

TRAFFORD COUNCIL

Report to: Executive / Council
Date: 29 / 30 April 2013
Report for: Decision
Report of: Executive Member for Economic Growth and Prosperity

Report Title

Local Authority Mortgage Scheme

Summary

In May 2012 the Council launched a Local Authority Mortgage Scheme with LloydsTSB to support first time buyers to get onto the housing market. The Council placed an initial deposit of £2 million which has now been fully utilised and assisted over 60 first time buyers to purchase a property. The report outlines how the scheme has worked and seeks approval to set up a second scheme.

Recommendation(s)

That the Executive;

1. agrees the establishment of a Local Authority Mortgage Scheme as per the criteria set out in the report:-
 - (i) To set a maximum limit for total indemnity of for the scheme of £1 Million
 - (ii) For the scheme to be open to all qualifying post codes within the Borough of Trafford
 - (iii) For a maximum loan size of £190,000. The maximum indemnity value per property would be £40,000
 - (iv) That the Council shall indemnify the Council's Monitoring Officer in relation to any liability that she may personally incur to Lloyds TSB under the LAM scheme in relation to the provision of a legal opinion regarding the Council's authority and capacity to i) to participate in the LAM scheme and ii) to enter into the necessary contractual documentation with Lloyds TSB
 - (v) For the Council to enter into an indemnity deed with Lloyds TSB and
2. recommends to Council:
 - i) the addition of £1 Million, in respect of the cash backed indemnities, to the 2013/14 Capital Programme;
 - ii) that additional borrowing be approved in the sum stated in the report and
 - iii) the changes to the prudential indicators as detailed in the report

3. that this is an urgent decision not subject to call in given the associated report to Council on the 30th April.

Contact person for access to background papers and further information:

Name: Richard Roe
Extension: 4265

Background Papers: None

Implications:

Relationship to Policy Framework/Corporate Priorities	This report relates to the corporate priority economic growth and development.
Financial	Under the current arrangement the Council receives an interest return of 4.41% for the duration (5 years) with the majority of this income received being placed in a reserve to be used to fund any defaults over this period. A second tranche of £1m would be funded via prudential borrowing incurring interest costs of approximately £18k p.a. which would be offset by the interest received from LloydsTSB of approximately £(21.5)k p.a.
Legal Implications:	These are covered within section 4 of the report.
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	Not applicable
Public Health Implications	Not applicable
Health and Safety Implications	Not applicable

1.0 Background

- 1.1 On 19th March 2012 the Executive approved that the Council establish a Local Authority Mortgage scheme, with Lloyds TSB. The scheme provides assistance to first time buyers to purchase a property in Trafford and is intended in the current housing market, to both assist individual households to get their foot on the housing ladder, and to provide a boost to the wider market overall. The scheme launched officially in May 2012.
- 1.2 The scheme is aimed at first time buyers, providing help for potential buyers who can afford mortgage payments - but not the initial deposit – to get on to the property ladder. Under the scheme, the Council was be able to specify the maximum loan size, and post codes (in terms of property location) covered by the scheme. If a potential buyer meets the strict credit criteria applied by the lender the Council provide a top-up indemnity to the value of the difference between the typical Loan to Value (LTV) i.e. 75% and a 95% LTV mortgage. The potential buyer thereby obtains a 95% mortgage on similar terms as a 75% mortgage, but without the need to provide the substantial deposit usually required.
- 1.3 The Council provided the indemnity through a £2million deposit with LloydsTSB, which is in place for five years. The Council set a maximum loan size of £190,000, with the maximum indemnity value per property of £40,000, with the scheme covering all Trafford post codes. It was estimated that the scheme would provide assistance to 50 – 70 first time buyers.

- 1.4 Nationally there have been some modest signs of improvement in activity in the housing market. Gross mortgage lending in February 2013 increased 1% on last year, and first time buyer numbers increased by 25% from January 2012 to January 2013. It should be noted though that these increases were against a low base, and gross mortgage lending in 2012 was 61% lower than the 2007 peak.
- 1.5 As at the end of December 2012 forty four local authorities had launched mortgage schemes, with 57 schemes in operation (as a number of authorities have established 2nd and 3rd round schemes). Collectively these schemes have supported 838 house purchases and £93 million of mortgage lending. As at 31 December 2012 there had been no mortgage defaults on mortgages supported through the various schemes in operation.

2.0 The scheme in operation

- 2.1 The scheme has proved popular and successful. As at the end of February 2013, 53 first time buyers had been assisted to purchase properties, with a further 11 households approved and waiting for property purchasers to be completed. Combined, the scheme will have supported over £9 million of mortgage lending.
- 2.2 The scheme is now closed to new applications, and some households who have had their mortgage application approved have also been informed that their application cannot progress as the indemnity provided by the Council has been fully utilised.
- 2.3 The table below sets out headline data on how the scheme has operated. The scheme has supported house purchases across the Borough, and all but two first time buyers were a Trafford resident prior to their purchase (see map attached at appendix A for location of properties bought).

Average property value	£141,162
Average loan value	£132,347
Average Loan to Value percentage	93.5%
Average age of first applicant	29
Type of property purchased: (as at the end December 2012, including offers completed and not completed)	
House – detached	2
House – semi	28
House – terraced	32
Maisonette	2
Residence, by ward of first applicant	Number
Flixton/Urmston	19
Sale	19
Altrincham	11
Stretford	10
Partington	2
Old Trafford	1
Out of Trafford	2

2.4 Following the launch of the scheme there has been an increase in activity in the local housing market with an overall increase in house sales in the first three quarters of 2012 compared to the same period of the previous year, as set out below:

	Q1	Q2	Q3	Q4	Total
2010	565	733	795	674	2,767
2011	515	653	745	770	2,683
2012	634	641	810	N/A	2,085
Change 2011 to 2012	+119	-12	+65	N/A	+172 (as at end Q3)

2.5 Compared to England and Wales and Greater Manchester as a whole, transactions in the Trafford housing market have performed strongly in the current year:

	Change in the number of property sales		
	England & Wales	Greater Manchester	Trafford
% change 2010 to 2011	- 0.19% $\text{\textcircled{E}}$	- 0.83% $\text{\textcircled{E}}$	- 3.0% $\text{\textcircled{E}}$
% change 2011 to 2012 (based on activity at the end of Q3 of each year)	+0.65% $\text{\textcircled{O}}$	- 3.5% $\text{\textcircled{E}}$	+ 9.0% $\text{\textcircled{O}}$

It is not possible to identify how many of these transactions were directly as a result of the mortgage scheme, other than the sales to first time buyers, as we do not have information on the length of the sales chain associated with each purchase. However, the evidence strongly suggests that the scheme has met its objective of increasing movement in the housing market.

2.6 It is also known that property sales have a wider microeconomic benefit as house buyers purchase new carpets, white goods etc. Therefore in addition to the direct impact on the Trafford housing market the scheme will have provide a local economic boost, though this cannot be quantified at the moment. LloydsTSB are undertaking some research on the impact of LAMS on local economies, and this research will be shared once available.

3.0 Future Proposals

3.1 In the Budget on the 20th March the Chancellor announced details of a 'Help to Buy' scheme, which will provide a Government backed indemnity house purchases up to £600,000. The scheme applies to both new built and previously occupied properties and to new sales and re-mortgages. Details of the scheme are still to be fully developed, but it is expected to launch in January 2014 and will provide similar support to home buyers as the Council scheme.

3.2 In view of the success of the existing mortgage scheme, and the interregnum until the Government scheme is established, it is proposed to proceed with a second round of the Trafford mortgage scheme. This would enable those applicants to the first round whose mortgage applications were approved, but then halted due the Council indemnity being fully utilised, to proceed to purchase. Discussions will take place between the Council and Lloyds to minimise the level of potential over subscription for the proposed second scheme.

- 3.3 LloydsTSB has indicated that they would be interested in running a second scheme in Trafford, given the initial success of the first scheme. The minimum level of deposit is £1 million.
- 3.4 The second round scheme will be on the same basis as the initial arrangement:
- § A “cash backed” scheme with Lloyds TSB;
 - § Scheme to apply to all Trafford post codes;
 - § A maximum loan size of £190,000. The maximum indemnity value per property would be £40,000;
 - § A total indemnity value of £1.0 Million;
 - § Provide assistance to 25-35 First Time Buyers.
- 3.5 Similarly, the criteria set by Lloyds TSB will continue apply:
- Only those who can meet the lending criteria and can sustain payments would be eligible;
 - Right to Buy properties would not be eligible;
 - New build homes would not be eligible;
 - Apartments would not be eligible;
 - There will be no residency restrictions (i.e. applicants who live outside Trafford will not be excluded);
 - Full post codes that cross authority boundaries will be excluded.
- 3.6 The additional amount of indemnity to be provided by the Council under this second tranche is £1 million and in accordance with the terms of the indemnity, the Council will be required to place a deposit with the lender for this amount at the commencement of this scheme. In return, the Council will receive annual interest of approximately £(21.5)k i.e. 2.15% for the duration of the scheme (5 years). This receipt could be added to the current reserve established through the first tranche in order to offset any potential risk of default by any of the mortgagees. Upon completion of the indemnity period, funds are repaid back to the Council with interest received annually.
- 3.7 In accordance with legislation, the amount advanced under this option will be deemed as capital expenditure and will therefore need to be reflected in the Council’s capital investment programme where it will be funded from prudential borrowing, incurring interest costs of approximately £18k p.a. The previous tranche was financed from the LSVT VAT shelter but this reserve is now largely committed. Minimum Revenue Provision (annual repayment of debt) would not need to be provided as the repayment from the bank at the end of the scheme would be used to offset the liability. This approach is in accordance with the confirmed accounting procedure issued by the Council’s treasury management advisers, Sector, and has been adopted by other Councils taking part in this scheme.

4. Legal implications

- 4.1 The Council has the necessary statutory legal powers to participate in the Scheme by virtue of sections 435 and 442 of the Housing Act 1985 as amended (the Act), whereby under section 435 of the Act a local authority is permitted to advance money to a person for the purpose of acquiring a house and under Section 442 of the Act whereby a local authority is permitted to grant an indemnity to a lender to give a potential buyer a mortgage. In particular, sub-section (1) states that a local

authority may enter into an agreement with a person or body making an advance on the security of a house, whereby in the event of default by the mortgagor the authority binds itself to indemnify the mortgagee in respect of the mortgagors outstanding indebtedness. In addition, sub-section (1A) of section 442 of the Act requires that the advance has to be for a purpose specified in sub-section (1) or (1A) of section 435 of the Act which includes acquiring a house.

4.2 The Scheme has been structured to comply with the state aid requirements of EU State Aid regulations and the public procurement risk is considered low.

5. Prudential Indicators

5.1 These indicators are used to demonstrate the affordability and sustainability of the Council's decisions on capital investment. In February the Council approved the latest set of indicators reflecting the decisions taken as part of the last budget round. The proposals in this report have an impact on these indicators and therefore the Council is required to approve the revisions detailed in Appendix B.

5.2 As the additional prudential borrowing associated with this scheme is to be presented to Council on the 30th April this decision is to be taken as an urgent decision, not subject to call in.

Other Options

The Council could decide not to enter into a second tranche of lending.

Consultation

The scheme was publicised on both the Council and LloydsTSB websites and through a number of press releases.

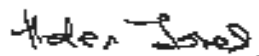
Reasons for Recommendation

To inform members of the success of the Local Authority Mortgage Scheme and to seek approval to establish a second scheme, together with approval for associated changes to the Council budget.

Key Decision (as defined in the Constitution): Yes
If Key Decision, has 28-day notice been given? No

Finance Officer Clearance (type in initials)..... ID.....

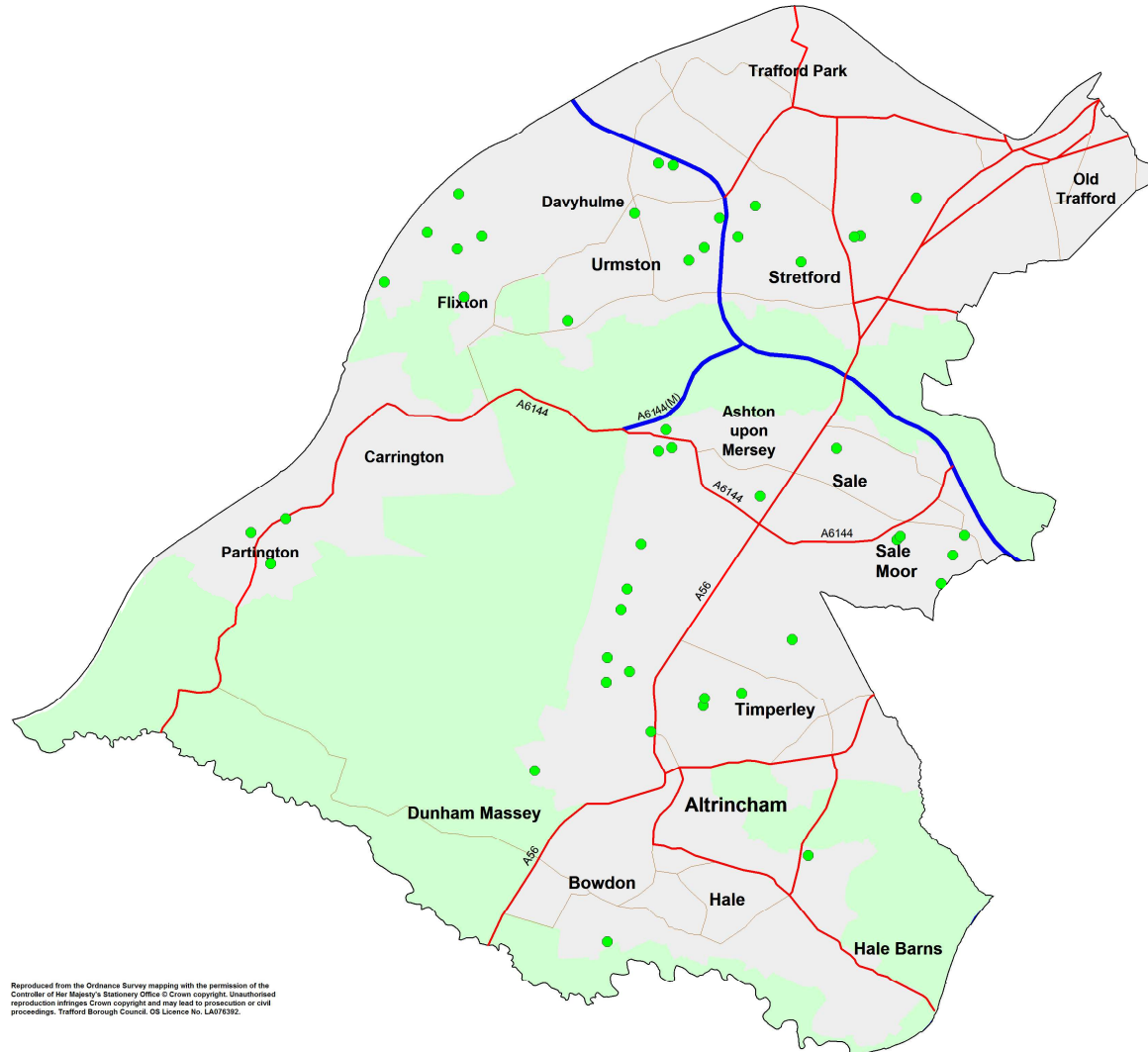
Legal Officer Clearance (type in initials)..... JL



CORPORATE DIRECTOR'S SIGNATURE (electronic).....

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

Appendix A: Map of properties purchased through the Trafford Local Authority Mortgage Scheme



Appendix B

Prudential Indicators

	2013/14	2014/15	2015/16
	Updated	Updated	Updated
Capital Expenditure (£m)	43.7	31.0	11.3
The overall capital budget will increase by £1m in 2013/14 as a result of the proposed new investment			
Capital Financing Requirement (£m)	149.1	146.2	141.3
This reflects the Council's underlying borrowing requirement to support its current and historical capital expenditure.			

The above indicators take into account the proposed investment in Street Lighting included elsewhere on the agenda.