

# REPORT TO COUNCIL

**REPORT OF:** Councillor Mike Taylor - Resources Portfolio Holder

**REPORT NO:** SD032

**DATE:** 3 May 2012

<b>TITLE:</b>	<b>Local Authority Mortgage Scheme – Review of Policy for Local Scheme Eligibility</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Key decision	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Cllr Mike Taylor Resources Portfolio Holder	
<b>CONTACT OFFICER:</b>	Daren Turner <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> 01476 40 63 10 Lucy Youles <a href="mailto:l.youles@southkesteven.gov.uk">l.youles@southkesteven.gov.uk</a> 01476 40 61 05 Richard Wyles <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a> 01476 40 62 10	
<b>INITIAL IMPACT ASSESSMENT:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required: Not applicable
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	Report to Cabinet - SD01 Local Authority Mortgage Scheme - 5 December 2011 Report to Cabinet – SD30 – Local Authority Mortgage Scheme – 6 February 2012 Report to Resources PDG HOF186 – Local Policy for Scheme Eligibility – 19 January 2012 Report to Council - SD031 Approval of Scheme – 1 March 2012	

## 1. RECOMMENDATIONS

- 1.1 It is recommended that Council note progress to date with the establishment of a Local Authority Mortgage Scheme.
- 1.2 It is recommended that Council considers the review of the Local Policy for Scheme Eligibility attached to this report as Appendix A in accordance

with Lloyds Bank plc (Local Lend a Hand Scheme) requirements and approves the amendments to that policy as follows:

- 1.2.1 Clause 5 of the policy approved at the Council meeting of the 1<sup>st</sup> March 2012 is amended at bullet point 2 to read:  
“Only applicants wishing to purchase a property which is situated in the district of South Kesteven in accordance with qualifying postcodes will be eligible. Applicants may currently reside outside the district boundaries”
- 1.2.2 Clause 5, and 8 - the maximum loan size per application is up to and including £118,750.

## **2. PURPOSE OF THE REPORT**

- 2.1 To update progress made in setting up the South Kesteven scheme, in partnership with Lloyds Bank plc, since council approved the pilot at its meeting on 1 March 2012.
- 2.2 To clarify and update the terms of the Local Policy for Scheme Eligibility in accordance with the requirements of Lloyds Bank plc in respect of the Local Authority Mortgage Scheme.

## **3. DETAILS OF THE REPORT**

- 3.1 Since the decision to move ahead with the pilot scheme, officers have progressed with the implementation of the scheme and have been working with Lloyds Bank plc in respect of the preliminary work. To date, a deposit account has been established and all legal documentation has been received and is being reviewed ready for completion. A procedure chart is shown at Appendix B and the Authority is well advanced and is currently at action 8 on the chart.
- 3.2 At its meeting in March 2012, Council determined to approve the policy of the pilot scheme's eligibility which is attached to this report at Appendix A showing the amendments required. The policy is a requirement of participation in a Local Authority Mortgage Scheme.
- 3.3 The scheme eligibility agreed by Council on 1 March 2012 included provision that the scheme covers every property within the boundary of the district and that it be limited for the purchase of properties up to a value of £125,000.
- 3.4 In determining the criteria for scheme eligibility, evidence of property sales within the district, the requirements of scheme operators, the current stamp duty levels and the criteria for national government schemes available were considered. Clarification of the detailed requirements of Lloyds Bank plc has now been received. This has confirmed that the policy is required to state the maximum loan size the Authority will permit rather than the property valuation. In line with the original decision on the pilot, the proposal is to set the loan size to £118,750 which is based on a property valuation of £125,000 less a 5% deposit of £6,250. Shown as follows:

Property value	£125,000
SKDC indemnity (20%) of value	£25,000
5% deposit by applicant	£6,250
Loan to value (75%)	£93,750
Total loan to applicant (£93,750+£25,000)	£118,750

Given the requirement that the maximum loan size must be stated rather than the property valuation, it is possible that a property value could exceed £125,000. However, this has the benefit of allowing applicants to access properties that are valued at a higher level due to their geographical location particularly in the south of the district or enable applicants to place a greater deposit than 5% but less than 25%. A further benefit for the Authority is the associated reduction in the financial exposure of the indemnity value and, as such, the Authority's scheme deposit can be maximised to assist with more applications. This is demonstrated in the scenario below:

Property value	£156,250
SKDC indemnity (1%)	£1,563
Deposit by applicant (24%)	£37,500
Loan to value (75%)	£117,187
Total loan to applicant (£117,187+£1,563)	£118,750

3.5 A further point of clarification is in respect of the qualifying postcodes that are published when the scheme is launched. A list of qualifying post codes must be attached to the signed agreement with Lloyds Bank plc. The qualifying postcodes are those that are wholly within the boundary of this district and therefore cannot overlap into other neighbouring districts. This is a stipulation that all lenders will require and all local authorities taking up local schemes will incorporate this into their policies. This ensures that properties that are outside the South Kesteven boundary are not considered for inclusion into the scheme. There is a potential for properties on the boundary of the district being outside the scheme as they 'share' the postcode with another district, or county. This is an operational requirement that all lenders are stipulating. In summary, there are 3,783 postcodes in the South Kesteven district of which 3,644 are wholly within the district and therefore 139 postcodes will be excluded from the published scheme.

3.6 As the scheme has been agreed by Council as an initial pilot, the impact will be monitored, implications and any possible mitigation considered before any proposal to move forward to a fully established scheme.

#### **4. OTHER OPTIONS CONSIDERED**

4.1 To implement the scheme, no other options can be considered.

#### **5. RESOURCE IMPLICATIONS**

5.1 There are no further resource implications arising from this report.

**6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)**

- 6.1 Risk assessment for the provision of the scheme has been carried out by Sector, the Council's Treasury Management advisors

**7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

- 7.1 The equality impact assessment has been updated to reflect these changes. Any impact can be justified to implement the scheme.

**8. CRIME AND DISORDER IMPLICATIONS**

- 8.1 None

**9. COMMENTS OF FINANCIAL SERVICES**

- 9.1 The proposed changes to the scheme do not, in themselves, have a financial impact on the Authority as they specifically relate to the scheme eligibility criteria.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

- 10.1 Local authorities have the power to provide the indemnity required by scheme providers in accordance with s.442 of the Housing Act 1985 (as amended). The indemnity in the scheme proposed requires the deposit of security with a bank. Individual indemnities will be required in respect of legality. It is essential that criteria for eligibility to the scheme are determined. Legality will depend on the policy created to adopt the scheme, how that policy will contribute to the Council's strategic objectives and priorities, the process for financing the scheme, the eligibility criteria and, generally, how the policy will be implemented. Any policy approved at Council should be incorporated into the Council's Housing Strategy and Treasury Management Policy.

**11. APPENDICES:**

Appendix A – Amended Policy of Local Scheme Eligibility  
Appendix B – Lloyds Scheme Process