

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **HOUSING OVERVIEW & SCRUTINY COMMITTEE**

DATE: **MONDAY, 28 APRIL 2014**

REPORT BY: **HEAD OF HOUSING**

SUBJECT: **PRIVATE SECTOR HOUSING RENEWAL**

1.00 PURPOSE OF REPORT

1.01 To introduce to Members proposed revisions to the Private Sector Renewal and Improvement Policy, along with the rationale for these revisions and to seek support for the changes proposed.

2.00 BACKGROUND

2.01 Cabinet approved the current Private Sector Renewal and Improvement Policy in 2012, with the expectation that it would be in place until April 2015.

2..02 However, as core funding decreases, with a reduction to the Private Sector Renewal capital budget of 20% in 2013/14 and 30% in 2014/15, external funding opportunities have an increasingly important role to play in sustaining activity at current levels. It has therefore become necessary to revisit the existing Renewal Policy a year earlier than planned. External funding includes resources from utility companies in the form of the Energy Company Obligation (ECO) and grant from Welsh Government Arbed, partially supported through the European Regional Development Fund (ERDF).

2.03 The focus of the previous two Renewal and Improvement Policies since 2010 has been on supporting people to improve their own situation through advice and guidance, as well as direct financial assistance in loan form. There are no proposals to move away from these overarching principles within the revised Policy.

2.04 The three areas of change that this report covers include: -

- Introduction of new loan products to support energy efficiency measures
- Introduction of the Welsh Government Property Improvement Loan Scheme
- Strengthening the criteria to access empty homes support

- 2.05 The main purpose of the changes is to further speed up recycling of the resources spent. However this does necessitate a change in how some of the current loan products are administered and managed; including charging a higher rate of interest for those able to pay this.
- 2.06 Demand for loan funding for general repairs and improvements remains high. As stated in the previous Head of Service Report, over the 6 month period between April – September 2013, a total of 23 loans were completed at a value of £105,482. This total does not include any loans for energy works, which have until now been fully funded for householders through ECO and Arbed.
- 2.07 Previously energy efficiency measures were in some cases fully funded by utility companies, but now require the householder to contribute, given that there has been a reduction to ECO funding available to councils. Therefore, if the council wishes to assist low income homeowners to access the ECO funding still available, it will need to help them finance the remaining cost of the work, up to 70%.
- 2.08 In addition to the Energy proposals, there are further changes required to the Renewal Policy as a result of a Welsh Government (WG) initiative. WG are making a ring fenced pot of funding available for providing Property Improvement Loans. It is anticipated that these loans will be available from September 2014, but will require inclusion in the Renewal Policy before they can be offered. This follows the successful Houses into Homes Scheme supported by WG and included within the previous Renewal Policy.
- 2.09 Further to the above, a recent internal audit has recommended that the criteria for accessing direct financial support to address an empty home through the councils capital programme be tightened and this is similarly included as an amendment to the existing Policy.

3.00 CONSIDERATIONS

3.01 New loan products to support energy efficiency measures

Current statistics suggest that 1 in 3 Flintshire households, which equates to 20,000 households, are in fuel poverty. Tackling this is an Improvement Plan priority, as it contributes to improved health, reducing social exclusion and supporting the local economy both in terms of jobs and skills, and also providing households with more disposable income.

- 3.02 The objectives of the domestic energy team are to provide benefits to Flintshire households and to the council, as well as being a self sustaining area of the service. In order to achieve this, the plan of the team is to administer external funding in a way that allows it to be recycled, so that it can then be reinvested in further energy efficiency initiatives. This would operate as an invest to save fund.

- 3.03 The success of the previous Community Energy Saving Programme (CESP) and the current Energy Company Obligation (ECO) has allowed the Service to invest in schemes which are either fully funded, or require match funding of less than 20%. Where households require support and meet the eligibility criteria, they are referred to the WG Nest programme. Since 2009, match funding from utility companies has been accessed (over £7m) providing the capital for these works. This model has worked well for external wall insulation and solar PV, along with upgrading of boilers and central heating systems. This work has generally been focused on vulnerable households, with little or no ability to make any contribution towards the cost of the work. The existing Renewal & Improvement Policy allows for this.
- 3.04 The focus of the energy efficiency programme in 2014/15 will be major gas infill schemes at Aston and Mostyn. The team have worked alongside Wales and West Utilities to establish the economic viability of providing a gas main in these communities. The council is able to guarantee a certain number of connections within these areas, given the presence of its own stock, where it is anticipated 233 council properties will be connected.
- 3.05 With the above in mind the council is keen to provide an offer to private homeowners within these areas, which would encourage them to connect to the gas main. Recently money from the WG Arbed ECO top up scheme has also been secured (£0.9million), which would be used to fund the new loans discussed below. There are considerable benefits by facilitating the loans, as detailed in the following paragraphs.
- 3.06 As a result of the proposed Flintshire County Council support, Wales and West Utilities expect 70% of homes in the gas infill areas to connect to gas over a 20 year period. In Aston and Mostyn (111 and 806 homes respectively) based on today's fuel prices, this would create an annual fuel bill saving per household of £774. This saving will contribute to the cost of the loan repayments. For households this will allow them to heat their homes more comfortably. Through offering support the council can ensure that the maximum number of households benefit.
- 3.07 The council has appointed a heating contractor and materials supplier to facilitate the transition to gas in these communities. Increases in orders will lead to lower prices through economies of scale. The council has secured a rate for the private sector that is 25% lower than the costs of one off installations. This translates into a one off saving of more than £0.100m to residents.
- 3.08 It is proposed that a nominal interest loan at up to 2%, or a low interest loan is made available subject to affordability criteria. The low interest loan will be made available at 6.25%, which covers the cost of administering the loan. The nominal interest loan will be available to

customers in receipt a means tested benefit or spending more than 10% of their disposable income on fuel.

3.09 The cost of administering this loan will be funded via the energy grant, comprising ECO and Arbed at a rate of 6.25% per loan. The Council expect up to 200 households to apply for support. If the anticipated number of 20% of households qualifies for the nominal interest loan, then this would cost the Service up to £18,320 over the loan period. The loan capital will be financed through energy grant funding and will not be council funded.

3.10 Anticipated loans to private homeowners – gas infill

Region	Numbers	Average Loan Size (£)	Fund Needed (£)
Aston	50	3,500	175,000
Mostyn	150	3,500	525,000
Total	200	3,500	700,000

3.11 Currently the council offer loan products through Street UK for repairs and improvements (subject to an affordability test) on an interest bearing basis. This is via a percentage property charge, or a monthly repayment loan and at a rate of 4.00% APR. The lower interest rate reflects the higher loan values of existing loans administered by Street UK (up to £30,000).

3.12 The Service has spoken to a range of loan providers including current provider Street UK and the Robert Owen Community Banking Fund. Both organisations are Community Development Finance Institutions, not for profit companies providing loans regulated by the Financial Conduct Authority (FCA). As a comparison a Green Deal Loan is typically 7.00% and a high street lender is typically 9.00%.

3.13 Comparing the cost of Street UK against ROCBF for smaller loans

	Street UK	ROCBF
Average Loan Value	£3,500	£3,500
Interest Rate	4.00%	6.25%
Administration Fee	£500	N/A
Cost Per Loan (Yrs 1-5)	£1,200	£1,094

3.14 The table above identifies that ROCBF are more competitive than Street UK for smaller loans, as they do not include a standard one off administration fee of £500. This is not the case for higher value loans.

3.15 Evidence from similar energy efficiency loan schemes in England shows loan defaults and write offs are at an average of 8%. The financial risk of this is £0.060m over 5 years; however these loans will be secured as a legal charge against the properties.

- 3.16 ROCBF are already providing energy efficiency loans for Powys Council and there is an expectation from Welsh Government that any project they fund, in whole or in part will be assessed using the Value Wales toolkit. Therefore, a Welsh company would be favoured by WG in terms of providing community and economic benefit to the Welsh economy.
- 3.17 The Welsh Government would work with the Service to monitor and evaluate the loan products through the Value Wales toolkit. This toolkit will also benchmark the overall benefit to local contractors and supply chain. The council would seek a single tender exemption to appoint ROCBF to run the energy efficiency loan products during 2014/15. The proposal would then be to run an open tender for provision of the service in 2015/16, at which point Street UK and any other provider could be considered.
- 3.18 The proposal is therefore to adjust the Policy to introduce this new loan product, based upon two interest charges at a nominal rate up to 2%, or 6.25%. The product would be managed by the ROCBF on the basis of a single tender exemption with a commitment to run an open tender for this work in 2015/16. The capital funding for the loans will be provided by utility companies through their Energy Company Obligation (ECO) and other external funds, including WG Arbed, the Council has already secured for energy efficiency.
- 3.19 WG Property Improvement Loan**
Concern has been expressed by Welsh Government that as core capital funding is being reduced across Wales, less capital is available to help improve private sector housing conditions. In order to address this, WG is currently exploring the possibility of a national Property Improvement Loan Scheme.
- 3.20 The loans would be available to both owner occupiers and private landlords seeking to make essential improvements to their properties. The council is working closely with the National Steering Group to develop these proposals. The funding would be made available via the Coalition Government's Help to Buy Initiative in the form of a loan to Welsh Government, repaid back to Central Government at the end of the initiative in 25 years time. In turn this will then be allocated to the council's on a loan basis also. The exact repayment deadline will be agreed with the 22 Council's prior to any capital funding being released.
- 3.21 The Council is anticipated to receive £0.250m in year 1, £0.500m in year 2 and potentially a further £0.250m in year 3. Appendix 2 identifies the national steering groups proposed details of the Loan Scheme.
- 3.22 The Council hopes to continue to offer its own Property Appreciation Loan product, alongside this, funded from core capital to assist those

owner occupiers who are not able to repay a loan over a 10 year period.

- 3.23 The loans passed on to Flintshire properties will be secured as a charge. Evidence from similar loan schemes in England shows loan defaults and write offs at an average of 5%. Welsh Government proposes to cover this shortfall to a maximum of 2.5%. If the default rate is higher, the risk will remain with the Council; therefore robust affordability testing of applicants will be vital to ensure that default rates remain at a minimum. As the loans are secured, whatever monies are not recovered during the loan repayment period should be recoverable in the event of the property being sold or transferred.
- 3.24 Example: -
If the loan defaults over the repayment period are at 5% this will amount to a loss of £0.050m, with £0.025m covered by Welsh Government and £0.025m required to be covered by the councils revenue account.
- 3.25 The Minister for Housing and Regeneration is also keen that the products on offer are consistent across each region. Any reallocation of unspent resources will be allocated through the regional structure created for Houses into Homes, of which Flintshire are currently the lead for North Wales.
- 3.26 The existing contract with Street UK was established as a framework agreement with all 6 North Wales councils. This is highly desirable to WG as they seek to promote a consistent loan product and consistent procedures and practices across each region. The use of a single administrator will also assist councils with little loan experience, allowing them to access peer support from within the North Wales region. It would also allow for quicker establishment and delivery of the scheme and the easier reallocation of unspent resources between councils. Discussions have been held with WG and they are supportive of this method of delivery and five of the six North Wales councils have confirmed their intention to seek approval to use Street UK.
- 3.27 The proposal is therefore to include the WG Property Improvement Loan within the revised Renewal and Improvement Policy, once the resources are confirmed and the final scheme within the broad principles outlined within Appendix 2 are agreed. It is likely that the Scheme, if supported, would go live during September 2014. Loan fees as detailed within Appendix 2 would be used to pay the cost of the set up fee to Street UK. This would fully cover the set up cost of all loans above £3350. It is anticipated that very few loan applications below this level will be made and they can be funded through the core capital programme, as is the case for all other Street UK loans funded through the councils own resources. This is permissible as the capital is unlocking finance to fund the enhancement of a capital asset.

3.28 Strengthening the criteria to access empty homes support

It is proposed that two additional conditions will also be inserted in respect of empty homes following an internal audit recommendation. These include, a minimum period the property must remain tenanted after support is provided. This would be 2 years, or until the loan is released. The minimum period rises to 5 years for those owners accessing grant support. Limited grant support is available within the Connah's Quay, Shotton and Queensferry Renewal Area to address a disproportionately larger number of long term vacant homes, matched by higher level of demand for accommodation.

- 3.29 A further condition relating to the need for owners provided with financial support to consent to their property being managed by a social lettings agency will also be inserted. In most cases this has been happening voluntarily, however, it was felt a tightening up of this aspect was required to protect the council should an applicant change their mind once the work of improvement had started on site.

4.00 RECOMMENDATIONS

- 4.01 That Members support the introduction of a new Energy Efficiency loan product, to help deliver gas infill in communities across Flintshire, as outlined within the above report and delegate authority to operate the scheme to the Head of Housing.

- 4.02 That Members support the introduction of the WG Property Improvement Loan initiative and allow for the approval of the final terms and conditions of the scheme to be delegated to the Head of Housing and the Head of Finance (who will be known as the Chief Officer for Community & Enterprise and the Chief Officer for People & Finance at the time of proposed implementation).

- 4.03 That Members support the additional clauses to be added to the Empty Homes assistance, relating to the minimum period of rental, being 2 years for a loan and 5 years for a grant and that the owner must consent to the property being managed by the councils chosen social lettings agency.

5.00 FINANCIAL IMPLICATIONS

- 5.01 The cost of administering the nominal interest loan and payable to ROBCF will be £0.018m and this will be provided through the ECO Arbed energy grant.

- 5.02 The anticipated recycled funds from repayments is £0.200m per year and this will allow for further energy efficiency loans to be provided.

- 5.03 As discussed within the body of the report, the WG Property Improvement Loan Scheme will have financial implications for Flintshire. Consultation will be extended to encompass finance

colleagues in all councils at a dissemination event on 20th June 2014 to consider the wide implications prior to any implementation.

6.00 ANTI POVERTY IMPACT

6.01 Financial support made available through the Policy helps to support those in fuel poverty and/or those on low incomes. There is also a proposal within the proposed Policy that those able to pay for gas infill improvements be charged a higher rate of interest to subsidise a nominal interest product to those most vulnerable.

7.00 ENVIRONMENTAL IMPACT

7.01 The Policy outcomes contribute to reduced carbon emissions and promote the use of renewable technologies.

8.00 EQUALITIES IMPACT

8.01 The Policy gives access to all to apply for support, with the most vulnerable receiving priority access to finite resources.

9.00 PERSONNEL IMPLICATIONS

9.01 There are no personnel implications as a direct result of this report.

10.00 CONSULTATION REQUIRED

10.01 The Policy should be subject to public consultation and the intention is to carry out this consultation once Members have had the opportunity to scrutinise it.

11.00 CONSULTATION UNDERTAKEN

11.01 None at this stage.

12.00 APPENDICES

12.01 Revised Private Sector Renewal & Improvement Policy

12.02 Proposed WG Property Improvement Loan Scheme Parameters

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

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