

To: City Executive Board

Date: 9<sup>th</sup> September 2009

Item No: 10

Report of: Head of Environmental Development

Title of Report: Implementation of Home Improvement Loans Scheme

### Summary and Recommendations

**Purpose of report:** To seek approval to become part of a limited company (Flexible Home Improvement Loans Ltd) in order that flexible home loans can be administered.

**Key decision?** No

**Executive lead member:** Councillor Turner

**Report approved by:** Mel Barratt

**Finance:** Anna Winship

**Legal:** Jeremy Thomas

**Policy Framework:** Private Sector Housing Strategy and Policy for the provision of assistance for the purpose of improving living conditions 2008

**Recommendation(s):** Members are recommended to:

- (a) agree to participate in the Flexible Home Improvement Loan Scheme
- (b) agree to become a member of the company, Flexible Home Improvement Loans Ltd
- (c) agree to authorise the Executive Directors to nominate an appropriate officer to sit on the board of the company and be a company director.
- (d) Authorise the Head of Environmental Development to approve loans under the Flexible Home Improvement Loan Scheme.

## **Introduction**

1. It was agreed by the City Executive Board in October 2008 to amend the Policy for the provision of assistance for the purpose of improving living conditions to include Flexible Home Improvement Loans.
2. The proposed scheme represents an opportunity for the Council to address the needs of the private residents in the City and potentially address many of the shortfalls revealed in the Private Sector Stock Condition Survey. In particular the high incidence of poor maintenance and cold homes occupied by many elderly residents in the City.

## **The Flexible Home Loans scheme**

3. The Royal Borough of Windsor and Maidenhead (RBWM), who sought expressions of interest from authorities in Oxfordshire, Surrey, Buckinghamshire and Berkshire, originally conceived the scheme. Currently there are 15 local authorities within the consortium who are either in the process of joining the Flexible Home Improvement Loan scheme (FHIL), or who are already members.
4. The consortium of local authorities has secured a grant from the Department of Communities and Local Government (CLG) for the purpose of funding loans to owners of private sector homes who are aged 60 years or over. The CLG grant is £16million over three years 2008/09 to 2010/11. The loans will be made for the purpose of improving the warmth, comfort, safety and security of homes

## **The Company - Flexible Home Improvement Loans Ltd**

5. Flexible Home Improvement Loans Ltd, (Company Number 6541960), was created in 2008 as a vehicle through which the project is managed and funds distributed to local authorities. The company is limited by guarantee and in the event of its liquidation, the Council would be liable for its debts up to £1.00.(One pound). As Flexible Home Improvement Loans are repaid, capital and interest goes back to FHIL to be recycled as further loans.
6. The members of the company to date are: Bracknell Forest, Cherwell, Chiltern, Milton Keynes, Slough, Surrey Heath, Vale of White Horse, West Berkshire, Windsor & Maidenhead and Wycombe. Five others are working towards joining including this Council, Aylesbury Vale, Reading, South Bucks and Wokingham. South Oxfordshire and West Oxfordshire initially decided not to join but are reviewing that decision.
7. Each member of the company may nominate a senior officer to act as a director of FHIL. It is proposed that the Executive Directors be authorised to nominate an appropriate officer to sit on the board of FHIL.

### **Functioning of the Scheme**

8. The scheme has been developed using detailed financial modelling and as a result will be subject to certain common rules which will include limiting eligibility to owner-occupiers aged 60, or over, and restricting the minimum loan to £1,000. The maximum theoretical loan is calculated by reference to the age of the borrower and the equity in the property.
9. The Flexible Home Improvement Loan will be secured by a charge on the householder's property and may be repaid in a manner to suit the borrower. The loan is best viewed as a secured overdraft allowing the borrower to make payments of capital and interest on a regular basis, an irregular basis, or make no payments at all during the term of the loan. The amount borrowed, plus outstanding interest, will be repaid out of the proceeds from the sale of the property after the borrower dies, or if he/she vacates the home to go into long-term care. It is the intention that, as loans are repaid, the money will be recycled as further loans.
10. No other organisations, or individuals, will have any controlling interest in the company. It will however be necessary to appoint a part-time officer to deal with day-to-day administration, especially in the first 1 or 2 years. The cost of such appointment will have to be met jointly by the consortium members, but is not expected to exceed £1,000 annually for each member. See also para 19.
11. The interest rate will be variable, being the Bank of England rate, subject to a minimum rate of 3.5% and a maximum rate of 7%. Interest will be charged monthly.
12. It is an essential principle of the scheme that Flexible Home Improvement Loans will be the best that can be provided and they will be based on principles established by the independent Safe Home Improvement Plans (SHIP) organisation, guaranteeing that interest on loans will be capped if it would otherwise cause the borrower's property to be in negative equity and guaranteeing that borrowers are not placed at risk of losing their homes.
13. Flexible home improvement loans are not repayable until such time as the borrower dies, or moves out of the home, so a default can only occur at the end of the loan. Flexible Home Improvement Loans Ltd carries the risk of default, although the Council will be expected to provide assistance with recovery in such circumstances.

### **Promotion of the Scheme**

14. It is proposed to promote the scheme by a variety of methods. The Council's website and targeted mailings, Your Oxford, newsletter to residents, contacting people who have previously had grants or have been declined grants, referrals via Social Services, Help the Aged etc, press releases via local media, posters & leaflets in public areas such as libraries, doctors' surgeries, leisure centres, Citizens Advice Bureaux.

### **Loan Administration**

15. It has been agreed that a third party will be engaged to handle the loan administration, including the registration of each new mortgage. StreetUK Limited, a charity, has been appointed to administer the loans on behalf of Flexible Home Improvement Loans Ltd.

16. Loans will be approved in a similar way to current adaptation grants, therefore the Head of Environmental Development should be delegated the authority to approve Flexible Home Improvement Loans under the scheme.

17. There is an extensive procedure and compliance manual for the scheme which will be followed in all cases.

### **Legal and Regulatory Implications**

18. The principal regulators for financial services are the Financial Services Authority and the Office of Fair Trading. Local authorities are exempt from the Financial Services Authority's authorisation for mortgage lending, administration, arranging and advising and are directly regulated by CLG.

19. Every Council officer involved in the scheme will receive on-site training (**See Appendix A**) in all aspects of the Flexible Home Improvement Loans product and the regulatory regime that governs it. Further, all officers will receive a manual detailing all aspects of the scheme and will receive full telephone and e-mail support for the duration of the scheme. A system of compliance will also be put in place.

### **Climate change implications**

20. Loans for Energy Efficiency measures namely Replacing Inefficient Central Heating Systems, Windows & Doors & improving thermal insulation will have a positive impact on climate change.

### **Equalities Impact**

21. Flexible Home Improvement Loans will only be available to the over 60s and will have a significant role to play in improving private homes within the city, often enabling people to remain within their own homes without the need for additional assistance. The flexible nature of the loans means that a loan recipient can, within certain guidelines, choose how and when the loan is repaid.

### **Financial implications**

22. The share of the annual grant funding from CLG for Oxford City Council for 09/10 is £213,100. We can approve loans up to this value throughout the year, and any remaining funds will be returned to Flexible Home Loans Ltd for redistribution in future years. When each loan is repaid, the Council's indebtedness to Flexible Home Improvement Loans Ltd will be exactly equal to the amount that is repaid. In the event that Oxford City Council spends the whole of the year's quota, it is anticipated that further funds may be available as a result of under-spending by other local authorities. The contribution to the administration of the scheme may give rise to a cost not exceeding £1,000.00 p.a; this will be met by the Environmental Development budget.

23. The money, when distributed to Oxford City Council must only be used for the purpose of making Flexible Home Improvement Loans to owners of private sector homes. There will be no capital contribution from the City Council.

### **Recommendations**

24. Members are recommended to

- a) Agree to participate in the Flexible Home Improvement Loans Scheme
- b) Agree to become a member of the company Flexible Home Improvement Loans Ltd
- c) agree to authorise the Executive Directors to nominate an appropriate officer to sit on the board of the company and be a company director
- d) Authorise the Head of Environmental Development to approve loans under the Flexible Home Improvement Loan Scheme

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**List of background papers: none**

**Version number: 4**

SUMMARY OF KEY TOPICS OF FLEXIBLE HOME IMPROVEMENT LOAN TRAINING

Compliance

Implications of direct regulation by CLG  
Who is authorised  
Duty of care to customers  
Pre-mortgage application procedures  
Mortgage administration standards  
Evidence of compliance  
Record keeping

Loan Procedure

10.6  
Eligibility criteria  
First contact with customers  
Customer Information Document  
Quotations and Annual Percentage Rate calculator  
Application form  
Application checklist and evidence of compliance  
Internal checklist  
Uploading data  
Proof of Title  
Unregistered properties and Voluntary Registration  
Restrictions on registering a charge  
Obtaining consent of existing mortgagee  
Proof of age  
Valuation of property  
Calculating Maximum Available Loan  
Authorising loan  
Mortgage Offer

Mortgage Deed and Conditions  
Commissioning Work and Releasing Funds  
Unforeseen works and further advances

Using the StreetSERVE portal

Software  
Logging in  
Entering customer details – new application  
Editing a saved application  
Printing the Mortgage Offer  
Printing the Mortgage Deed  
Printing a direct debit mandate  
Making the advance  
Payment cards  
Preparing loan illustrations  
Credit checks  
UniPrint settings  
Exit and logging out

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## CEB Report Risk Register

Risk Score **Impact Score:** 1 = Insignificant; 2 = Minor; 3 = Moderate; 4 = Major; 5 = Catastrophic **Probability Score:** 1 = Rare; 2 = Unlikely; 3 = Possible; 4 = Likely; 5 = Almost Certain

No.	Risk Description Link to Corporate Obj	Gross Risk		Cause of Risk	Mitigation	Net Risk		Further Management of Risk: Transfer/Accept/Reduce/Avoid		Monitoring Effectiveness				Current Risk	
		I	P			I	P	Action:	Outcome required:	Q	Q	Q	Q	I	P
					Mitigating Control: Level of Effectiveness: (HML)			Action Owner:	Milestone Date:	1	2	3	4		
1	Insufficient take up of loans leading to lack of improvement in private sector homes across the city. Conflicting with the corporate objective of More Housing, better housing for all.	2	4	Poor marketing of home improvement loans.	MEDIUM Marketing of loan scheme through interested groups, proper trained officers administering loan scheme	2	2	REDUCED Action Owner: John Exley  Control Owner: Gail Siddall	1/4/2010	☹	☹	☹	☹		
2	Customer dissatisfaction with the loan scheme. Conflicting with the corporate objective of More Housing, better Housing for all.	2	3	Customer preference to grants rather than loans	MEDIUM Marketing of loan scheme through interested groups, proper trained officers administering loan scheme	2	2	REDUCED Action Owner: John Exley  Control Owner: Gail Siddall	1/4/2010						
3	Failure to repay all of the loan. Conflicting with the corporate objective of More Housing, better Housing for all.	3	3	Home owner fails to repay part of the loan leading to partial recovery of the charges.	MEDIUM Equity in the property assessed prior to the loan approval – to ensure adequate cover exists	2	2	REDUCED Action Owner: John Exley  Control Owner: Gail Siddall	1/4/2010						

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No.	Risk Description Link to Corporate Obj	Gross Risk		Cause of Risk	Mitigation	Net Risk		Further Management of Risk: Transfer/Accept/Reduce/Avoid		Monitoring Effectiveness				Current Risk	
		I	P			I	P	Action:	Outcome required:	Q 1	Q 2	Q 3	Q 4	I	P
					Mitigating Control: Level of Effectiveness: (HML)			Action: Action Owner:	Outcome required: Milestone Date:	☹	☹	☹	☹		
								Mitigating Control: Control Owner:		☺	☺	☺	☺		
4	Reputational damage to the Council Conflicting with the corporate objective of transforming Oxford City Council by improving value for money	3	3	Action for possession or recovery of the loan in extreme cases.	MEDIUM Loan approval commensurate with equity in the property and action to obtain the money. Flexible Home Improvement Loans Ltd & Council to instigate proceedings to recover loan.	2	2	REDUCED Action Owner: John Exley  Control Owner: Gail Siddall	1/4/2010						
5	Customer dissatisfaction with the operation of the loan scheme. Conflicting with the corporate objective of More Housing, better Housing for all.	3	3	Inconsistent loan approval	MEDIUM Loan applications will be processed in accordance with the extensive procedure and compliance manual	2	2	REDUCED Action Owner: John Exley  Control Owner: Gail Siddall	1/4/2010						

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