Leeds CITY COUNCIL

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| Agenda Item: |
| Originator: M. Ireland |
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**Report of Director of Environment and Neighbourhoods**

**To Executive Board**

**Date: 22nd June 2011**

**Subject: Assistance to Vulnerable Households: the business case for unsupported borrowing to fund equity release loans to vulnerable households**

| Electoral Wards Affected: | Specific Implications For: | |
|---|---|---|
| City Wide | Equality and Diversity | X |
| | Community Cohesion | |
| | Narrowing the Gap | X |

Eligible for Call in ✓

Not Eligible for Call In (Details contained in the report) ☐

**Executive Summary**

In July 2003 Executive Board approved a Private Sector Housing Assistance Policy. This policy was in response to the enactment of the Regulatory Reform Order in 2002 and introduced the concept of making available equity release loans to vulnerable households. With the limitations on central government funding, future alternative ways of securing capital to maintain a programme of loan assistance have been investigated. This paper proposes a model where unsupported borrowing by the Council would provide the resources to allow new equity release loans to be made to assist private sector vulnerable households to undertake essential property repairs.

**Purpose Of This Report**

1.1 The purpose of this report is to agree a financial model to enable Leeds City Council to deliver unsupported borrowing to provide equity loans to vulnerable households.

**2.0 Background Information**

2.1 The introduction of the Regulatory Reform Order in 2002 enabled the Council to offer equity release loans to vulnerable households to assist them to maintain and renovate their homes. As part of the Housing Assistance Policy agreed by Executive Board in July 2003 LCC developed and implemented its own loan scheme supported by government funding allocated through the Regional Housing Board. Since 2004/5 the authority has issued loans totalling £1.48m to 104 vulnerable households. It was agreed by Executive Board in July 2003 that monies redeemed as part of the scheme would be recycled to allow further loans to vulnerable households to be provided. Since 2008 the authority has drawn funding from the Regional Loans Scheme run by Sheffield City Council. Over the last 2 years the Council has lent a further £958k drawn via the Regional Scheme assisting a further 72 vulnerable owners. Any loans repaid under the “Leeds” scheme will be retained by LCC, whereas repayments under the Regional scheme are repayable into that fund.

2.2 Equity release loans help support vulnerable owner occupiers to maintain their homes, to live independently and ensure their health and well being by having a warm, safe, healthy and secure home. This scheme contributes to reducing fuel poverty and could prevent early moves to residential care. Loans help to maintain the existing housing stock and allow individuals to live in decent homes. Individuals have used loans to top up the cost of schemes, allowing their completion, so assisting disabled individuals to remain in their homes with the support mechanism in place to allow them to maintain an independent lifestyle. The equity release loans are available city wide to any vulnerable owner occupier, however approximately 60% of all loans to date have been given in the inner city areas, with Leeds 7,8, 9 and 11 being the areas to benefit the most from the schemes.

2.3 Examples include: retired customer with a disability was supported through the scheme to return home following the renovation of her home after being in residential care for 5 years; and in another case a property within a Group Repair scheme was found to have no internal bathroom or kitchen which were provided using the scheme, significantly improving the customer’s quality of life.

2.4 To be eligible for an equity loan an owner must be able to demonstrate that they are unable to secure an equivalent commercial loan. Without access to a loan they would not be able to have the works done, or would have to borrow from a less favorable and probably undesirable money lending source.

2.5 The scheme helps vulnerable households access assistance. Each applicant undertakes a test of their financial resources. People identified as not in receipt of the correct financial benefits are helped to claim the correct amount so helping them to increase their income. Applicants identified as potentially benefitting from other schemes, such as Warm Front, are signposted to these schemes.

2.6 Poor housing is linked to poor health. Housing affects both physical and mental well being. Recent reports, such as the Marmot Review of 2010 and the Acheson Report in 1998 both show the link between poor housing and ill health. By investing in housing it is possible to show savings to the local economy. A recent study commissioned by Leeds City Council shows that for every £1 invested in housing a saving of £2 will be generated as a saving to the local economy. This saving is based on the improvements to the well being of the individuals and the saving in the cost of treatment to the NHS due to ill health.

2.7 In 2010/11 the Regional Housing Board funding significantly reduced. This resulted in the scheme not being able to meet demand. When the funding was withdrawn Leeds potentially had £1m worth of work in the system without allocated funding. There are currently 90 potential vulnerable households who have asked to be informed if further funds become available.

2.8 Other than the resources from redeemed loans, no funding has been identified to enable the loans service to continue. It has been estimated that there is unlikely to be sufficient funds redeemed until 2013/14 at the very earliest to allow any further regional loans to be administered.

**3.0 Proposed business model to allow unsupported borrowing for equity release loans**

3.1 The Council borrows money on the financial markets to support the everyday business of the authority. To borrow this money any service requires an appropriate business case and financial model that shows how the money is to be redeemed at a future date.

3.2 Under its own equity release scheme Leeds City Council has already lent a total of £1.48m in equity release loans. Up to the end of 2009/10 a total of £119k has been redeemed and has been incorporated in the private sector capital programme to support other schemes. In the 2010/11 financial year a further £30k has been redeemed. This leaves a further £1.33m of loans outstanding which will be repaid to Leeds City Council at some future date and could be used to service any borrowing.

3.3 It proposed is to use the money tied up in existing loans lent as part of the original Leeds Loan scheme to subsidise the cost of borrowing when they are repaid. The proposed new model would be linked to the potential increase in property prices with the minimum liability for an owner being the repayment of the loan at simple interest. The original Leeds Loan Scheme offered 2 repayment scenarios based on the percentage increase in the property value or the interest rate repayable on the loan over its period. The policy was that the lower of the two redemption values would be the amount repaid. It is proposed for this new scheme that the opposite be adopted to minimize the budgetary pressure on the Council from unsupported borrowing.

3.4 Assuming that on average households borrowed £10k over 10 years at 5.5% they would be liable to repay £15,500 based on simple interest. However the authority would be liable to pay £17,081 to redeem the initial £10,000 borrowed at the end of the 10 year term. This would leave a difference of £1581 per loan as a budget pressure. This difference would be repaid from redeemed loans.

3.5 Based on a 10 year average repayment on a £10k loan and unsupported borrowing of £500k per annum, this would create an annual budget pressure of £75k assuming all repayments are based solely on simple interest. Over the next 4 years this would mean £300k in subsidy would be required towards the scheme, funded from the repayment of existing loans. The value of the actual outstanding loans lent is £1.3m so there are sufficient funds to support this scheme based on assumptions regarding average repayment periods and interest rates.

3.6 This proposal would not require any additional funding from the Council's own finances. The amount returned on an annual basis is not sufficient in itself to support major capital investment in equity loans. Executive Board in July 2003 agreed the principle of recycling redeemed loans for further assistance to vulnerable households. Using these recycled loans to subsidise unsupported borrowing means that a greater number of loans can be offered thereby making the scheme viable and sustainable.

## 4.0 Legal And Resource Implications

4.1 If the authority agreed to unsupported borrowing to assist vulnerable households then there would be a need to reopen the Leeds Loan Scheme, in order to administer the loans. This would involve slight amendments to procedures and documents together with the need to arrange valuations and the necessary legal documentation including registering all the relevant charges against the property.

4.2 Currently there is the knowledge and expertise within Housing Services to deliver any potential equity release scheme if the above option is supported by the Council. Legal Services and Financial Development will also be able to assist with the administration of any revised scheme.

4.3 The loans are available to vulnerable households who have limited finances available and cannot service repayment loans available on the high street. There is always a risk when lending to such households. This risk is minimised by limiting the loan to £12k and all properties will have legal charges placed against them as per the current scheme. The use of legal charges is standard practice for all financial institutions when lending monies to provide the necessary safeguards. Most owners are equity rich and this will significantly reduce any potential loss due to the level of equity in the property being available to cover loan repayments.

4.4 As with any commercial loan there are risks with loan repayments (redemptions). The main risk is from reduced loan amounts where house values have gone down but this should only be relevant in the short term. Also there could be low risk from bankruptcies, although none have occurred to date. In addition there could be a risk from persons who move into residential care, or die, and their homes are not sold, by their representatives, in a timely manner. In the latter case there may be a need for legal action by the council to recover the debt.

4.5 The Council is required to make Minimum Revenue Provision within its Revenue Budget to meet the projected annual cost of all borrowing it undertakes. This annual financing requirement applies irrespective of the purpose for which the funds are borrowed. On the one hand therefore the Council will have to fund the annual borrowing costs on the monies it has borrowed in order to provide loans under the proposed scheme whilst the eventual repayment dates for the loans it has given are uncertain. Hence there will be a timing mismatch between the borrowing costs impacting on the Council's budget and the eventual full reimbursement of these costs at the redemption dates of the individual loans. This timing difference in the borrowing costs is an issue that will be managed corporately by the Director of Resources but should be noted as a financial consequence of progressing the proposed loans scheme.

4.6 An Equality, Diversity and Community Cohesion Impact (EDCI) screening form has been completed. The assessment demonstrates that the scheme is targeted at vulnerable households who are unable to secure commercial loans. The scheme demonstrates positive health and social care impacts and tackles fuel poverty and enables people with disabilities and older people retain and maintain their independence. Delivery of the loans have supported the delivery of housing condition programmes i.e. group repair and therefore supported investment programmes in priority regeneration areas. A full assessment of the whole loans provision is currently being undertaken, which will include the provision of unsupported borrowing.

**5.0 Conclusions**

5.1 With the loss of the private sector renewal monies and the lack of funds in the Regional Scheme until 2013/4 there is a risk that vulnerable households will not be able to maintain their homes or else will have to borrow from undesirable sources at high levels of interest. This could affect people's ability to maintain their independence, health and well being due to poor housing conditions, a lack of thermal efficiency and appropriate security measures to their properties.

5.2 Many vulnerable owner occupiers are asset rich but cash poor, and unable to satisfy the requirements for or service traditional monthly repayment loans. Their money is locked up in the very property which needs investment to address deficiencies.

5.3 By considering the use of unsupported borrowing to assist vulnerable households monies can be made available in the short term to maintain the provision of financial support to households who can not obtain finance from high street institutions.

5.4 The financial model detailed above would allow unsupported borrowing to be made by the Council to assist vulnerable households maintain their homes. This would benefit the individual as they would have a warm weather tight home helping to maintain their independence, improving their health and well being.

**6.0 Recommendations**

6.1 Executive Board is asked to approve the proposal to introduce an equity release loans scheme for vulnerable home owners funded through unsupported borrowing, with the redeemed Leeds Loans used to subsidise costs, up to a limit of £500,000 per annum based on the model set out in this report for up to 4 years, subject to annual review of the scheme to minimize the risk to the Council.

**7.0 Background Papers**

7.1 Private Sector Housing Assistance Policy 2009

7.2 Executive Board report 9th July 2003 – Proposals for the Private Sector Housing Renewal Policy – The Regulatory Reform (Housing Assistance) Order 2002

7.3 EDCI screening form