

Item: 8

Education, Leisure and Housing Committee: 6 June 2018.

Housing Loan Scheme.

Joint Report by Head of Finance and Executive Director of Education, Leisure and Housing.

1. Purpose of Report

To review the loan ceiling for the housing loan scheme to support housing purchase, development, improvement and repair in the private sector.

2. Recommendations

The Committee is invited to note:

2.1.

That, with effect from 1 August 2015, the Council resolved that the ceiling for any single housing loan be set at a maximum of £115,000 or £30,000 in the case of an interest-only loan.

2.2.

That application of the Retail Prices Index would suggest that the ceiling for any single loan should increase from £115,000 to £123,000, being an increase of £8,000 or 7%.

It is recommended:

2.3.

That, with effect from July 2018, the ceiling for any single housing loan be set at a maximum of £130,000 or £30,000 in the case of an interest-only loan.

3. Introduction

3.1.

In July 2015, the Council resolved that, with effect from 1 August 2015, the housing loan scheme should operate within the following parameters:

- Provision of loan assistance from the Council should continue to be limited to those applicants who are unable to borrow from a financial institution.
- The scheme being accessed following receipt of two loan decisions in principle from lending institutions evidencing refusal of a loan, together with a copy of the original application, before the Council will consider a loan for the same amount.

- The ceiling for any single loan being set at a maximum of £115,000.
- From financial year 2015/16, the funding available being increased from £250,000 to £500,000, to be underwritten by the General Fund capital programme.
- Interest only housing loans, limited to £30,000 in value, being made available in certain circumstances.
- The Council lending up to 90% of the price of the property, or 90% of the valuation of the property, whichever is the lesser, up to a maximum of £115,000 for any single loan or £30,000 in the case of an interest only loan.
- Repayment being at the current applicable interest rate and on such terms and conditions as determined by the Head of Finance, in consultation with the Solicitor to the Council.
- Assessment of the loan including consideration of the housing issues of the applicant's household and the extent to which this assists in meeting the aims of the Local Housing Strategy.
- In cases of common repair, in order to avoid any impact on the Housing Revenue Account, the scheme being available to private landlords as well as owner occupiers.

3.2.

Currently the Council has 18 housing loans being repaid, with a further two approved recently and one pending application. The balance outstanding as at 31 March 2018 was £701,842.37.

3.3.

On 28 March 2018, when considering a review of charges in respect of administering housing loans, the Education, Leisure and Housing Committee recommended that the loan ceiling, which was currently £115,000 or £30,000 for an interest only loan, be reviewed.

4. Proposed Amendment to Loan Ceiling Limit

4.1.

In order to consider an appropriate increase to the loan ceiling limit, a review was undertaken which considered the following key indicators:

- Movements in the Retail Price Index between 1 August 2015 to 31 March 2018 which showed that the Index had increased by 18.5 points from 259.8 to 278.3 during that period, an increase of 7.1%.
- The Registers of Scotland report on average house prices in each Local Authority which showed that average house prices in Orkney have increased by £21,932 or 17% from £130,079 in 2015 to 2016 to £152,011 for financial year 2017 to 2018.

4.2.

As a result of the review, it is proposed that the ceiling for any single loan be increased. The increase in Retail Price Index would suggest an increase to

£123,000, however house prices in Orkney continue to increase and a ceiling of £130,000 would provide an element of future proofing. It is therefore proposed that the ceiling be increased by £15,000 to a maximum sum of £130,000. All other parameters for the Housing Loan scheme, as detailed at section 3.1 above, would remain unchanged.

5. Equalities Impact

An Equality Impact Assessment has been undertaken and is attached as Appendix 1 to this report.

6. Links to Council Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Thriving Communities.

7. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of Living Well.

8. Financial Implications

8.1.

The annual provision for Housing Loans was increased to £500,000 in 2015. This ceiling on annual advances has not been reached in any year. The revision proposed in this report will make the scheme attractive to more potential borrowers and with an increased maximum advance there will be a greater likelihood that the annual ceiling of £500,000 may be reached.

8.2.

The recommended maximum loan of £130,000 at up to 90% of purchase price or of valuation would equate to a maximum eligible value/price of £144,500.

8.3.

The advance of housing loans is not expenditure that would be charged to the General Fund Revenue Account; loans are instead treated as investments. These are secured investments on which the interest rate of 3.93%, set by Scottish Government is considered a reasonable level of return.

9. Legal Aspects

Section 80 of the Housing (Scotland) Act 2006 outlines arrangements in respect of the terms of any loan. The Council can set terms covering interest, any charges and repayment and can require that the loan be secured by a standard security on the premises to which the loan applies. The Council is required to ensure that where it offers a loan, it should advise the applicant to seek independent advice on the terms of the loan.

10. Contact Officers

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11. Appendix

Appendix 1 – Equality Impact Assessment.