

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet **DATE:** 14 September 2015

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**WARD(S):** All

**PORTFOLIO:** Leader of Council - Cllr Anderson  
Deputy Leader of the Council – Cllr Swindlehurst

### **PART I** **KEY DECISION**

#### **LOCAL AUTHORITY PARTNERSHIP PURCHASE (LAPP)**

##### **1 Purpose of Report**

The purpose of this report is to outline to Cabinet the new Local Authority Partnership Purchase (LAPP) Scheme and describe how it can be implemented by the Council to focus on local housing needs by providing targeted help to potential home-buyers on a shared ownership basis as well as ensuring that the Council delivers a good financial return on its investment.

##### **2 Recommendation(s)/Proposed Action**

The Cabinet is requested to resolve to adopt LAPP in accordance with the outline provided within this report, and approve the following parameters:

- The maximum local authority purchased (rented) share of **£120k**
- The split between the two shares of **70%** purchased via mortgage and **30%** purchased by LA
- The maximum limit for the total indemnity to be offered of **£4.4m**
- The maximum loan size (based on maximum property valuation) of **£266k**
- The qualifying post codes in a schedule to the indemnity deed to cover **all in SBC area**
- Based on these parameters, a maximum investment of **£9.3m** (£13.7m total costs including repayment interest) would be required (plus a further £4.4m indemnity guaranteed by way of a deed) to provide approximately 100 mortgages via the scheme.

##### **3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

##### **3a. Slough Joint Wellbeing Strategy Priorities**

The introduction of the LAPP scheme will make significant contributions to the following priorities of Slough's Joint Wellbeing Strategy:

- Health
- Regeneration and Environment, and Housing by
- Addressing affordability gaps for aspiring home owners who cannot afford outright purchase
- Providing a viable and more affordable alternative to renting
- Increasing the availability of affordable and social housing

### 3b **Five Year Plan Outcomes**

The LAPP scheme will therefore help to deliver the following outcomes of the Five Year Plan outcomes:

- There will more homes in the borough, with quality improving across all tenures to support our ambition for Slough
- Slough will be one of the safest places in the Thames Valley
- The Council's income and the value of its assets will be maximised

### 4 **Other Implications**

#### (a) **Financial**

The introduction of LAPP would have significant capital and revenue implications. Adopting the 70:30 percentage ownership split (i.e. Property Occupier / Council), the Council will require capital investment in order to receive an income stream and capital appreciation. Options are detailed in Appendix B of this report. Subject to the approval of the recommendations in this report, these issues will be the subject of a detailed business plan.

#### (b) **Risk Management**

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities / Notes</b>
<b>Legal 1:</b> Legality of LAPP and the legislative framework that gives a local authority in England and Wales the power to implement the Scheme	<ul style="list-style-type: none"> <li>• Independent legal advice has been obtained by Capita Asset Services on behalf of all participating local authorities. This is set out in the Legal Paper at <b>Appendix C</b>.</li> <li>• Council's Monitoring Officer to ensure satisfied with the advice provided. Additional legal advice should be sought if required.</li> <li>• A standard lease agreement has been prepared and this agreement will be used by all participating local authorities and all participating lenders.</li> </ul>	<ul style="list-style-type: none"> <li>• Due to the changing environment, further legal advice may be required during the life of the Scheme. To ensure consistency, it is anticipated that Capita Asset Services will obtain updated advice on behalf of participating authorities. Any additional fees incurred in this respect will be agreed with all parties in advance</li> </ul>
<b>Legal 2:</b> Shared ownership leases and the proposed indemnity to lenders may constitute financial assistance for the purposes of Sections 24 and 25 of the Local Government Act 1988.	<ul style="list-style-type: none"> <li>• Independent legal advice has been obtained by Capita Asset Services</li> <li>• Lenders will adhere to a strict criteria to ensure State Aid restrictions are not compromised.</li> <li>• A standard lease agreement has been prepared and this agreement will be used by all participating local authorities and all participating lenders</li> <li>• Before agreeing to enter into the LAPP arrangement, the Council will ensure it is satisfied that the agreed price reflected open market value.</li> </ul>	<p>The Secretary of State has issued a general consent that a local authority may dispose of land for consideration equal to market value.</p> <p>Initial legal advice concludes that the proposed disposal (i.e. the grant of the shared ownership lease) falls within the general consent, because the property is marketed on the open market.</p> <p>The tenant pays market value for the share which it acquires, and the local authority retains the value in the residue.</p> <p>The staircasing provisions require that:</p>

		<ul style="list-style-type: none"> <li>open market value is assessed; and</li> <li>any additional share is "bought" at the agreed/ determined open market value</li> </ul> <p>So, the Council has comfort that it can only be called upon to dispose of its retained share at open market value.</p>
<b>Property:</b> Housing market fully recovers and the scheme is no longer required	<ul style="list-style-type: none"> <li>The scheme will cease to exist.</li> <li>Indemnities / guarantees already granted – for 5 years + a further 2 years if the account is 90+ days in arrears - would remain in place.</li> <li>Prior to implementation, undertake a detailed analysis of local / regional housing issues, i.e. local housing need, house prices, mortgage approvals etc.</li> </ul>	
<b>Human Rights</b>	None	
<b>Health and Safety</b>	None	
<b>Employment Issues</b>	None	
<b>Equalities Issues</b>	None	
<b>Community Support 1:</b> Poor publicity / bad press re use of public monies	<ul style="list-style-type: none"> <li>Press Officer to liaise closely with local press. Press release / photo opportunity.</li> <li>Good promotional material.</li> <li>Joint working with partners and Estate Agents.</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of benefits of the scheme, i.e. supporting the local housing market, local economy and supporting low to middle income families to secure a foot on the housing ladder</li> <li>Capita Asset Services / participating mortgage lenders / participating brokers will support the promotional process.</li> </ul>
<b>Community Support 2:</b> Poor publicity / bad press re possible repossession	<ul style="list-style-type: none"> <li>Lender to inform the Council if and when a mortgage holder is in arrears or facing repossession.</li> <li>The Council may be able to support individuals to prevent repossession.</li> <li>Reverse staircasing available in cases of hardship</li> </ul>	<ul style="list-style-type: none"> <li>Monthly management information reports will be provided to enable the Council to review all mortgages in arrears and receive early notice should arrears proceed to legal action to enable the Council to consider a range of actions.</li> </ul>
<b>Communications</b>	None	
<b>Community Safety</b>	None	
<b>Financial 1:</b> Affordability – Purchase of Council share	<ul style="list-style-type: none"> <li>Make adequate budget provision.</li> </ul>	<ul style="list-style-type: none"> <li>Asset held with likelihood of the asset value increasing.</li> <li>Rent collected on the percentage share held by the Council.</li> </ul>

<b>Financial 2:</b> Affordability – Indemnity on mortgage	<ul style="list-style-type: none"> <li>No cash deposit required.</li> <li>Reassess the liability on an annual basis.</li> <li>Set aside the premium paid by the lenders on completion in a ring-fenced reserve to be used to fund future potential liabilities in the event of a default and the indemnity being called upon.</li> <li>Monthly management information reports will be provided by Capita Asset Services to enable the Council to assess the liability.</li> </ul>	<ul style="list-style-type: none"> <li>A premium will be paid to the Council by the lender for every mortgage completion.</li> </ul>
<b>Financial 3:</b> Lending to sub-prime applicants	<ul style="list-style-type: none"> <li>Lenders apply existing credit criteria to ensure credit worthiness of applicant.</li> <li>New mortgage rules mean that lenders must test applicants' finances to ensure that they can cope with higher monthly demands.</li> <li>Impact assessed as minor based on LAMS</li> </ul>	<ul style="list-style-type: none"> <li>With full nomination rights, the Council can ensure release of affordable and social housing, by nominating aspiring home owners from current affordable and social housing</li> </ul>
<b>Financial 4:</b> Applicant affordability	<ul style="list-style-type: none"> <li>Lenders apply existing affordability criteria to ensure the mortgage is affordable. New mortgage rules mean that lenders must test applicants' finances to ensure that they can cope with higher monthly demands.</li> </ul>	
<b>Financial 5:</b> Costs incurred in the event of the indemnity / guarantee being called	<ul style="list-style-type: none"> <li>Set aside the premium paid by the lenders on completion in a ring-fenced reserve to be used to fund future potential liabilities in the event of a default and the indemnity being called upon.</li> </ul>	<ul style="list-style-type: none"> <li>The LAMS repossession rate is nil at June 2015 which is over four years since the Scheme was launched.</li> </ul>
<b>Timetable for delivery</b>	None	
<b>Project Capacity 1:</b> Adverse impact on existing staffing levels	<ul style="list-style-type: none"> <li>The Council will be purchasing a share in the asset and have nomination rights. However, there is no input in the assessment / processing of mortgage applications required and all management information provided by Capita Asset Services.</li> </ul>	
<b>Project Capacity 2:</b> Complex to implement (LAPP Scheme)	<ul style="list-style-type: none"> <li>Implementing the Scheme in line with national templates and guidance and support throughout the Scheme from Capita Asset Services.</li> </ul>	
<b>Other:</b>		
<b>Political 1:</b> Lack of political support	<ul style="list-style-type: none"> <li>Ensure political support from the outset.</li> <li>Use report template and guidance notes provided by Capita Asset Services to ensure that all requirements are addressed.</li> <li>Continued member briefing of progress on the scheme and the value of indemnities / guarantees offered.</li> </ul>	<ul style="list-style-type: none"> <li>Monthly management information reports will be provided by Capita Asset Services to enable the Council to assess the liability.</li> </ul>

<b>Political 2:</b> Change of political priorities	<ul style="list-style-type: none"> <li>• Future support for the scheme may be withdrawn, but existing support would remain until expiry.</li> </ul>	
<b>Reputation:</b> Repossession in the hands of the lender, therefore outside the local authorities area of responsibility	<ul style="list-style-type: none"> <li>• Lender to inform the Council if and when a mortgage holder is in arrears or facing repossession.</li> <li>• The Council may be able to support individuals to prevent repossession.</li> <li>• Reverse staircasing available in cases of hardship.</li> <li>• The Council could elect to purchase 100% of the property and turn the home owner into a tenant therefore preventing homelessness.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly management information reports will be provided to enable the Council to review all mortgages in arrears and receive early notice should arrears proceed to legal action to enable the Council to consider a range of actions.</li> </ul>
<b>Operational 1:</b> Lack of demand	<ul style="list-style-type: none"> <li>• The Council has nomination rights.</li> <li>• Press Officer to liaise closely with local press. Press release / photo opportunity.</li> <li>• Promotion of benefits of the scheme and good promotional material.</li> <li>• Joint working with partners and Estate Agents.</li> </ul>	<ul style="list-style-type: none"> <li>• Shelter reports that there are many low to middle income families who would be able to purchase a home on a shared ownership basis who cannot afford outright purchase.</li> </ul>
<b>Operational 2:</b> Lack of lenders to support mortgage lending	<ul style="list-style-type: none"> <li>• The national nature of this scheme with a standard lease based on the HCA standard lease means that the scheme is attractive to mortgage lenders.</li> <li>• In addition, it is based on the 'tried and tested' LAMS scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• Many lenders are interested in joining the Panel of Lenders as soon as local authority appetite can be confirmed.</li> </ul>
<b>Operational 3:</b> Rent not paid or occupier falls into hardship	<ul style="list-style-type: none"> <li>• Lease in place and opportunities for the Council to agree to reverse staircasing in the event of hardship.</li> </ul>	

(c) Human Rights Act and Other Legal Implications

There are no direct Human Rights Act or other legal implications arising from this report.

(d) Equalities Impact Assessment

There is no identified need for the completion of an EIA associated with this report

(e) Property

The property implications are outlined in Appendix B.

(f) Policy impact

The scheme will have the following non financial policy benefits:

- By targeting key workers, the scheme will help business by aiding them to recruit people with the skills they need
- With full nomination rights, the Council can ensure release of affordable and social housing, by nominating aspiring home owners currently occupying these properties.
- By improving the quality of housing available, the scheme will help to stem the increase in HMOs in the area.

- The scheme works well alongside the Slough Regeneration Partnership, in particular addressing the Housing and Regeneration & Environment priorities of helping to deliver multi-faceted regeneration and the improvement of the environment.

## 5 **Supporting Information**

### **Background**

Participation in the LAPP scheme will benefit the Council, residents and business as follows:

- Income and assets will increase over the life of the 5 YP creating revenue which will support delivery of Council services (Outcome 7),
- It will help alleviate pressures on the private rented sector, make good use of existing housing stock and improve the quality of housing in the area (Outcome 2)
- The scheme will be targeted towards key workers helping business to recruit people with the skills they need (Outcome 1)
- By encouraging people to move into the area, the local economy will be stimulated (Outcome 3)

The criteria and method by which referrals will be made will be clarified with the respective commissioners before the scheme is launched. These will be designed to ensure the above outcomes are addressed e.g. by focusing on key-workers, local residents initially.

**Appendix A (Part II)** provides a detailed overview of the LAPP scheme developed by Capita Asset Services (CAS), and describes how it can be implemented by a local authority to focus on local housing needs.

The basic model is based on a 70/30 ownership model, ie 70% owned by the property occupier and 30% owned by the local authority (or RSL). However, each participating LA will have the option to vary the parameters to suit its priorities and circumstances. Subject to the approval of the recommendations in this report, these issues will be the subject of a detailed business plan.

The arrangement will remain in place for the full term of the mortgage but the indemnity will only be in place for the first five/seven years.

The Council has nomination rights and will set the qualifying criteria, such as terms of shares split (e.g. 70:30), total indemnities, loan size and qualifying post codes.

Once these parameters have been set, the mortgage lender will manage the operational side of the Scheme without any direct input from the local authority. The Scheme will achieve the same outcome as the existing shared ownership product with the buyer purchasing a 70% share of the property with a 95% mortgage with a local authority (or RSL / RP) purchasing the remaining 30% but uses a different legal and charging structure to achieve it.

## 6 **Conclusion**

It is recommended that Cabinet:

Adopt LAPP in accordance with the outline provided within this report, and approve the following parameters:

- The maximum local authority purchased (rented) share of **£120k**
- The split between the two shares of **70%** purchased via mortgage and **30%** purchased by LA
- The maximum limit for the total indemnity to be offered of **£4.4m**
- The maximum loan size (based on maximum property valuation) of **£266k**

- The qualifying post codes in a schedule to the indemnity deed to cover **all in SBC area**
- Based on these parameters, a maximum investment of **£9.3m** (£13.7m total costs including repayment interest) would be required (plus a further £4.4m indemnity guaranteed by way of a deed) to provide approximately 100 mortgages via the scheme.

## 7 **Appendices Attached**

- Appendix A – The Local Authority Partnership Purchase (LAPP) Scheme developed by Capita Asset Services (CAS) – Part II, contains exempt information.
- Appendix B – Financial and Property implications
- Appendix C – LAPP Legal White Paper – Part II, contains exempt information.

## 8 **Background Papers**

None