

**NEATH PORT TALBOT COUNTY BOROUGH COUNCIL**

**POLICY AND RESOURCES CABINET BOARD**

**15 OCTOBER 2015**

**Report of the Head of Financial Services – Dave Rees**

**Matter for Decision**

**Wards Affected:** All Wards

**Home Improvement Loan (HIL) Scheme**

**Purpose of Report**

1. To approve the delivery of the Welsh Government Home Improvement Loan initiative for the purposes of issuing loans to applicants.

**Executive Summary**

2. The Welsh Government has launched an interest free loan scheme to help improve the supply and quality of private sector housing.
3. Funding totalling £892,244 has been allocated to Neath Port Talbot County Borough Council.
4. The loan fund will be available for a period of 15 years and must be repaid to WG by 31<sup>st</sup> March 2030.
5. WG has given a commitment to share the risk of defaults with Local Authorities, the estimated default level is 5% the potential default risk to Neath Port Talbot is £37,306
6. This report provides the details eligibility criteria of the Home Improvement Loan scheme.

## Background

7. Cabinet approved the development of a project plan and final scheme particulars for the Home Improvement Loan initiative in February 2015.
8. The Home Improvement Loan Scheme is a Welsh Government (WG) initiative to offer interest free loans to help improve the quality and supply of private sector housing. Neath Port Talbot County Borough Council's allocation is £312,285 for 2014/15 with an additional repayable funding of £579,959 in 2015/16, giving a total funding of £892,244.
9. The Welsh Government has given a commitment to share the risk with Local Authorities in relation to applicants defaulting on their loan repayments, the WG anticipate a default level of 5% on each of the loan funds. They will fund half of any default costs up to a maximum of 2.5% of each loan fund. On the basis therefore of WG's estimate of a maximum default of 5%, the potential risk to Neath Port Talbot would be £22,306, plus a further £15,000 through the VVP scheme. These figures however, would be greater if the default level is higher than the WG estimate.
10. The loan fund is interest free and will be available to the Council for a maximum of 15 years. The loan fund must be repaid by the Council to WG by 31st March 2030. Money repaid to the Council before this date can be recycled to new applicants. The fund will be managed to ensure all loans are recovered from applicants in time to return it to WG by 2030.
11. In each of the years there is a 12 month rolling programme to spend, and if any of the money is not loaned within the 12 months, any funding that is not loaned is re-allocated amongst the regional area. The 12 month period starts at the point at which the money is drawn down by the Authority. The Authority is only liable for defaults on money that it issues and not for any monies that are re-distributed. Loans can be re-cycled into further loans as can repayment monies.
12. The WG funding offer stipulates that there must be consistency of approach in loan policy across regions. Neath Port Talbot is part of the Western Bay Region, where a consistent range of loan products will be available to applicants in both Neath Port Talbot

and Swansea. Bridgend County Borough Council is not participating in the delivery of the Home Improvement loan scheme as originally reported in February 2015.

13. A national steering group will be set up to monitor and review the scheme. This will be made up with representatives of each regional group, Welsh Local Government Association (WLGA), the Wales Housing Technical Panel, and Welsh Government.
14. As the scheme is delivered and developed performance measures will be put in place. Discussions will be held with finance, legal and audit sections to determine what measures, budget reports and other performance criteria are required. It has been agreed that the Council's Internal Audit Section will review and audit the loan scheme during 2016/17.

### **Home Improvement Loans**

15. Local Authorities have been given the flexibility as to the type of work that can be financed through the Home Improvement Loan Scheme.
16. Any loan approved must contribute to making the property warm, safe and / or secure. There is no requirement that the property must meet all of these criteria. The scheme will be used to offer loans for the following elements:
  - Loan for Regeneration/Renewal – Priority given to Renewal and Vibrant and Viable Places (VVP) areas to support priority schemes.
  - Loan for Energy Efficiency Improvement – priority for owner occupiers for insulation works, renewable energy installations and / or boiler upgrades.
  - Loan to bring empty properties into residential use – via a Houses into Homes style loan targeted at owners of short term (less than 6 months) empty properties.
  - Loan to improve housing conditions & reduce hazards – To carry out major repairs / removal of hazards under the Housing Health Safety Rating System (HHSRS).
  - Loan for homelessness prevention – priority given to landlords offering affordable market rents and / or nomination rights via Social Lettings Agency.

- Loan to top up a Disabled Facility Grant (DFG) – Targeted at DFG applicants where mandatory grant, and any discretionary additional assistance, does not cover cost of works.
17. The Home Improvement Loan Scheme will be administered primarily within the Housing Renewal & Adaptation Service with additional support provided by legal services and finance, an indicative flow chart of a home improvement loan has been attached at Appendix 2.

### **Home Improvement Loan - Scheme details**

18. A detailed breakdown of the loan scheme criteria as detailed by Welsh Government is attached at Appendix 1.
19. Who can apply?

Any person with an owner's interest in the property subject to the loan, this includes owner occupiers, landlords of rented accommodation, and third sector organisations, but excludes Registered Social Landlords.

The owner will be determined through the title documents held at the land registry, consent from all owners recorded on the property title will be required for a loan to be considered. Any unregistered titles must be registered with the land registry prior to application for a loan.

Priority will be given to owner occupiers over landlords / developers. Where landlords do apply, priority will be given to those proposing to let properties at affordable market rate rent levels.

20. What is the maximum loan?

An eligible owner may apply for loan from £1,000 to maximum of £25,000 per unit of accommodation, and up to a maximum of £150,000 per applicant. Applications will be considered subject to the availability of funding and the loans will be interest free subject to payment default.

In circumstances where the total cost of the work exceeds the maximum loan permitted by the scheme, the applicant must provide documentary evidence of savings / investments or other financing arrangements that will be used to cover the cost of works above the loan value to ensure that adequate funds are in place to complete the proposed works, ensuring that, on completion, the property meets the required standard.

#### 21. Loan affordability

The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 Article 3 (4) states that the Local Housing Authority shall have regard to the ability of the person concerned to make repayment or contribution.

Each loan applicant will be subject to a formal credit score rating check and an affordability assessment (based on income and expenditure) to ensure that the applicant(s) can meet the repayments on the loan. Applicants must evidence both income and expenditure to complete the affordability assessment.

#### 22. Loan fees and charges

An application fee up to 15% of the loan amount will be payable for each application. This can be paid upfront or added to the loan amount and spread equally over the agreed term of the loan. If added to the loan amount this will be subject to the maximum loan of £25,000 per unit of accommodation. The fee charged to cover all associated application fees (valuation, land registry check, credit scoring and loan administration).

The sum of the fee charged must not be greater than the cost of a loan available at market rates. A fee assessment will be included into the application process.

#### 23. Security for the loan

Any loan awarded will be secured on the property to which it relates, or on a different property which provides sufficient equity. A maximum loan to value ratio of 80% will apply which will take into consideration any loan already secured against the property.

The Council will take either a first or second charge on the property, which will remain in effect until such time as the loan is repaid in full. The Council will secure the loan with Land Registry for loans over £5,000; loans under this value will be secured by local land charge arrangements.

24. Repayment of the loan

The loans will be interest-free during the agreed loan term. For owner occupiers, a loan repayment period of up to 10 years, and for landlords, up to 5 years will be considered.

All loan terms offered will be subject to the outcome of the financial and affordability assessment which will be completed prior to loan approval.

In the case of a payment default, interest at 6% will become payable, and will be applied retrospectively from the date on which the loan was taken out.

25. Welsh Government Repayment

The Council has been awarded £892,244 for lending under the scheme by 31st March 2017. Any amount unspent at that time is subject to be returned to Welsh Government. As mentioned in para 2.4 this total amount is repayable to Welsh Government by 2030.

### **Financial Impact**

26. There are no new revenue funds allocated to local authorities to implement the Home Improvement Loan Scheme.

27. The scheme allows for the generation of revenue through administration fees of up to 15% of the loan value, it is anticipated the fee generation will cover the costs associated with the delivery of the Home Improvement Loan Scheme.

28. Training will be required for a minimal number of staff of the Housing Health & Safety Rating System (HHSRS) this will be conducted through a regional approach led by Neath Port Talbot County Borough Council to minimise costs incurred by the council.

29. On the basis of WG's estimate of a maximum default of 5%, there is a potential risk to Neath Port Talbot in the sum of £22,306, plus a further £15,000 through the VVP scheme. These figures however, would be greater if the default level is higher than the WG estimate.

## **Equality Impact Assessment**

30. The Equality Act 2010 requires public bodies to "pay due regard to the need to:
- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
  - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - and
  - Foster good relations between persons who share a relevant protected characteristics and persons who do not share it."
31. Local data related to the existing Houses into Homes Loan Scheme does not identify any particular group with a protected characteristic as being disproportionately affected. Consequently, the impact of the Home Improvement Loan Scheme is considered to be neutral as far as the equality impact is concerned.

## **Workforce Impact**

32. The main workforce impact in the delivery of the Home Improvement Loan Scheme will be the training required on the extended eligibility and evaluation criteria.
33. It is not anticipated that there will be a significant workforce impact on the Council but the position will be kept under review.

## **Legal Impact**

34. The power to enable the Council to lend the money comes from the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002.

35. In order to be able to provide assistance under 'The Order', an Authority must have adopted a policy for the provision of assistance and give public notice of the policy. The policy will be included in the Council's Housing Renewal Policy.

### **Risk Management**

36. There is a risk that local authorities could adopt different approaches in the delivery of the Home Improvement Loan Scheme. Authorities are required through the terms of the funding to work collaboratively to ensure that there is a consistent delivery approach.
37. There is a risk of non-completion of works or default on repayments from the loan recipient, at least two of the following risk mitigation measures will be adopted on each loan approval.
- Loan to value ratio of not more than 80% of an eligible properties current value (inclusive of existing mortgage / secured loan)
  - A registered first or second charge to be secured on an eligible property for loans over £5,000
  - Local land charge to be secured on an eligible property for loans under £5,000
  - Credit worthiness score to be completed on all applicants
  - Project risk score to be completed on all loan applications

### **Consultation**

38. There is no requirement under the Constitution for external consultation on this item.

### **Recommendation**

39. It is recommended that the Cabinet Board approves the delivery of the Home Improvement Loan Scheme.

### **Reason for Proposed Decision**

40. The proposed decision is recommended to enable the Authority to maximise the funding opportunity presented by the Loan scheme to improve the quality of private sector housing throughout the borough.



## **Implementation of Decision**

41. The decision is proposed for implementation after the three day call in period.

## **Appendices**

42. Appendix 1 - Home Improvement Loan (HIL) Criteria  
Appendix 2 – Home Improvement Loans – Flow Chart

## **List of Background Papers**

43. None

## **Officer Contact**

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## Appendix 1

### Home Improvement Loan (HIL) Criteria

General requirements	There must be consistency, from the perspective of the loan recipient, in the respect of the eligibility criteria for a HIL and the terms on which the HILs are provided.
Maximum fee charged to a loan recipient	<p>A one off administration fee of up to 15 per cent of the HIL amount may be charged. For example, a £10,000 HIL could incur a maximum fee of £1,500.</p> <p>The sum of the fee charged must take into account the APR (annual percentage rate) of the HIL for the term of the loan. The APR of the HIL must not be greater than the market rate of APR for loans of the same amount and term.</p>
Minimum and maximum HIL value per unit of accommodation	£1,000 up to £25,000
Maximum HIL available per loan recipient	£150,000 at any one time. Once repaid the applicant can reapply.
Interest	HILs must be interest free.
Permitted improvement works	<p>Works which make a residential property safe warm and/or secure.</p> <p>This includes such works undertaken to Empty Properties on the condition that (i) the loan recipient occupies the property on completion of the works for the duration of the loan; and (ii) if the loan recipient dies, ceases to occupy the property or transfers/sells the property before expiry of the loan term the loan is repaid immediately. Works undertaken by a Private Rented Sector (PRS) landlord to an empty property is not eligible.</p> <p>“Empty Property” means a property which has not been lived in for at least six consecutive months.</p>

<p>HILs can be provided for the purpose of improving a residential property to/for:</p>	<ul style="list-style-type: none"> <li>• Continued ownership</li> <li>• Sell</li> <li>• Rent</li> </ul>
<p>HIL conditions</p>	<p>The HIL terms and conditions must specify:</p> <ul style="list-style-type: none"> <li>• the purpose/works for which the HIL is provided.</li> <li>• if after completion of works funded by a HIL the relevant property contains a category 1 hazard (as defined by Housing Health and Safety Rating System (HHSRS)) the property can not be rented out. (for PRS only)</li> <li>• that if the loan recipient sells the property during the term of the HIL the loan must be immediately repaid in full.</li> </ul>
<p>Maximum loan period</p>	<p>Up to 5 years;</p> <p>For owner occupiers: Up to 10 years or a lifetime charge may be taken over the property and the loan can be repaid on the earlier of the death of the loan recipient, when the loan recipient ceases to occupy the property or on the transfer/sale of the property.</p> <p>In the context of lifetime charges, the HIL will be deemed to have been repaid in full on the earlier of 31 March 2026 or the tenth anniversary of the HIL loan agreement and you are required to recycle an amount equivalent to the HIL provided in accordance with paragraph 2 of Part 3 of this Schedule.</p>

Payment terms	HILs can be drawdown by loan recipients in advance, in stages or on completion of the improvement works.
Repayment terms	Either staged repayments (monthly, quarterly or yearly) or full repayment at the end of the HIL term or on transfer/sale of the property if earlier unless specified otherwise herein.
Eligible loan recipients	Owners of sub standard residential properties e.g. landlords, owner occupiers who pass affordability checks.
Risk mitigation measures	Two or more of the following measures should be applied to each HIL: loan to value ratio, first/second property charges, local land charges, staged repayments, default fees, staged payments to the loan recipient.
Part funding and financial viability	<p>HILs must only be provided to fund financially viable improvement works.</p> <p>A HIL may be provided to fund part of the improvement works provided that evidence of sufficient/adequate funding for the remainder of the works is provided.</p>
Other funding options:	<ul style="list-style-type: none"> <li>• Other funding options such as Arbed must be explained to loan applicants.</li> <li>• Other funding options can be used in conjunction with the HIL as long as there is no double funding of the works.</li> <li>• Loan applicants that can easily obtain commercial finance to fund the improvement works should be directed to appropriate sources of funding.</li> </ul>

## Home Improvement Loans – Flow Chart



Key:

Housing Renewal & Adaptation Service

Legal Services

Finance