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**REPORT TO:** Cabinet Member (Housing)

**DATE:** 16 June 2009

**DEPARTMENT:** Community Services

**REPORTING OFFICER:** Tenancy Services & Mediation Manager  
(Keith Watts)

**SUBJECT:** **LEASEHOLDERS – REPAYMENT OPTIONS FOR MAJOR WORKS**

**WARDS AFFECTED:** All

**FORWARD PLAN REF:** N/A

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**1.0 PURPOSE OF REPORT**

1.1 To consider whether alternative ways should be available for leaseholders to repay for the cost of major works and cyclical maintenance.

**2.0 RECOMMENDATIONS**

2.1 That leaseholders are offered, in addition to mandatory loans and the existing 5 year interest free payment method, the following ways to pay the Council for major works and cyclical maintenance:

- By a voluntary charge being placed against the property
- By the use of Home Appreciation loans

2.2 Revisions are made to the Leaseholder Compact and to information to leaseholders to include the payment options for major works.

**3.0 RECOMMENDED REASONS FOR DECISIONS**

3.1 Many council leaseholders are on limited incomes and face difficulty in affording to pay for major repair and maintenance works that are undertaken to their homes.

3.2 Guidance issued by the Department of Communities and Local Government (CLG) suggests that local authorities should give a range payment options to leaseholders in order to pay for major works.

#### **4.0 ALTERNATIVE OPTION CONSIDERED AND RECOMMENDED FOR REJECTION**

- 4.1 Not to increase the options for leaseholders to repay for the cost of major and cyclical works. The increase in the number of payment options can reduce the risks to the Council of non-payment and reduce the costs of debt recovery and of leaseholder consultation regarding service charges.

#### **5.0 BACKGROUND**

- 5.1 Currently, leaseholders are offered the option of paying for major and cyclical works by repayment of interest free yearly instalments over a period of 4-5 years. This payment method has been offered since council flats were first purchased in the 1980s. These charges are paid as part of their annual service charges, which are levied in June of each year. From 2009/10 leaseholders are being offered the option of paying service charges by direct debit – 8 instalments per year.
- 5.2 Roofing works may now be in the region of £5,000 for leasehold properties. Many leaseholders are retired and are on a limited income and this may be a significant amount for them to repay. Some leaseholders may also have existing loans and mortgages and already be paying for other council work by instalment.
- 5.3 The Government's Social Sector Working Party report of 2007 looked at the "substantial service charges now being faced by social sector leaseholders and the potential hardship arising". It recommended that local authorities introduce a range of options for leaseholders to pay for the cost of major works.
- 5.4 Many other local authorities have already introduced a range of options for leaseholders to pay for major works.
- 5.5 The Council's Department of Resources' Legal Services and Accountancy sections have been consulted regarding this report. The Leaseholder Panel was consulted upon the possible options at their meeting on 11 June 2009.

#### **6.0 REPAYMENT OPTIONS**

- 6.1 The CLG has issued its own guidance in March 2007 underlining the need for local authorities to:
- Have a strategy for identifying and offering advice to leaseholders who face particularly high major works bills
  - Offer the range of payment options suggested by the Social Sector Working Party
  - Use existing resources, for example private sector renewal, to help leaseholders in hardship

6.2 The payment options suggested by the CLG are:

### 6.3 **Mandatory Loans**

6.3.1 Under the Housing (Service Charges Loans) Regulations 1992, leaseholders have a right to a loan under certain criteria including:

- The lease is still held by the person who exercised their right to buy
- The lease is not more than 10 years old
- The charges made since the start of the lease are at least £2,000 (but not more than £20,000)
- The loan is secured against the property
- The Council may charge a maximum amount of £100 for administration and for the land registry fee which is currently £50

6.3.2 The regulations set an upper time limit on the time the loan can be repaid of between 3 and 10 years dependent on the value of the works. Interest is payable at the local authority lending rate.

6.3.3 The Council must grant loans to qualifying leaseholders if requested. The set criteria means, however, that for the loans have limited application.

### 6.4 **Discretionary Loans under the Housing Act 1985**

6.4.1 Local authorities may also offer discretionary loans. The eligibility criteria and terms, including interest rate are determined by the local authority. Discretionary loans could be used where leaseholders do not satisfy the criteria applied to mandatory loans.

6.4.2 The appeal of discretionary grants is that the Council can set its own terms. However, as for mandatory loans, discretionary loans are likely to prove fairly costly to administer.

### 6.5 **Buy back of properties**

6.5.1 Local authorities have powers to buy back properties from owners who are experiencing financial difficulties. The Government meets 35% of the cost of buy backs where this exceeds £50,000 in any year. The buy back of leased flats on these terms could still, therefore, have a significant impact on resources available for the Housing Investment Programme and this option is not felt to be worthy of consideration.

6.5.2 A more realistic alternative may be to ascertain whether registered social landlords (RSLs) may be interested in buying back the properties. One major downside of this, from the existing leaseholder's point of view, is that the RSL will purchase the property at market value which will be markedly reduced by the property being tenanted.

## **6.6 HouseProud Equity Release**

6.6.1 The CLG guidance also recommends the use of the HouseProud equity release scheme. However this scheme is rarely used by local authorities because:

- Only the Dudley Building Society participates in the scheme
- The scheme is complex, administratively costly and is geared towards the private sector

## **6.7 Voluntary Charge against the property**

6.7.1 This option is used by several local authorities who generally set the following criteria:

- The leaseholder is the original RTB purchaser
- The leaseholder is in receipt of a means tested benefit

6.7.2 Legal Services have advised that the Council may, however, set its own criteria, including the interest payable.

6.7.3 It is suggested that the Council could offer the Voluntary Charge option for both original and subsequent leaseholders. It may also be beneficial to define hardship more widely than being in receipt of “means tested benefits”, e.g. we could accept proof of hardship in other ways.

6.7.4 A minimum qualifying value for the works should apply to the granting of a voluntary charge, e.g. £3,000. A registration fee for the Land Registry securing the loan (currently £50) and an administration fee may also be added. These fees may be repayable upon sale. Interest could be payable at the local authority lending rate.

6.7.5 This option has the advantage of being administratively undemanding after the initial work to set up the charge.

## **7.0 OTHER POSSIBLE REPAYMENT OPTION**

### **7.1 Home Appreciation Loans**

7.1.1 Home Appreciation Loans are not suggested in CLG guidance, but may also be worthy of consideration. Home Appreciation Loans are provided through the Yorkshire and Humber Regional Loans Service within Sheffield City Council. They are secured against the property and only become repayable upon the transfer/sale of the property.

7.1.2 The loans are available for a range of works including essential repair works, both externally and internally. To be entitled for the loans the leaseholder must be in receipt of qualifying means tested benefits. The minimum amount of the loan is £2,000 and the maximum being £30,000.

7.1.3 The administration of the loans would involve the Council's Private Sector Renewal section in providing advice and assistance for the leaseholders to apply for the loans. Thereafter, the Yorkshire and Humber Regional Loans Service would administer the loan, and would arrange a valuation of the property and an appointment of a solicitor. Interest is charged on the loan at a rate of 2.75% above the Bank of England Base Rate.

## 8.0 CONCLUSIONS

8.1 There are several alternative options, in addition to the existing 4/5 year repayment system, that the Council should offer leaseholders who have difficulty in meeting the cost of major works, such as roofing. The most beneficial in terms options in terms of administration and the maintenance of the Council's interests would appear to be:

- Voluntary Charge
- Home Appreciation Loans

8.2 The Council must grant mandatory loans to qualifying leaseholders. However, any qualifying leaseholder will also be offered the other available alternatives.

8.3 In exceptional circumstances where no other repayment options is suitable, and having taken into account the circumstances of the leaseholder, the Council could consider the use of discretionary loans.

8.4 The Council needs to review its information to leaseholders, including the Leasehold Compact, leaflets and the website.

**OFFICER CONTACT:** Please contact Keith Watts if you require any further information on the contents of this report. The officer can be contacted at Kennion Road Housing Office by telephone on 01423 551623 or by e-mail – keith.watts@harrogate.gov.uk

## SUSTAINABILITY ASSESSMENT/CRIME AND DISORDER

		Implications are		
		Positive	Neutral	Negative
A	Economy	✓		
B	Environment	✓		
C	Social Equity			
i)	General	✓		
ii)	Customer Care/People with Disabilities	✓		
iii)	Health Implications	✓		
D	Crime and Disorder		✓	

If all comments lie within the shaded areas, the proposal is sustainable