

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

26 March 2013

Report of the Management Team

Part 1- Public

Matters for Recommendation to Council

1 LOCAL AUTHORITY MORTGAGE SCHEME (LAMS)

Background

We have reported previously on the details of the Scheme with particular emphasis on the financial and investment aspects it entails. This report seeks Members' approval for the Scheme to now go forward.

1.1 Current Position

1.1.1 Following the report to Cabinet on 10 October 2012, Council was RECOMMENDED: That

- 1) the Local Authority Mortgage Scheme be adopted in principle in accordance with the details provided within the report;
- 2) the parameters set out in the report be adopted as the basis of the Council's policy and the finalisation of the precise working of the policy be delegated to the Director of Health and Housing;
- 3) the Scheme be launched within Tonbridge and Malling only when the rate of return on offer from the Lender is endorsed by the Director of Finance in consultation with the Leader and Cabinet Members for Finance and Housing;
- 4) the following local criteria can be approved for incorporation within the policy:
 - the maximum level of funding support for the Scheme to be £1,000,000;
 - the maximum loan size (indemnity) to be £40,000; and
 - qualifying post codes – all within the Borough of Tonbridge and Malling;
- 5) it be noted that the final clarification regarding the accounting treatment for the deposit is awaited and the following be endorsed:

- in the event that the deposit is to be treated as capital expenditure, the expenditure of £1million sit outside the Council's Capital Plan Review process; or
 - in the event that the deposit is to be treated as an investment, the investment of £1million sit outside the Council's Treasury Management and Investment Strategy counter party exposure limits and duration; and
- 6) the Chief Solicitor and Monitoring Officer be indemnified in respect of any personal liability in providing the Opinion Letter to the Lender.

1.1.2 Since that time, officers have maintained dialogue with both Sector Treasury Services Ltd, responsible for developing the Local Authority Mortgage Scheme (LAMS) and KCC in reaching a view on the financial risk and investment return on offer. We have also consulted with the Leader and Cabinet Members for Finance and Housing on the investment return available in what has proven to be a falling market for such returns within the short term, due principally to the banks now having more low cost finance available to them.

1.1.3 The Director of Finance and Transformation remains of the view that the rate of return on offer through LAMS for the Council's £1million deposit is comparable to rates of return already available through financial markets. Hence, the rate of return through LAMS has not afforded the promised 'premium buffer' to cover the Council's financial exposure should there be any call on the indemnity due to mortgage default. The only realistic mitigation of that financial risk being the equal sharing of any such 'call' on the deposit between this Council and the KCC. For these (financial return and risk) reasons, it has not been possible for your officers to yet recommend committing to the Scheme.

1.1.4 In the meantime, Tunbridge Wells Borough Council and Gravesham Borough Council have both committed to the Scheme.

1.2 Housing Context

1.2.1 We do not want to repeat all the details of the Scheme which have already been reported. However, the Management Team has further considered the financial and investment aspects of the Scheme in the context of the wider benefits the Scheme seeks to achieve for residents and the local housing market.

1.2.2 Undoubtedly, there will be a risk of default as there is in any mortgage scenario, but we are cognisant of the Council's Key Priority in respect of strategic housing, and of the beneficial first time buyer opportunities the Scheme creates in the local housing market.

1.2.3 In terms of the Scheme details themselves, the Council is able to determine the amount of funding committed on deposit, the property post codes to which it applies and the maximum indemnity size and maximum property purchase price. We have no say over the vetting of applicants or whether they have any kind of

local connection to the borough. The Scheme focuses on stimulating the local housing market, not necessarily meeting a local housing need. That said, by and large, we believe both objectives would be achieved.

1.2.4 In summary, the Director of Health and Housing has identified the following housing strategy benefits which the LAMS would achieve:

- creating an additional funding stream of £2million to support circa 50 first time buyer property purchase opportunities based upon a maximum property purchase of £200,000;
- providing applicant households with lower mortgage interest rates that would only otherwise be available to them if they had significantly higher deposits and hence lower loan to value borrowing ratios;
- stimulating first time buyer purchases from within the existing housing stock and hence the Scheme complements other new build opportunities, such as the Government's NewBuy Scheme or direct provision through Housing Association new build developments; and
- easing the growing pressure on the private rented sector by encouraging households who otherwise would be reliant upon private renting to move into property ownership. This is an ever increasingly important factor with welfare reform underway and the Council's approach to preventing homelessness being ever more reliant on use of the private rented sector.

1.2.5 For these reasons, we are of the view that the LAMS initiative provides the opportunity to assist first time buyer purchases locally and therefore, in turn, supports our Key Priority.

1.2.6 Based on the Member decisions made in October (paragraph 1.1.13), the advice from the Director of Finance and Transformation alongside the Cabinet Members for Finance and Housing has been that an 'acceptable' rate would presently be circa 2.7 per cent (i.e. being the rate of return we might ordinarily expect on average over a five/six year period, plus a 'buffer' of around 0.5 per cent to contribute towards the cost of the risk of default). In reality, Members will note that the value of the 0.5 per cent 'buffer' would equate to £5,000 per annum.

1.2.7 Since October, the rate on offer through the Scheme has not been sufficient to meet the aspiration set out above. For information, the rate currently offered is circa 2.1 per cent, which, as indicated at paragraph 1.1.3, is on a par with projected return we envisage we could return through our investment portfolio. It is not anticipated that this will rise in the short term.

1.2.8 In view of the potential housing benefits that could be derived from the implementation of the Scheme in support of the Council's stated Key Priorities, Management Team, on balance, suggest that Members may now wish to revisit the parameters set when the Cabinet met in October.

1.3 Legal Implications

1.3.1 As previously reported.

1.4 Financial and Value for Money Considerations

- 1.4.1 Paragraphs 1.2.6 and 1.2.7 set out the framework that has, thus far been adopted in terms of when the Council should, or should not, launch the Scheme. Thus far, the decision on whether to launch has been guided by financial criteria - i.e. whether the return offered by the Scheme provides an additional 'premium' to contribute towards the risk of default.
- 1.4.2 If more weight is given to the strategic housing objective, as this report invites Cabinet to consider, this may mean in practice that the 'cost' of any default will have to be met from the Council's own resources. By way of example, the Council's **maximum** financial risk exposure is £20,000 per default at a loan size of £40,000.
- 1.4.3 The Director of Finance and Transformation also reminds Members that this deposit will be 'locked away' for a period of five years+ and therefore a degree of flexibility within the Council's reserves will be lost. In return, however, the Council will be supporting a Key Priority.
- 1.4.4 The Council's preferred lender is Lloyds Bank as it is currently the only lender participating in the Scheme that meets our lending criteria.
- 1.4.5 Latest advice from the Council's External Auditor is that the deposit is to be treated as capital expenditure and as such it is recommended that the expenditure of £1m sit outside the Council's Capital Plan Review process.

1.5 Risk Assessment

1.5.1 As previously reported and as explained above.

1.6 Equality Impact Assessment

1.6.1 See 'Screening for equality impacts' table at end of report.

1.7 Recommendations

- 1.7.1 Council is **RECOMMENDED** to **AGREE** the launch of LAMS in accord with policy already adopted and as further explained in this report;
- 1.7.2 Council is **RECOMMENDED** to **AGREE** that the expenditure of £1m sit outside the Council's Capital Plan Review process; and
- 1.7.3 The Director of Central Services and Monitoring Officer be **INDEMNIFIED** in respect of any personal liability in providing the Opinion Letter to the Lender.

Background papers:

contact: John Batty

Nil

Julie Beilby
Chief Executive

John Batty
Director of Health
and Housing

Sharon Shelton
Director of Finance
and Transformation

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	Yes	Assists first time buyers, often young families, acquire their own home.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.