

REPORT TO: POLICY AND RESOURCES COMMITTEE - 23 MARCH 2009
REPORT ON: REINTRODUCTION OF MORTGAGES FOR COUNCIL HOUSE SALES
REPORT BY: JOINT REPORT BY HEAD OF FINANCE AND DIRECTOR OF HOUSING
REPORT NO: 118-2009

1 PURPOSE OF REPORT

The purpose of this report is to seek the Committee's approval to the reintroduction of mortgages for council house sales and surplus housing being sold by the Council for first-time buyers in Dundee.

2 RECOMMENDATIONS

It is recommended that the Policy and Resources Committee agree to:

the reintroduction of first-time buyer mortgages for council house sales and private housing as a way of boosting the local economy in the current "credit crunch".

Mortgages to be made available at a maximum loan repayment period of 25 years to council house tenants at 100% of net purchase price after right to buy discount and 100% of purchase price for private purchasers buying the last property in a block of 3 or more properties which have been withdrawn from the letting pool and marketed for sale on the open market.

The Head of Finance is authorised to assess the income verification evidence submitted with the mortgage application form for the purpose of assessing the maximum amount of loan to be offered. Also the maximum loan repayment period will be determined taking account of the individual's likely future period of employment leading up to normal retirement age.

- 2.4 Appropriate publicity material is made available through the Housing Division promoting the availability of mortgage funding for initially a period of one year to prospective council house purchasers and private purchasers buying the last property in a block of 3 or more which have been withdrawn from the letting pool.
- 2.5 A further report be submitted to this committee within one year to assess the implications of the changing economic climate and the impact of the recommendations in this report.

3 FINANCIAL IMPLICATIONS

- 3.1 With the introduction of the Prudential Code for Capital Finance in Local Authorities, the rules for borrowing are strictly determined in terms of capital expenditure as defined by the CIPFA/LASAAC Statement of Recommended Practice (SORP). Since mortgages do not comply with the definition of capital expenditure as defined in the SORP the Council is unable to borrow for this expenditure unless a dispensation is applied for and approved by the Scottish Government.
- 3.2 The Council currently has revenue resources available to fund a certain level of mortgages and it is proposed that a sum of £5.5 million is earmarked for this purpose, ie council mortgages £1.5 million and private mortgages £4 million. The Council will receive repayment of these loans over a maximum 25 year period comprising principal repayment and variable interest charge.
- 3.3 The maximum mortgage offered to borrowers will be assessed using a multiplier of 3 for the applicant's annual income plus a multiplier of 1 for spouse's annual income.
- 3.4 The rate of interest for all existing and new loans will be 3.93% and this will be varied from time to time as advised by the Scottish Government Housing and Regeneration Directorate.

4 EXISTING LEGISLATION

- 4.1 The Council has had an ability to grant loans under various housing legislation for the purposes of housing at least from the 1960's.
- 4.2 Until 30 September 2002 the Council was obliged in terms of Section 216 of the Housing (Scotland) Act 1987 to consider as lender of last resort an application for loan from a tenant seeking to exercise their right to purchase a house, and where the Council was satisfied that the information contained in the loan application was correct, serve on the applicant an offer of loan. This was repealed by the Housing (Scotland) Act 2001 which came into effect on 30 September 2002.
- 4.3 However, since 2002 the Council has continued to have discretionary powers to grant loans under Section 214 of the Housing (Scotland) Act 1987.
- 4.4 Section 214(1) states "that a local authority may advance money to any person for the purpose of - (a) acquiring a house..."
- 4.5 Currently the standard rate at (a) above as advised by the Scottish Government Housing and Regeneration Directorate is 3.93% with effect from 2 February 2009.

5 EXISTING HOUSING LOAN PORTFOLIO

- 5.1 The Council currently has 73 mortgages with a total balance outstanding of approximately £800k at 31 March 2008. The funding for these mortgages was through borrowing and the outstanding debt currently sits on the Other Housing Account with the principal loan repayments being capital receipts towards the financing of the General Fund Capital Plan.
- 5.2 More recent statistics on council house sales and housing loans advanced are as follows:-

	House Sales				Housing Loans		
	Anticipated No.	Actual No.	Total Value £	Average Value £	No.	Total Value £	Average Value £
2005/06	200	260	5,537,398	21,298	9	146,400	16,267
2006/07	240	243	6,050,083	24,897	12	192,696	16,058
2007/08	240	216	6,231,788	28,851	10	270,980	27,098
2008/09 (to date)	180	109	3,284,213	30,130	3	84,400	28,133

- 5.3 The 3 years 2005/06 to 2007/08 demonstrate a reducing performance in actual to budgeted sales with a corresponding negative impact on the capital receipts available as a component of the finance available to fund the HRA Capital Plan.
- 5.4 In addition the small proportion of housing loans to the total number of house sales would indicate that purchasers were sourcing finance from the principal lending institutions including banks and building societies and the Council was lending as lender of last resort for a limited number of loans.

6 LEAN SERVICES REVIEW

- 6.1 Early in 2008 the Council's Organisational Development Officer completed a Lean Services Review relating to Council House Sales and in particular the Council's performance for the key statutory performance indicators for a) the percentage of house sales completed within 26 weeks and b) the average for council house sales.
- 6.2 One of the outcomes from this review was applications for right to buy loans had significantly increased the overall processing times for council house sales with over 80% of the current 'live' loan applications received between 1993-2007 taking more than 182 days to process.

- 6.3 Consequently, since the provision of housing loans was no longer a lender of last resort legislative requirement and research indicated most other local authorities in Scotland had withdrawn this financial service, a decision was taken to stop this financial service in Dundee also.

7 CURRENT SITUATION

- 7.1 The current situation for the HRA Capital Plan in 2008/09 as indicated at paragraph 5.2 above is that council house sales are likely to be significantly below the anticipated 180 level and the latest projections indicate a shortfall in capital receipts of approximately £1m.
- 7.2 It can reasonably be assumed the impact of the "credit crunch" and squeeze on mortgage funds is a significant contributory factor in the reduction in anticipated council house sales.
- 7.3 The Council of Mortgage Lenders (CML) has reported the shortage of mortgage funding and reduction in the number of active lenders has reshaped the mortgage landscape in the space of a year. Last year the number of loans to first-time buyers fell by 46% and widespread rationing by lenders meant that first-time buyers had to put down an average deposit of 22%.

8 REINTRODUCTION OF MORTGAGES FOR COUNCIL HOUSE SALES

- 8.1 The reintroduction of mortgages for council house sales at 100% of selling price is proposed as a suitable council initiative to assist the local economy and help first-time buyers in their aspirations of owning their council house.
- 8.2 Currently prospective council house purchasers can benefit from one of two discounts schemes available as follows:-

Preserved Right to Buy (PRTB)

Flats and Maisonettes

Discounts start at 44% of market value (after 2 year qualifying period) and rises by 2% per year to a maximum of 70% (after 15 years).

Cottages

Discounts start at 32% of the market value (after the 2 year qualifying period) and rises by 1% per year to a maximum of 60% (after 30 years).

Modernised Right to Buy (MRTB)

Flats, Maisonettes and Cottages

There is no distinction between flats, cottages and maisonettes re discount entitlement.

Discount starts at 20% of market value (after the 5 year qualifying period) and rises by 1% per year to a maximum of 35% (after 20 years), however, there is a ceiling of £15,000 as a maximum discount.

- 8.3 Since the Council would have a standard security over the property it is anticipated the equity margin between the house value and the net selling price possibly requiring a 100% mortgage would provide the Council with a level of protection against further falls in property prices in the event of the borrower defaulting and the home having to be repossessed and sold on the open market.
- 8.4 It is proposed the Council budget to provide 50 Council tenant loans over the coming year at £30,000 each, ie £1.5 million.
- 8.5 Reference is made to Article IV of the Minute of the Meeting of the Housing, Dundee Contract Services and Environmental Services Committee meeting of 10 December 2007.

- 8.6 A recommendation in this report was the Council would offer for sale on the open market properties from its stock which became void and are the sole remaining property in a block of 3 or more properties. This report stated there were 313 council owned blocks where there is only one council house left.
- 8.7 To assist in the sale of these properties it is proposed that the Council offers 100% mortgages.
- 8.8 In these circumstances no right to buy discount will be applicable and the value of loans will accordingly be significantly higher than council house tenant loans. The report at paragraph 9.1 above also gave examples of various properties where the highest private sale of same or similar properties ranged from £100,000 to £115,000. Given the reduction in the property market since the date of this report it would appear appropriate to estimate an average sale price of approximately £80,000 for these properties at the present time.
- 8.9 It is proposed the Council budget to provide 50 private sector loans over the coming year at £80,000 each, ie £4 million.

10 THE SCOTTISH GOVERNMENT

- 10.1 The Scottish Government has allocated £250m funding from 2008-2011 to support hard-pressed first-time buyers to get onto the housing ladder through the establishment of a new low-cost initiative for first-time buyers (LIFT).

LIFT covers a broad range of support for first-time buyers including:

- new supply shared equity scheme to allow first-time buyers to buy a new build property;
- the Open Market Shared Equity Pilot (OMSEP) - a pilot scheme to allow first-time buyers to buy a property on the open market in areas where affordability is a key problem for buyers.

- 10.2 OMSEP scheme is designed for buyers who are normally expected to take an equity stake of between 60 and 80 per cent of the value of a home, with the government's equity stake being used to pay for the rest. The scheme can help first-time buyers to access the market even where they do not have a large deposit available as the government's equity stake can effectively be treated as a deposit by many lenders. The OMSEP has been piloted in 10 local authorities and is expected to be extended across Scotland for a one year period from early in 2009.
- 10.3 The Finance Department has written to the Head of Local Government Division at the Scottish Government indicating the intention to submit a report to Dundee City Council's Policy and Resources Committee recommending the introduction of council funded mortgages. The response to this letter was positive subject to the council funding such lending wholly from existing resources as borrowing would require Scottish Government dispensation. In addition the letter also indicated that the Scottish Government Housing Division was currently considering measures for boosting local economies and although the response was positive no details of proposed initiatives have so far been made available.

11 CONCLUSION

- 11.1 There is evidence available from various sources that a number of councils south of the border have already or are actively considering returning to offering mortgages for first-time buyers with a view to getting the housing market moving again, stopping the crash in house prices and help bring the economic recession to a swifter end.
- 11.2 While the Scottish Government has already announced measures to help people meet their aspirations to become home owners where that is suitable for them and further initiatives may soon be announced, it is suggested this report offers Dundee City Council the opportunity to lead the way for other local authorities in Scotland with an initiative which can complement other measures being progressed by the Scottish Government.

12 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

13 CONSULTATION

The Chief Executive, Depute Chief Executive (Support Services) and Depute Chief Executive (Finance) have been consulted in the preparation of this report.

14 BACKGROUND PAPERS

Housing (Scotland) Act 1987
Report to the Housing, Dundee Contract Services and Environmental Services Committee,
Report No 624-2007

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