TO: THE EXECUTIVE
13 JULY 2010

REVIEW OF HOUSING STRATEGY PROGRAMMES
Director of Environment Culture and Communities

1 PURPOSE OF DECISION

1.1 The purpose of this report is to seek member's consideration of changing the allocation of funding in the housing strategy programmes. The programmes were agreed by members in July 2009 and due to residential market conditions some elements of the programme have proven difficult to deliver. In addition the report proposes a new scheme to enable households to buy a home in Bracknell Forest with help from the Council.

2 RECOMMENDATIONS

2.1 That an equity share scheme to enable first time buyers to buy a home is established in Bracknell Forest.

2.2 That, subject to the decision at 2.1, £1 million is allocated from the existing housing capital programme to support the equity share scheme in 2010/11 to fund a maximum of 20 equity shares in this financial year.

2.3 That the delivery of the equity share scheme is managed externally from the Council.

2.4 That the revised housing strategy programme of spend as set out in Appendix A.

3 REASONS FOR RECOMMENDATIONS

3.1 Executive agreed the housing strategy spending programme in conjunction with the housing strategy in July 2009. There were a number of schemes within the programme that have not taken place either because of the condition of the residential property market or the improved performance of the Council in terms of homeless prevention.

3.2 The Council had agreed to allocate £100,000 in 20019/10 to a home loan scheme. The basis of the scheme was to provide a loan with a five year repayment holiday to act as a deposit for those households who wished to purchase a home due to the increased demands from lending institutions. It was found the lending institutions would still require a substantial deposit even after the provision of the home loan and as such the product has not been taken up.

3.3 Secondly, the Council allocated over £1million in 2009/10 to finance the purchase of land for residential development. Property services have been unable to identify any opportunities that represent good value for money for the Council in the current market. Very little property currently on the market with developers holding on waiting for improvement in market conditions

before they intend to sell. What does come to the market can command a premium due scarcity value. It is recommended that this approach is not continued and alternatively an equity share scheme is established.

3.4 The Council agreed to establish a project to purchase properties to rent to homeless households, the temporary to permanent scheme and allocated £250,000 in 2009/10. The intention of the scheme was that properties would be purchased to replace the properties that the Council leased. One property was purchased in 2009/10 but due to the improved performance of the Council in terms of homeless prevention it has not been necessary to replace the leased properties that have been given up.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Council's housing strategy programmes are funded by the proceeds of the stock transfer. The Council committed to invest £17.250 million and deliver at least 250 affordable housing units. Therefore, the programmes have been recommended to address that target.

4.2 The Council could continue with the current programmes. However, the current state of the residential property market means that funding for the supply of new housing is likely to remain unused. The market conditions lend themselves to promoting a product that provides support so that households can purchase a home taking advantage of the competitive pricing of property at the moment. Hence, the recommendation to establish equity share scheme which will provide households the financial support to buy a home of their choice.

4.3 To continue with the temporary to permanent scheme runs the risk of the Council owning property with no homeless households to take up occupation and thus losing rent. Therefore, it is recommended to discontinue the scheme at this time and look to finance permanent affordable housing instead.

5 SUPPORTING INFORMATION

Equity share scheme

5.1 A general consent exists for Council's to set up shared ownership schemes. This gives Council's the powers to sell a lease to a household on a property for a percentage of the equity of a dwelling above 25% and charge a rent on the equity that the Council retains. The Council can use this power to set up a scheme where the Council buys a property selected by a household but then sells that household a percentage of the equity of the property. The household would then be charged rent on the unsold equity.

5.2 It is recommended that the Council sets up an equity share scheme to enable first time buyers to buy a home of their choice. Households will be asked to apply for the scheme and must be resident in Bracknell Forest at the time of application and should have lived continuously in the Borough for at least five years. Applicants will be assessed on a first come first served basis until the allocated funding has been committed. Each household will be assessed on the basis of the income and savings to assess how much they can afford to pay for a property in terms of a mortgage.

5.3 The Council will set maximum purchase prices for different sizes of property based on the average purchase prices derived from independent valuation sources at 1st April each year.

5.4 Once the household has been assessed they will be told how much the Council will be prepared to buy of the home they wish to purchase. The household will identify a home they wish to purchase within that parameter. When they find a home that they wish to purchase they will inform the Council and the Council will make an offer on the property, purchase the property but on a back to back basis sell a long lease to the household if the Council purchases a freehold or a sub lease if the Council purchases a lease. The Council retains the equity that the household cannot afford to purchase. The household will then be charged a rent on the unsold equity which will increase by 1% each year up to a maximum of 5%. The following example shows how this will work:-

Household income assessed as	£ 40,000
Household savings of	£ 5,000
Household purchase potential savings	3 x £40,000 = £120,000 plus £5,000
Total	£125,000

Household wishes to purchase two bedroom property and Council sets maximum purchase price at £175,000

Household finds a two bedroom property they wish to purchase for £175,000 and Council purchases the property selling the household a long lease for £140,000 which equates to 71% of the value of the property. The Council charges the household a rent of 1% of the unsold equity in the first year, £500 or £41.66 a month which will rise by 1% and the increase in the value of unsold equity until it reaches 5% at year 5. So, if by year 5 house price inflation has been an average of 2% compound the initial £50,000 will be worth £55,204 and 5% rent will be £2,760 a year or £230 a month. The household can purchase the unsold equity at any time and in minimum amounts of 5%. The rent will be re-assessed on an annual basis.

5.5 The household will have full responsibility for the repair and upkeep of the property. The property will have to remain their sole residence. The Council would insure the property and recharge. If the household wished to sell the percentage of the property it owned it would have to give first refusal to the Council and if the Council did not exercise its right to purchase the equity the property would be sold jointly on the open market.

5.6 The household will have to meet the Council's costs in purchasing the property and this will be taken into account when calculating the household's affordability levels. Stamp duty will be incurred in the purchase of the properties by the Council and the household depending upon the thresholds. First time buyers are exempt from stamp duty on purchases up to £ 250,000.

5.7 It is recommended that the maximum equity that the Council will purchase is 50% although not more than 20% of the annual allocation of funding will be available to fund that level of equity purchase.

5.8 It is recommended that households can purchase the Council's equity at minimum tranches of 5%.

5.9 It is recommended that households will not be supported to purchase properties more than one bedroom above their household need.

5.10 It is recommended that households will have to meet the Council's costs in setting up the purchase and sale of equity.

5.11 When the property is sold the Council will recoup its equity share at the then market value and this will be available to purchase equity in other properties. As such the Council's investment will generate a return whilst enabling households to buy a home that they would be unable to purchase without the Council's financial help. It should be recognised that the value of the Council's investment can go down and if a sale is forced the Council will lose.

5.12 It is recommended that the Council appoints a suitable qualified external agency to administer the scheme on the Council's behalf. This will enable the scheme to be set up quickly but if the appointment is made on the basis of payments reflecting successful property purchases it will avoid the Council generating any potential abortive costs. The costs of this part of the scheme will be capitalised as a fee for each purchase. It is also intended that the organisation collects the rent charged on behalf of the Council. The costs of rent collected will be netted off the gross rent charged. The market will be tested to ensure the Council gets best value for money.

Revised housing strategy capital programme

5.13 Appendix A contains the recommended allocation of the funding between the three programmes established by the Council's housing strategy. Originally the home loan and temporary to permanent programmes were included but these have been removed for reasons stated earlier. The proposed help to buy a home programme includes a provision of £1 million to fund the equity share scheme reflecting the recommendation in this report. That sum is continued across 20011/12 and increased in 2012/13 to £1.25 million reflecting a potential increase in the value of property over the next couple of years. It is suggested that the programme is reviewed and funding allocated between the programmes based on value for money and how successful the take up has been.

5.14 Additional funding has been allocated to the cash incentive scheme. It is expected 8 families will use the cash incentive product to help them buy a home in 2010/11.

5.15 At present there is one scheme that will potentially lead to the provision of more affordable rented homes in 2010/11 and the funding has been allocated to reflect the spend in this financial year in the enabling more affordable homes programme.

5.16 A provision of £160,000 has been allocated in 2010/11 in the Making Best Use of Affordable Housing Programme to reflect the cost of adapting property owned by an RSL.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The general Consent for Disposal of Part II Dwellings - Housing in Shared Ownership Terms 2005 gives to all local authorities in England and Wales permission to grant a shared ownership lease to any individual who intends to use a dwelling house as their only or principal home

6.4 Risks - also the risk associated with the Mortgage Protection Clause. Since April 2010 a standard shared ownership lease has been produced that the HCA encourages RSLs to use, although not compulsory (the lease as drafted is compulsory for HCA schemes), and there are certain clauses that must appear in shared ownership leases. These include the Mortgage Protection Clause - in essence, if the Borrower default on their mortgage, the Council as Landlord would step in to compensate the Mortgage Company for certain losses sustained by them in the even of the share mortgaged being sold at a loss. For this reason, the mortgage Company needs to ensure that the consent of the Council is obtained to the terms of the Mortgage prior to completion of the transaction.
The loss could comprise the value of the first charge; 18 months' interest;amounts advanced by the Mortgage provider in protecting its security by discharging any arrears of rent, service charges under the lease/ and fees and costs incurred in enforcement. This could thus amount to a substantial sum.

Because the Council is not grant funded in the same way as an RSL or the HCA, it is not compulsory for this clause to be put in to their shared ownership leases. However, it is unlikely that any Mortgage Company would lend to anyone where this Clause was not included, which would obviate the purpose of the scheme. Accordingly, when obtaining the consent of the Mortgage Company to the Lease, they are very likely to require such a clause and the potential for loss to the Council in the event of default must be factored in.

If the Council did sustain a loss in this way, it would be entitled to pursue the Borrower for all its losses; although presumably this might not financially be worthwhile they had defaulted in the first place.

Borough Treasurer

6.2 Following the transfer of the Council's housing stock in 2008 the Council committed to investing over £17m in new affordable housing from the capital receipt. The 2010/11 Capital Programme allows for expenditure of £2.28m in addition to the unspent carry forward from 2009/10, with future years allocations growing to £3.29m and £4.7m by 2012/13. The proposals contained within this report will require the allocations for 2012/13 and 2013/14 to be revisited as part of the 2011/12 Capital Programme.

The nature of the financial risks associated with the scheme are outlined in the report. There are two clear risks associated with the Equity Share scheme. The first would occur should the customer default on their mortgage, leading to the repossession of the property by the mortgage provider. Depending on the economic state of the housing market there is a risk that the Council's initial equity share will be worth less than the prevailing value of

the equity on disposal. The second risk is that of loss of rental income, should the customer be unable to meet their rental commitment.

The scheme envisages using an external agency to administer both the initial scheme (they will market it, assess applications and eligibility, administer purchase transaction and liaison and progress report) in addition to potentially administrating the rental element of the scheme. Some of these costs can be capitalised (and be met from the capital budget allocation) and only for those successful applications, whilst others must be met from revenue. There is no existing budget for these revenue costs, and the intention is to meet the ongoing revenue costs from the rental income received. Any costs over and above this will be met from within existing budget allocations.

Allowance will need to be made for the stamp duty that the Council will be liable for, and the scheme should seek to recover a fair proportion of this from the customer at the outset.

Following the closure of the Council's Housing Revenue Account (HRA), the Council is still regulated under the HRA determinations and as such may be required to re-open its HRA should the number of properties held for housing purposes exceed a nominal value (currently this is 50). A specific direction would be required from the Secretary of State to ensure that the Council is not required to reopen its HRA. Further discussion between the Council and CLG need to take place to clarify the Council's position in relation to the shared equity element of this scheme.

Equalities Impact Assessment

6.3 An equality impact assessment is included with this report.

Strategic Risk Management Issues

6.4 The main risk facing the Council from the introduction of the equity share scheme is that the equity the Council owns in property falls in value. This is not a risk in itself unless the household who owns the majority of the property is forced to sell the property through defaulting on the mortgage and at the time of disposal the Council would realise less than the original value. Although the Council and lending institutions can mitigate that risk by assessing the households ability to afford the purchase and rent costs at the outset it is not possible to mitigate against the household losing their employment. However, given the Council’s housing advice function and ability to support households in such circumstances in the Government mortgage rescue schemes that risk can be mitigated to a certain extent.

The same risk applies to the rent charged on the unsold equity. The risk can be mitigated by the Council seeking early intervention with households who experience difficulty in meeting their payments.

7 CONSULTATION

Principal Groups Consulted

7.1 Households who are registered with the Council for shared ownership housing as well as households who attended a low cost home ownership road show at Bracknell leisure centre.

The Equity share scheme was subject to consultation at the Strategic housing partnership where local lending institutions and estate agents were asked for their views.

Method of Consultation

7.2 Consultation was undertaken by face to face interviews and telephone interviews.

7.3. Representations Received

- Very positive about an initiative that would enable applicants to purchase properties on the open market. Felt there would be more choice over property type and location.

- Understood the concept of sharing equity with the Council and supported the principle of the Council recycling it's investment to help more households in the future.

- Generally agreed with the principle of paying a rent on the equity share (this is in line with existing shared ownership models), and understood the principle behind encouraging households to staircase up by increasing the rental element year on year.

- Asked questions about increasing their percentage share – would want to see steps that were accessible, not making it too expensive too quickly.

- Some applicants felt that the proposed maximum equity share for the Council was quite low and would exclude many potential applicants (at the time of the consultation a maximum of 33% was proposed and the recommendation is that now up to 50% is provided in a minority of cases).

Background Papers
Housing Strategy

Contact for further information
Simon Hendey
Chief Officer: Housing
Environment, Culture & Communities
Direct dial tel. no. 01344 351879
e-mail: simon.hendey@bracknell-forest.gov.uk