

City of London Corporation Committee Report

Committee: Housing Management and Almshouses Sub-Committee	Dated: 13/01/2025
Subject: Financial Support for Leaseholders (HRA)	Public report: For Decision
This proposal: <ul style="list-style-type: none"> delivers Corporate Plan 2024-29 outcomes 	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£
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
Report author:	Liam Gillespie, Head of Housing Management, Department of Community and Children's Services

Summary

At the 9 October meeting of this Sub-Committee, Members received a report regarding the discretionary loan arrangements available to assist leaseholders with major works costs. The report recommended that the current 10-year maximum loan term should be extended to 15 years, with the maximum loan amount of £72,500 increasing to £100,000.

After discussion on these recommendations, Members requested that officers consider a further range of options for different loan amounts and terms, including loan terms beyond 15 years.

Further discussion has taken place between officers in the Housing Division and the Chamberlain's Department, and a tiered approach is now recommended, depending on the loan amount. This approach aims to balance the City Corporation's duties towards the Housing Revenue Account (HRA) and the need to safeguard cashflow,

with providing reasonable support to homeowners facing significant bills for contributions towards major works costs.

At the request of Members, additional information has also been included on the operation of property charges (or equity loans) for resident leaseholders in financial hardship, the scheme having been approved by Community and Children's Services Committee in July 2010.

Recommendations

Members are asked to:

- Endorse the discretionary loan arrangements contained in section eight
- Note that officers will codify financial assistance arrangements in a single policy document for consideration by this Sub-Committee on 30 April 2025
- Note the information on the arrangements for assisting those in financial hardship through buy-backs and equity loans
- Retain the use of equity loans/property charges only in cases of severe financial hardship

Main Report

Background

1. The Housing Division's major works programme contains projects where the cost of works can be recharged to leaseholders under the terms of their leases. Some of these projects will result in significant bills for individual leaseholders, and a range of financial assistance measures are available to help homeowners with paying these service charge demands, including a discretionary loan scheme to assist owner occupiers. The discretionary scheme has been modified over the years since its introduction, and was last amended in 2017/18, when the maximum loan amount was set at £72,500, with a repayment period of up to 10 years.
2. Further detail on the options offered by the City Corporation can be found in Appendix One and the Background Papers.
3. In summary, the current financial assistance offer includes:
 - a mandatory loan scheme under the Housing (Service Charge Loan) Regulations, 1992
 - A contractual loan scheme contained within the standard lease
 - A discretionary loan scheme
4. This paper concerns the discretionary loan scheme, which is available only to owner occupiers. The loan is secured on the property and is subject to the leaseholder being in good standing (i.e. not in breach of lease in any respect), their ability to make repayments, and there being sufficient equity in the property to secure the loan.

5. At the 9 October 2024 meeting of this Sub-Committee, Members considered a proposal to extend the maximum discretionary loan to £100,000 for up to 15 years. Following discussion at that meeting, Members asked officers to consider whether a wider range of options might be offered on maximum loan amounts and repayment periods, including a maximum loan amount up to the cost of the major works project and a loan term up to 25 years.
6. Further consideration has been given to potential loan terms and it is proposed that a tiered approach is taken, with longer repayment periods available for larger loans.

Statutory and Fiduciary Duties – Housing Revenue Account

7. The City Corporation has statutory 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. Members will note that any advantage offered to leaseholders means a corresponding disadvantage to the HRA. While secured discretionary loans will eventually be recovered, they result in a reduction in cashflow to the HRA and impact the funds available for service delivery.

Proposals

8. It is proposed that the following tiered approach is adopted for the discretionary loan scheme:

Loan amount	Maximum Loan Term
<£50,000	10 years
£50,000 - £75,000	15 years
£>75,000 - £100,000	20 years

9. The suggested approach seeks to balance the duty to protect the interests of the HRA, and safeguard cashflow to that fund, with helping leaseholders facing significant service charge bills relating to a property occupied as their sole or principal home.
10. The proposed arrangements will extend the maximum loan term up to 20 years for the largest loans, with a maximum loan amount of £100,000. The retention of a maximum amount is recommended, to support certainty in the management of the HRA and limit the risk to which it is exposed from the reduced cashflow involved in providing discretionary loans. It is suggested that this figure balances the need to assist those facing the highest service charge demands, with the need to safeguard HRA finances for the benefit of social tenants.
11. Offering a discretionary loan of up to £100,000 for a term of up to 20 years compares favourably to the schemes offered by other London local authorities, with 10 years being a common maximum loan term.

12. The City Corporation currently offers an interest-free period of up to three years on its discretionary loans, depending on the amount borrowed. Following that, interest is payable at the Standard National Variable Rate (currently 5.25%). The full three-year interest-free period is available only on amounts over £10,000. The interest-free period is permitted under the Housing (Service Charge Loans) (Amendment) (England) Regulations 2009 and is designed to reduce the burden on leaseholders receiving significant service charge bills.
13. It is recommended that the current interest-free periods are retained as part of the offer to leaseholders. It is common for local authorities to offer such a benefit to homeowners, with several councils in London offering longer interest-free periods of up to 5 years.

Buy-Backs, Equity Loans and Charges

14. Members requested more information on the possibility of placing charges on properties to satisfy outstanding sums due to the City Corporation from individual leaseholders. Members will note from the background papers, and the explanatory leaflet for leaseholders on financial help with major works costs, that such a scheme does exist, however it is limited to cases of severe financial hardship and is therefore not a 'voluntary charging' scheme.
15. Officers have managed to establish that a discretionary buy-back scheme was first approved by the Court of Common Council in 1996, with an equity loan or charging scheme added in 2010. These options were designed to help resident leaseholders experiencing severe financial hardship and applied only to the original Right to Buy purchaser. The criteria are set out at Appendix Two.
16. A report to Community and Children's Services Committee on 9 July 2010, in which Members were requested to approve updates to the loan schemes offered to City Corporation leaseholders, clarified that the 1996 buy-back scheme had not been used since 1999. The scheme was financed from the HRA capital budget, however, given the current pressures on the HRA, it is unlikely that the City Corporation would be able to exercise its discretion to buy back homes from leaseholders without external assistance at the current time.
17. It is understood that the 1996 buy-back scheme has not been used for many years; while there have been a limited number of buy-backs of leasehold properties since then, these have largely been enabled by separate schemes such as the Mayor of London's 'Right to Buy-Back' initiative, which offered part-funding to local authorities wishing to return leasehold homes back to use as social housing.
18. The July 2010 report also recommended that an equity loan (a charge on the property) might be offered to resident leaseholders in financial hardship, with the qualifying criteria being the same as those for the 1996 buy-back scheme. The charge is realised once the property is sold, with no interim payments (though interest is chargeable). This came into effect from September 2010.
19. Members will note that the qualification criteria refer to a means-testing exercise in conjunction with the Town Clerk's and Chamberlain's Departments. While no detail

is provided on what the means test involves, the scheme does mention assessing the applicant's full financial circumstances, to determine if they could afford to finance the cost of major works in some other way. No mention is made of any possibility of appeal against any decision, though it would be open to the applicant to use the complaints process should they be dissatisfied with the outcome or handling of the application.

20. In summary:

- A discretionary buy-back scheme was approved in 1996, but it is understood that it has not been used for many years, and the HRA is currently not able to finance buy-backs without external contributions
- Since 2010, an equity loan/charging scheme has been available on the same terms as the 1996 buy-back scheme (i.e. for those in severe hardship), however this also does not appear to have been used for several years

21. It is suggested that the current position in relation to the use of equity loans/charging is maintained, i.e. that it is restricted to cases of severe financial hardship. This is recommended to safeguard cashflow to the HRA and because a range of alternative loan options are available to leaseholders, with equity loans without regular repayments being a last resort.

22. Officers will provide further detail on the process for managing such applications and ensure that this option is included in communications to leaseholders.

Recommendations

23. It is recommended that:

- i. the approach outlined in section eight is adopted in relation to discretionary loan amounts and repayment terms
- ii. the arrangements for interest-free periods of up to three years are retained unchanged
- iii. the use of discretionary charging/equity loans is reserved for those in severe financial hardship in line with the Committee decision of July 2010

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

24. As part of a review of current financial support arrangements for leaseholders in relation to major works service charge bills, discussion has taken place about the terms of the discretionary loan scheme currently in place.

25. It is proposed that a tiered approach is taken, in which longer loan repayment periods are offered depending on the amount borrowed. This approach aims to safeguard cashflow to the HRA, while recognising the hardship faced by leaseholders facing significant bills for major works projects.

26. Members are asked to approve the suggested approach and note that officers will present a single policy document to the April 2025 meeting of this Sub-Committee, which will set out the full range of financial support arrangements in one place, to enhance transparency and clarity.

27. Members are also asked to note the arrangements currently in place for assessing severe financial hardship in relation applications for equity loans.

Appendices

- Appendix One - Current Financial Support Arrangements
- Appendix Two – Buy-back and Equity Loan/Charging Criteria (2010)

Background Papers

- Housing Management and Almshouses Sub-Committee, 9 October 2024, Financial Support for Leaseholders (Agenda Item 8)

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