

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

5 JULY 2007

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

**Housing & Community Safety – Lead Cabinet Member - Cllr. Nelson
Regeneration and Transport - Lead Cabinet Member Cllr Cook**

MAJOR HOUSING REGENERATION SCHEMES – HOMEOWNERSHIP TOOLKIT: RELOCATION EQUITY LOANS

1. Summary

This reports seeks approval for financial assistance offered to homeowners in housing regeneration areas with repayable 'Relocation Equity Loans'.

2. Recommendations

1. Members approve the introduction of Relocation Equity Loans and delegate approval of the final terms and conditions of the scheme to the Corporate Director of Development and Neighbourhood Services in consultation with the Cabinet Members for Housing & Community Safety and Regeneration & Transport.
2. That when the Relocation Equity Loans are eventually repaid to the Council, the funding is ring fenced to provide further loans, in the first instance for other relocating homeowners and then first time buyers.

3. Members Interests

- 3.1 Members (including co-opted members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (paragraph 8) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.
- 3.2 Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (paragraph 10 of the code of conduct).
- 3.3 A Member with a prejudicial interest in any matter must withdraw from the room where the meeting is being held, whilst the matter is being considered; not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (paragraph 12 of the Code).

- 3.4 Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc.; whether or not they are a member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting, and if their interest is prejudicial, they must also leave the meeting room during consideration of the relevant item.

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**MAJOR HOUSING REGENERATION SCHEMES – HOMEOWNERSHIP TOOLKIT:
RELOCATION EQUITY LOANS**

SUMMARY

This reports seeks approval to provide financial assistance to homeowners in housing regeneration areas with repayable 'Relocation Equity Loans'.

RECOMMENDATIONS

1. Members approve the introduction of Relocation Equity Loans and delegate approval of the final terms and conditions of the scheme to the Corporate Director of Development and Neighbourhood Services in consultation with the Cabinet Members for Housing & Community Safety and Regeneration & Transport.
2. That when the Relocation Equity Loans are eventually repaid to the Council, the funding is ring fenced to provide further loans in the first instance, for relocating homeowners, and then first time buyers.

INTRODUCTION

1. Stockton Borough Council (SBC), through its 'Homeownership Toolkit', currently provides a range of discretionary financial assistance schemes to homeowners required to relocate through demolition. Cabinet have previously considered and approved the Homeownership Toolkit on 14th August 2003 (Min. 357), 18th December 2003 (Min 741), and 29th April 2004 (Min 110).
2. Over the last 3 years at Hardwick, Mandale, and Parkfield, the Council has successfully relocated over 160 homeowners. Over 80 of these have been assisted to purchase another home through the 'Homeownership Toolkit'. One of the essential factors of the Council's success with its major housing regeneration schemes has been the sensitive and flexible way it has dealt with its homeowners.

REVIEW OF THE PRIVATE SECTOR HOUSING ASSISTANCE SCHEME

3. Reviewing the quality and type of services we deliver for our residents is essential if the high performance standards of the Council are to be maintained.
4. One of the schemes within the Homeownership Toolkit, the Private Sector Homeownership Assistance Scheme (HAS), provides non-repayable grants of up to £15,000 to help bridge the gap between the value of the homeowners existing property and the new one. Whilst providing an essential lifeline to homeowners, a review of the scheme has revealed the following:

- a) Value for Money - To date, across the 3 major housing regeneration schemes we have provided over £700,000 of non-repayable grants. The anticipated demand from the future homeowners is that somewhere in the region of another £2million in grants will still be required. These grants only benefit one end user despite the fact the recent Housing Needs Assessment has identified a massive affordability problem throughout the Borough. Recycling the receipts through loans will clearly provide much better value for money.
- b) 'Fit for Purpose' - A problem identified with the current scheme is that the £15,000 grant is often not enough to bridge the gap and therefore it is not always 'fit for purpose'. However, a higher non-repayable grant cannot be justified as the grants are discretionary, funded from the public purse and are in addition to all of the statutory payments and compensation homeowners receive.
- c) Shift in National Government Approach – From 2009/10 Local Authorities will be required to provide loans for face-lift works, and will no longer be allowed to give grants. This shift from grants to loans is also being encouraged when relocating residents from regeneration areas.
- d) Shift in Local Government Approach – Consultation with other Local Authorities and Housing Market Renewal Pathfinders has shown that a general shift from grants to equity loans has begun.

5. In light of this, the Housing Regeneration Team has begun exploring and developing an equity loan scheme which addresses the issues identified from the review above.

THE RELOCATION EQUITY LOAN

- 6. The Relocation Equity Loan differs from other homeownership initiatives in that there is no interest payable on the loan, no monthly repayments and no monthly rents. The homeowner also owns 100% of their home. This makes it a more attractive proposition than shared ownership for instance, which is unpopular because of the monthly mortgage and rent payments, which make it an unaffordable option for many residents.
- 7. A Relocation Equity Loan will be secured by means of a legal charge on a property. The loan is defined as a percentage of the market value of the property and the borrower pays no charge or interest. The loan does not have to be repaid until the point of resale, and then is repaid at the same percentage of the original loan but based on the new market value at the time of the sale.
- 8. In this way the lender shares the risk with the owner. If the property increases in value, both parties share the benefit. If the property depreciates, both share the loss.

Example:

An owner-occupier affected by the demolition receives £75,000 from the council for the sale of their unsustainable property.

The owner wants to buy a new property priced at £100,000.

The owner puts the £75,000 towards the new property (75% of the value).

The Council provides a Relocation Equity Loan of £25,000 to bridge the gap, secured as a legal charge of 25% of the market value of the property.

When the property is sold on, house prices have risen and the same property now has a market value of £130,000.

The Council redeems its 25% share in the property, which is now £32,500.

The owner receives their 75% share of the value, which is now £97,500 less any outstanding mortgage on the property.

A detailed procedural guide is currently being compiled. It is recommended that the final version of this is signed off by the Director of Development and Neighbourhood Services, in consultation with the Cabinet Members for Housing & Community Safety and Regeneration & Transport. However, the sections below summarise the main criteria of the Relocation Equity Loan.

Eligibility

9. The loans will not be means tested, however, only people living in the housing regeneration areas affected by the demolition proposals will be eligible in the first instance. Consultation with other local authorities and homeowners suggests that if they can afford to purchase all of their new home on their own, they will, rather than have to pay a share back to the Council in the future. Therefore, the absence of a means test will avoid delays, red tape and alienating homeowners who fail the means test.
10. The loans are for private owner-occupiers only, not Landlords or their tenants.
11. Residents will be restricted to relocating within the Tees Valley area.

Loan Amount

12. A review of the local housing market and consultation with homeowners has shown that the £15,000 grants that are currently provided are increasingly not enough, therefore loans of up to £25,000 will be available. This amount will be reviewed annually. The increase in the level of assistance should also help to keep the homeowners on board with the regeneration schemes, as the increased amount of assistance should help to compensate for the shift from grant to loan. Applicants will be required to contribute the full amount they received for the sale of their existing home (excluding the Disturbance and minimum Homeless payments).
13. Experience has shown that our homeowners often have unusual circumstances and therefore it is proposed that this limit may be relaxed in exceptional circumstances, at the discretion of the Corporate Director of Development & Neighbourhood Services, in conjunction with the Corporate Director of Resources.

Repaying the Loan & Early Repayments

14. Relocation Equity Loans do not require any regular repayment. The loan is repaid on resale at which point the Council would receive its share of the property back.
15. If they want to, homeowners will be able to repay the loan, in whole or part, at any time prior to resale. As the Relocation Equity Loan is defined as a share of the property value, the property will need to be valued by a qualified surveyor each time the owner wishes to repay part of the Relocation Equity Loan. The owner would bear the costs of valuation for this purpose.
16. It is proposed that a minimum of £5,000 be paid back at any time during the lifetime of the loan due the complex and costly nature of revaluing the property every time part of the loan is repaid.

Repayment Example:

An owner-occupier relocated from a regeneration scheme, purchased a property for £100,000. The homeowner contributed £75,000 (75%) towards the purchase price, and the Council provided a Relocation Equity Loan of £25,000 (25%). The Council's share in the property, which they are entitled to on resale of the property, is therefore 25%.

5 years later, the owner-occupier decides to pay off some of the loan owing to the Council.

The owner-occupier decides to pay £5,000 off the loan.

- ◆ The property is re-valued at £110,000.
- ◆ The Council's share in the property is 25%, and therefore is now worth £27,500.
- ◆ The owner-occupier pays £5,000 off the loan, leaving £22,500 of the loan outstanding.
- ◆ The £22,500 is re-calculated as a percentage still owing on the property, $(22,500 / 110,000 \times 100 = 20.45\%)$.
- ◆ After the owner-occupier has paid off £5,000, the Council's new share in the property is 20.45%.

All costs associated with repayments will be met by the owner-occupier.

17. After relocating, some owner-occupiers will make improvements to their new property. This is likely to enhance its value. In these cases, when the property is sold, it would be unfair for Stockton Borough Council to recuperate the full percentage of the property value that it originally lent. Therefore, at the point of resale the value attributable to improvements made to the property will be taken into account before determining the amount due to the Council. This value will be established through negotiation between Stockton Borough Council's valuer and the owner's independent valuer, if they choose to instruct one. The homeowner will be required to keep all receipts from the improvements, as proof of expenditure.
18. The homeowner will be contacted every year to request they complete a Certificate of Ownership document. The certificate will ask them to confirm details of any owners that live in the property (which will confirm whether the homeowner(s) who took out the loan still own and live in the property that the loan is secured on), details of owners that do not live in the property, and whether they have taken out any further borrowing. The homeowner will also be asked to provide a copy of their buildings insurance schedule to ensure that the property is still adequately insured.

DELIVERY ARRANGEMENTS

19. It is proposed that SBC administers its own loans. Within the region, Bridging Newcastle Gateshead Housing Market Renewal Pathfinder and Redcar & Cleveland Council have already begun offering equity loans. Both of these organisations have opted to pay Northern Counties Housing Association (NCHA) to administer the loans on their behalf. The cost is £750 per loan plus an ongoing annual monitoring and management cost to fund statements and part and full repayments.
20. Sheffield City Council has opted to administer the loans themselves and they now offer this facility to the whole of the Yorkshire and Humber region. In order to build the capacity of the organisation and our staff and utilise the existing skills and experience within the Council, it is the intention to administer the loans in house. In the short term this is quite complicated legally and financially, and there are some small set up costs. In the long-term

though it will be cost effective, as we will not need to pay a different organisation to administer the loans. This approach should also provide a better level of service to homeowners as it will avoid duplication, delays or confusion for homeowners as the Council's own officers would still be required to be the point of contact with the homeowner and process the applications.

21. Legal services and valuations, required in the delivery of the equity loans, on behalf of the Authority, will be delivered in-house by Stockton Borough Council's Legal and Land & Property Services.
22. Once set up and established we may then consider offering this service to other organisations, subject to formal approval.

Responsible Lending

23. The Council will ensure that applicants for a Relocation Equity Loan fully understand the terms and conditions of the Loan and their implications. While the Council cannot provide financial advice, which will be made clear to the applicant, it will provide information on accessing independent financial advice.
24. Council officers involved in the loans service will be CeMAP (Certificate in Mortgage Advice and Practice) qualified, and the policy will be delivered in line with the DCLG Mortgage Sales and Guidance for Local Authorities and Registered Social Landlords (2005).
25. The Relocation Equity Loan scheme has been developed in close liaison with the Council's Legal, Audit, Finance and Land & Property departments.

Timetable

26. Key milestones:
 - Cabinet approval – 5th July 07
 - Policy procedures and documents finalised – 27th July 07
 - Full staff training – September 07
 - Flare IT program developed and installed on staff PCs – September 07
 - Staff CeMAP qualified – October 07
 - Loans service commences – October 07
27. Residents were written to in January 2007, informing them of the impending changes to the Homeownership Toolkit. In addition to this, all literature given to homeowners advises that the grants, which are currently issued, will change to loans later this year.
28. It is proposed that the Relocation Equity Loans commence on 1st October 2007, subject to the necessary qualifications being obtained by council officers, after which no more grants will be issued. All homeowners who have agreed the sale of their property before this date will be eligible for a grant even if the sale completes after 1st October 2007. Whilst we realise some homeowners may just miss out on a grant and feel it is unfair, it will be explained that the changeover has to occur at some point and there will always be residents who just miss out.

Summary of Advantages and Disadvantages for Homeowners

29. Advantages:

- Equity Relocation Loans will still be attractive and affordable to homeowners as they bridge the gap in affordability and no interest or monthly loan repayment is required.

- The loan only needs to be repaid on resale, whereas some shared equity models require homeowners to 'stair case' up i.e. repay a percentage of the loan at agreed periods of time. Other models only offer the loan for a certain period of time, for example, 10 years.
- Traditional Registered Social Landlord shared ownership products require homeowners to pay rent on the element of the property not owned. This often makes the scheme unaffordable unless homeowners qualify for Housing Benefit to pay the rent element.
- Homeowners will still own 100% of their home, the Relocation Equity Loan just acts as a second charge on the property.
- The level of assistance will increase to up to £25,000.
- The loans are not means tested unlike some of the other schemes within the Homeowners Toolkit.

30. Disadvantages:

- Homeowners will now be required to repay the financial assistance, although this is only at the point of resale.
- As the loan is an equity share, it is a percentage of the property, if the property goes up in value, so will the amount of loan repayable to the Council. Conversely though, if the property goes down in value, so will the loan.

CONSULTATION

31. The scheme has been developed in full consultation with all the relevant Council services. A working group has been established which consists of officers from Housing Regeneration, Land & Property, Internal Audit, Legal and Finance.
32. Officers have visited a number of organisations providing equity loans already including Sheffield City Council, Bridging Newcastle Gateshead Housing Market Renewal Pathfinder and Oldham Council. Sheffield City Council spent a year developing their scheme and has very kindly provided us with all of the supporting documentation including very detailed how to guides, legal documents, letters to residents etc. that will make the process much easier and cheaper.
33. Consultation with owner-occupiers in Mandale, Hardwick and Parkfield, was undertaken on 4th, 5th, and 6th June 2007 respectively, to assist in developing the policy and gain feedback on the proposals. The sessions were structured through focus groups to allow all residents to gain a full understanding of the proposals, raise any queries or concerns, and to suggest improvements to the proposed policy.
34. All remaining homeowners in each scheme were invited to the sessions, and in total 35 residents attended. The main points raised by homeowners for consideration, in relation to the Relocation Equity Loans, were:
 - Concerns about affordability and recommendation that loans needed to be in region of £25,000;
 - Don't want the Council to have a share of their property;
 - Don't want to take out further loans;
 - Not happy that their children would not receive the whole property as inheritance;
 - Feel it's unfair that they've missed out on the grants because of the phases which have been put in place;

- A suggestion was made that instead of getting the house re-valued each time a homeowner would like to pay off some of the loan, a market increase figure could be used instead, and this would mean that the additional cost of using a surveyor would not have to be met – the feasibility of this will be explored.

LONG TERM OBJECTIVES & FIRST TIME BUYERS

35. The Local Housing Needs Assessment for the Stockton Borough highlights the affordability issues facing first time buyers. The report states that over 86% of single people, and over 64% of two or more person households cannot afford to buy a property within the Stockton Borough, and therefore get their first 'step' onto the property ladder.
36. It is therefore recommended that the repaid loans are ring-fenced to provide equity loans for first time buyers to help them get onto the property ladder once the housing regeneration schemes are complete.
37. The shift from grants to equity loans will lead to a significant capital investment for the Council as the housing market rises over the coming years and decades. It is estimated that up to £2million worth of Relocation Equity Loans will be required to deliver the Councils major housing regeneration schemes. In the years to come this investment will provide a significant level of funding to address affordable homeownership.
38. Although in the first instance, assisting displaced homeowners is the priority, alternative sources of funding will be sought to try and fund Relocation Equity Loans for first time buyers as soon as possible.
39. Once established, this facility may also be used to assist in negotiations with private developers to provide affordable housing through Section 106 Agreements.

FINANCIAL & LEGAL IMPLICATIONS

Financial

40. The Relocation Equity Loans will be funded from the same funds that are currently being used to fund the grant assistance which is, the capital receipts from the sale of land at Mandale, Hardwick and Parkfield and the external funding sources at Parkfield which are from English Partnerships (EP), Single Housing Investment Pot (SHIP) and Housing Market Renewal (HMR). The scheme is fully funded from grants and capital receipts and it is not anticipated that there will be any need for corporate resources.
41. It is estimated a further £2million will be required, based on the current level of demand from homeowners. Appendix A provides a financial cash flow forecast for the loans.
42. There are some initial relatively small set up costs required to administer the loans which are summarised below:
 - Flare IT Package to record and monitor the loans service. The program design and development will be done in-house as the Council already uses this system. A half-day training and development day run by Civica, at a cost of £500 is required but staff training on Flare will be given in-house. Two Flare licenses will be purchased initially, at a cost of £1,200 each.
 - Council officers who are responsible for undertaking the casework and signing off the loans, will be required to be CeMAP (Certificate in Mortgage Advice and Practice) qualified. This will initially involve 3 members of staff. The qualification is gained

through study at an intensive residential training course at a cost of £1,330 each, which includes IFS (Institute of Financial Services) registration and examination fees.

- A comprehensive staff training and development programme will be devised, which all staff involved in the loans service will have to undertake. This will be delivered in-house so there will be no cost.

Legal

43. The content of this report, and proposed policy, has been reviewed by the Council's Legal Services, who have advised that the proposed Relocation Equity Loan is lawful.
44. The policy has been written in line with the DCLG's Mortgage Sales Guidance for Local Authorities and Registered Social Landlords, which is comparable to regulation of mainstream lenders by the Financial Services Authority (FSA), and is required under the Financial Services and Markets Act 2000 (Exemption) (Amendment) (No 2) Order 2003.
45. The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 empowers Local Authorities to provide financial assistance, through loans, for housing purposes.
46. Insurance – it is expected that the Council's current insurance will be sufficient to cover the loans service provided by Stockton Borough Council, and other local authorities have not taken out extra insurance. However, the Council's insurance department are currently in the process of confirming this with their external insurers.

EQUALITIES IMPACT ASSESSMENT

47. Relocation Equity Loans will be on offer to all owner-occupiers affected by the Housing Regeneration Schemes. It is understood from other local authorities who are already administering the loans, that they are Sharia compliant. Sharia Law governs all aspects of Muslim life, therefore Muslims must be sure that the mortgage complies with Sharia law. The biggest problem for a British Muslim who wants to buy a house is that either paying or charging of interest is prohibited. The Relocation Equity Loan does not charge interest on the loan. The proposal is not considered to have any negative impacts on equality.

RISK ASSESSMENT

48. Lack of funding to provide loans for homeowners in later phases. Whilst this is a risk, the reality is that if funding for financial assistance for homeowners runs out before the end of the schemes are reached, the schemes would need to be reduced in size and scale. Properties cannot be acquired for demolition if the Council does not have the funds to adequately relocate the homeowners concerned. The likelihood of this risk is medium and the impact medium.
49. Adverse residents and media reaction. Whilst this is a risk, the Council has a team of specialist officers with a great deal of experience of dealing with homeowners. The recent consultation events also gave homeowners the opportunity to influence the development of the scheme so it has been tailored to meet the needs of homeowners where possible. The likelihood of this risk is medium and the impact low.

Resources

Community Strategy Implications

The proposal is in accordance with the Key Objective of Making the Most of our Community within the Community Plan and the Regeneration Strategy.

Consultation Including Ward Councillors

Consultation was carried out in June 2007 with owner-occupiers of the three current housing regeneration schemes, along with Councillor briefing sessions.

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Background Papers: Mandale Cabinet report 14th August 2003;
Mandale Cabinet report 18th December 2003; and
Homeownership Assistance Scheme Cabinet report 29th April 2004.

<u>Ward(s) and Ward Councillors:</u>	Hardwick:	Cllr Nesbitt Cllr Noble
	Mandale & Victoria:	Cllr Walmsley Cllr Trainer Cllr Large
	Parkfield & Oxbridge:	Cllr Rix Cllr Javed

APPENDIX A – PROJECTED CASH FLOW FOR RELOCATION EQUITY LOANS

Equity Loans – Projected Cashflows

Year	Hardwick	Mandale	Parkfield	Total
07/08	200,000	200,000	460,000	860,000
08/09	200,000	200,000	460,000	860,000
09/10		200,000	460,000	660,000
10/11		200,000	460,000	660,000
11/12		200,000		200,000
12/13		200,000		200,000

Hardwick:

The sum of £400,000 is incorporated in the Hardwick cashflow that was approved at Cabinet in March 2007. In summary: capital receipts from the sale of the land to our private developer partners meet all costs associated with the scheme. The relocation of residents is scheduled for completion by the end of March 2009. Any surplus that arises from the sum set aside will be ring fenced to fund equity loans on the other housing regeneration schemes. Based on resident consultation we are not anticipating that the full allocation in either 07/08 or 08/09 will be utilised.

Mandale:

The sum of £400,000 is built into the current Mandale cashflow. The relocation of residents is scheduled for completion in 2013 although the detailed decant of Phase 3 is yet to be agreed. As the majority of homeowners are in phase 3 we are proposing to adjust the cashflow to include a further £200,000 per year to cover the loans. Any surplus that arises from the sum set aside each year will be carried forward to the following financial year. Based on resident consultation we are not anticipating that the full 07/08 allocation will be utilised.

Parkfield:

The acquisition of properties (and all associated costs) is funded from a combination of HMR and SHIP funding packages. Funding has been confirmed for this financial year with further confirmation of funding expected shortly. The projections for spend on relocation packages for this financial year is £460,000, this will include a number of packages that will go through on our current loan system (£15,000 private sector assistance scheme) and those through the new equity loan product.