary loan.
20. It is suggested that increasing the current cap on the discretionary loan to £100,000 would balance the need to properly predict and manage the debt burden on the HRA, while supporting those leaseholders facing the most significant service charge bills for major works projects, and Members are asked to comment on this proposal.
21. It is further suggested that the minimum loan amount (£5,000) and interest-free period (3 years) remain unchanged.
22. As both the lease-based loan and the discretionary loan are secured against the property, there must be sufficient equity available to enable a charge to be placed. The maximum loan amount would therefore be subject to this consideration, so in some cases it may not be possible for the leaseholder to borrow the full amount through these loan schemes.

Voluntary Charges

23. A charge is a mortgage secured against the property, and interest remains payable on the loaned amount at the standard national variable rate (3.13% currently). The City Corporation offers this option to owner occupiers who are in severe hardship and cannot raise funds through other means (e.g. High Street bank loan or mortgage). It is subject to means testing and ensuring that there is sufficient equity in the property to satisfy the loan amount upon sale or transfer.
24. The prime implication of offering voluntary charges is that they reduce cashflow to the HRA, and it is therefore suggested that eligibility remains limited. Although the loan, and interest, will eventually be recovered, this may be some years away, and

no monthly instalments are due in the meantime. However, given the very low numbers of people likely to be eligible for this assistance, this is currently tolerable.

25. Voluntary charges also depend on the property having sufficient equity to be adequately secured and are unlikely to be a viable option for those with other substantial mortgages or loans secured on their homes. The charge might also create issues for the leaseholder in future, for example if they remortgage.
26. The charge would become payable upon sale or transfer of the property. In cases where a leaseholder died, the charge would have to be settled out of the proceeds of the estate. Should family members inherit the property, the charge would be payable, and the executor would be required to settle the debt from the estate or by raising their own funds.
27. Given that both the lease-based loan scheme and discretionary loan scheme take effect as charges placed on the property, the main benefit to the resident of a voluntary charge is that there is no requirement for ongoing repayments.
28. In the interests of safeguarding cashflow to the HRA, while assisting those in most serious hardship, it is recommended that the current position on voluntary charges is maintained, i.e. that this option is restricted to owner-occupiers with no other viable means to pay their service charge bill.
29. However, officers could consider the extent of the discretion exercisable in considering voluntary charges, to balance the need to protect cashflow to the HRA while ensuring that 'asset rich, cash poor' long leaseholders (for instance, retired people on fixed incomes) have a means to satisfy a potentially very large service charge demand.
30. The City Corporation's approach mirrors that taken by other local authority landlords currently offering voluntary charges, in that they are restricted to owner-occupiers who are unable to raise funds through another route. While there are examples of other councils limited their availability to those above a certain age, the City Corporation does not currently take this approach.

Proposals

31. The current financial support offer for long leaseholders is not codified in a single document, and it is therefore proposed that officers draft a formal document setting out current loan options, plus potential modifications, for final discussion and approval by Members.
32. Creating this document will enable the support package to be more easily reviewed in future and will support officers in advising and communicating with leaseholders on the help available to them.
33. Officers propose that they submit this document to a subsequent meeting of the Community and Children's Services Committee for approval.
34. Members are also asked to comment on the proposals to:

- Increasing the maximum discretionary loan term to 15 years
- Increasing the maximum discretionary loan amount to £100,000
- Maintaining restricted eligibility criteria for voluntary charges

35. Subject to Member comments, officers can draft a document on this basis for further consideration.

Key Data

36. Members may wish to note that the uptake of loans, whether contractual or discretionary, has been relatively low, with only seven currently in place across HRA estates.

37. However, this is likely to change due to the delivery of the Crescent House windows project, the settlement in relation to Great Arthur House and other significant major works projects due to be delivered (e.g. Golden Lane Estate window replacements). While it is difficult to predict uptake of loan arrangements, the magnitude of these projects and the predicted costs to individual leaseholders means that there is a strong chance that more arrangements will be agreed.

38. With reference to the Crescent House project, while the costs to leaseholders are not yet clear, it is sensible to assume that a substantial number of the 68 long leaseholders in that building will agree a loan arrangement with the City Corporation.

Corporate & Strategic Implications

Strategic implications

The effective management of leasehold properties and the Housing Revenue Account is integral to the Corporate Plan 2024-29 outcome of 'Providing Excellent Services'. Careful management of the HRA is essential to enabling the delivery of housing operations and improvements to housing stock.

Financial implications

There are no financial implications resulting directly from this report, however any agreed extension to the discretionary loan scheme could result in an increase in secured debt to the HRA, over a longer period. However, given that any loans are secured, and interest is payable upon borrowed amounts (with the exception of the three-year interest-free period on the discretionary loan), this is considered to be tolerable in the interests of completing necessary major works projects, while assisting leaseholders to manage the cost of paying service charge bills.

Resource implications

None.

Legal implications

There are no direct legal implications arising out of this paper, however Members' attention is drawn to the legal and fiduciary duties in the respect of the HRA, as outlined in the background paper.

Risk implications

None.

Equalities implications

None.

Climate implications

None.

Security implications

None.

Conclusion

39. The City Corporation has a range of financial support options for leaseholders to assist them in paying service charges for major works projects, which can be substantial. The need to reconsider the extent of the current offer has arisen due to the planned delivery of several major projects, which are likely to result in significant costs being billed to individual leaseholders.

40. Officers have considered the implications of three suggestions from Members made at Committee on 11 March 2024, and have proposed some alterations to the current package of support, in respect of the discretionary loan scheme. Members are asked to comment on the suggestion that the maximum loan term is increased to 15 years, and the loan amount uplifted from £72,500 to £100,000.

41. It is further suggested that financial support arrangements are codified in a single document, for consideration and approval by Members.

Appendices

- None

Background Papers

- Community and Children's Services Committee, 11 March 2024: Financial Support with Major Works (Long Leaseholders)

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