Report of the Head of Strategic Housing Services

Mortgage Rescue – Brighter Horizons

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This report seeks approval from Cabinet for prudential borrowing to support Brighter Horizons becoming a syndicated delivery partner for the Mortgage Rescue Scheme.

1. It is recommended that:

1.1 Cabinet approve the proposal for Brighter Horizons (RBH) to become a syndicated partner to the national Mortgage Rescue Scheme.

1.2 Cabinet grants authorisation for Council and RBH officers to work with Brighter Horizons to purchase up to ten homes under the Governments/HCA Mortgage Rescue scheme to March 2011. This includes work on:

- Financial feasibility for each individual property
- In principle consideration of prudential borrowing to support Mortgage Rescue
- In principle approval to seek the necessary consents from the Secretary of State for Communities and Local Government for the provision of support (via on lending) to Brighter Horizons (RBH) Ltd.

1.3 The Executive Director (Andy Zuntz) be given delegated authority to progress the development of the Mortgage Rescue scheme and approve each transaction in consultation with the Portfolio Holder for Housing, Portfolio Holder for Regeneration, the Heads of Service for Finance, Legal, Strategic Housing, RBH officers and the Trustees of Brighter Horizons. RBH will be required to provide a Business Plan and risk assessment for each transaction.

2. Reasons for recommendation:
2.1 The recommendations in this report are rooted in the strategic housing objectives of the Council. The overall programme of work by Brighter Horizons/RBH will help to meet housing need, improve the quality of the overall stock, tackle the blight of empty properties and prevent homelessness in the borough.

2.2 The Brighter Horizons/RBH newbuild programme is now underway with work started in September 2009 on 22 new homes at Croft Street, Rochdale. A further programme of four new build schemes was approved by Cabinet in July 2009. Also approved by Cabinet in July 2009 was a scheme to buy back and refurbish five empty ex RTB properties. HCA funding approval has now been received for this scheme which will improve the quality of existing stock, increase the supply of affordable homes and tackle empty properties.

2.3 The Mortgage Rescue scheme dovetails with the objectives of this current programme. It will help to keep households in their existing properties, preventing homelessness and the potential blight of empty properties highlighted by the need for the RTB buy backs which Brighter Horizons/RBH are undertaking. Our research shows that a significant proportion of empty ex RTB homes are the result of repossession. Properties purchased via mortgage rescue would be on RBH estates. The scheme would bring each property to the Decent Homes Standard and support consistent place management by RBH. The purchase and acquisition of each property would be supported by 65% grant funding from the Homes and Communities Agency (HCA). Brighter Horizons are able to access this grant as an existing HCA partner.

3 Alternatives and risks considered:

3.1 If the HCA does not find sufficient syndicated partners to deliver Mortgage Rescue at a level to meet anticipated need then there will be households that become homeless who could otherwise have been helped to remain in their home.

3.2 If Mortgage Rescue is delivered only by partner RSLs within the Borough and not by Brighter/Horizons RBH then these RSLs will own and manage pepper potted properties within RBH estates where they have no strategic or operational interest.

3.3 Mortgage Rescue provides an opportunity to increase the Brighter Horizons / RBH portfolio of homes on RBH estates providing additional assets for the future and helping replace stock that has previously been lost via RTB.

3.4 In considering the specific recommendations for this report the following risks have been identified;

- **Prudential borrowing**: The financial risk to the council is that Brighter Horizons cannot pay the prudential borrowing costs. Brighter Horizons will rely on the
income from rents to make this payment to the Council. Therefore if there are significant arrears or voids its income will be reduced. For Mortgage Rescue the financial feasibility for each property will include an allowance for voids and bad debt. The risk is mainly if any of the properties remain un-let for extensive periods of time. This risk is judged to be low given that there will be tenants within the property as soon as it is acquired and they are prepared to join the Scheme in order to stay in their home. Should they leave at the tenancy end (after three years) the asset would remain with Brighter Horizons/RBH. Given the number of applicants on the waiting list and the need for new Council housing the property would be likely to be relet quickly. Some of this risk could be off set to RBH by reducing their management fee to the Charitable Trust if the risk materialises. Equally the Council could off set its risk by reducing the loan outstanding by using the affordable housing capital receipts which accrue from time to time through Planning Agreements. It is considered unlikely that either of these actions will be required.

- **Grant Conditions:** The Council will need to sign a performance guarantee with the Homes and Communities Agency which makes the council ultimately responsible for any non-compliance with grant conditions. The reality is that there are very few occasions in which the HCA and previously the Housing Corporation has had to enforce such conditions and there would be a number of stages to go through before such steps were considered. Ultimately if Brighter Horizons/RBH are unable to manage the scheme in accordance with the grant conditions the most likely course of action is for the HCA to intervene and at worst require the assets to be transferred to another Registered Social Landlord. This would ensure that the grant does not need to be repaid by the council and that any prudential borrowing taken out by the Council could be refunded by the Housing Association’s own borrowing. This risk is mitigated by the Council monitoring management performance alongside the charitable company.

4. **Consultation undertaken/proposed**

4.1 Mortgage Rescue properties would be purchased on an individual basis, as they were brought forward via the scheme and financial viability approved. The RBH Board and Strategic Housing Services will receive updates on properties acquired via Mortgage Rescue.

5. **Background**

5.1 Brighter Horizons/RBH’s successful pre-qualification with the Homes and Communities Agency (HCA) for inclusion in the National Affordable Housing Programme was based on the delivery of a newbuild development programme of 150 homes between 2008 and 2011. This successful pre-qualification also enables Brighter Horizons/RBH to access grant funding for refurbishment of properties and acquisition of homes via the Mortgage Rescue Scheme.
5.2 The overall development programme is underpinned by a number of key principles set out for Cabinet in July 2009 which have supported the work in identifying the proposed pipeline of development by the Council, RBH and Trustees of Brighter Horizons. These include:

- Building quality properties for which there is demonstrable need and demand
- Support for RMBC regeneration priorities through Sustainable Communities
- Development which provides a good spatial fit with current RBH stock
- Making best use of available Council sites
- Deliverability

5.3 In November 2009 RBH were approached by the HCA to consider becoming a syndicated partner in the Mortgage Rescue Scheme. The HCA are seeking to increase capacity to deal with Mortgage Rescue. This is a key Government and HCA priority.

5.4 Mortgage Rescue is a national Government scheme with Great Places Housing Group acting as the local lead RSL for Greater Manchester. It supports those households that are in mortgage arrears and no longer have an option of negotiation with their lender and would otherwise lose their home. The scheme enables the household to retain their home as a tenant, carries out work to refurbish the home to decent homes standard and provides an assured shorthold tenancy at an intermediate rent. Tenancies would last for three years. At which point the expectation is that they would be renewed as assured shorthold tenancies. Should the tenant wish to leave their home at that point, or Brighter Horizons/RBH wish to end the tenancy then there would be an option to manage the asset for a new tenant as an assured shorthold tenancy at an intermediate rent, or if there were clear business reasons for doing so as an assured tenancy at an affordable rent.

5.5 Great Places would carry out the administration of the scheme. As a syndicated partner the role of Brighter Horizons/RBH would be to carry out a physical survey and financial feasibility for each individual property before committing to purchase. Brighter Horizons/RBH would then fund the purchase, claiming 65% grant per property for the HCA, with the remaining 35% funded via Prudential Borrowing against the future rental income stream. For properties purchased the RBH role would then be to carry out refurbishment and manage the tenancy from the purchase date.

5.6 The Mortgage Rescue Scheme is a key national Government priority and a key priority for the HCA to deliver in the North West Region. The HCA in the region is keen to take a syndicated approach with the lead organisations maintaining their administrative role for the scheme but other housing providers stepping up to purchase and manage properties with the support of HCA grant. This approach is already working well in Merseyside.
5.7 Mortgage Rescue applies to vulnerable households who face repossession and have exhausted other forbearance options with their lender. Research nationally has noted that a high and increasing proportion of properties brought to the scheme are ex RTB homes. Within the ten Greater Manchester authorities Rochdale has had the second highest (after Manchester) number of referrals to the scheme.

5.8 There are strong business case, management and strategic reasons for participating in the Mortgage Rescue Scheme. Any properties purchased under the scheme would be on existing RBH estates. This would ensure that management of the property was by RBH rather than a RSL. RBH would carry out a rigorous physical and financial viability assessments for each property before a decision was made to purchase.

5.9 Prudential Borrowing - The estimated Prudential Borrowing required by the Council to support the Mortgage Rescue scheme is £420,000. This would provide flexibility to purchase up to ten properties via the scheme up to March 2011. The exact level of borrowing will be dependent on the acquisition and refurbishment costs of each property. It is proposed that the Council borrows from the Public Works Loan Board and then on lends this amount to Brighter Horizons on a draw down facility as each property is acquired through Mortgage Rescue. Brighter Horizons will repay the loans to the Council from the rental stream received from the Mortgage Rescue home. This would be at an intermediate rent, with an earlier payback anticipated than for newbuild schemes at affordable social housing rents. The financial feasibility for each property will set out the projected loan repayment period. It is intended that the loan agreements will result in the Council fully recovering its interest costs from the Charitable Subsidiary. Secretary of State consent is required for this arrangement as it is classified as financial assistance under section 25 of the Local Government Act 1988. Cabinet is asked to give in principal approval for the borrowing and the loan to Brighter Horizons subject again to Secretary of State consent. It is proposed that the final individual scheme agreement of the loan facility for Mortgage Rescue and its terms as well as the on-lending to Brighter Horizons and its terms are delegated to the Executive Director (Resources) in consultation with the Portfolio Holder for Finance.

6. **Next Steps**

6.1 If Cabinet proves the recommendations in this report then Brighter Horizons/RBH will confirm to the HCA that they wish to become a syndicated partner to the Mortgage Rescue Scheme and take forward discussions with the Council’s Finance Services regarding the terms of the loan to support the Mortgage Rescue of up to 10 properties by March 2011.

6.2 It is recommended that the Executive Director, Andy Zuntz, approves each transaction in consultation with Head of Finance, Head of Legal, Portfolio Holder for Housing and Portfolio Holder for Regeneration. RBH will be required to provide a Business Plan and risk assessment for each transaction.
7. Personnel Implications

7.1 There are no personnel implications

8. Financial Implications

8.1 The capital costs for the purchase and acquisition of properties via Mortgage Rescue will be funded by a combination of HCA grant and Prudential Borrowing.

8.2 Prudential Borrowing would be taken out by the Council with funding on-lent to Brighter Horizons under the terms of a loan agreement. The Council will fully recover its borrowing costs from Brighter Horizons. Brighter Horizons will fund the repayment of loan charges to the Council from the rental income from the properties.

8.3 Based on initial assumptions the level of Prudential Borrowing to support the Mortgage Rescue scheme is £420,000.

9. Conclusion

9.1 The Council chose to enter into a long term management agreement with RBH in April 2007 and one of the drivers for this was the desire to use RBH as a vehicle for the development of new social rented homes linked to the wider sustainable communities agenda. RBH and Strategic Housing Services have devoted much time and effort to examining and testing the options for RBH to develop and the fact that RBH can now access HCA grant means that this option is now a reality.

9.2 Expanding the activities of Brighter Horizons / RBH to include Mortgage Rescue fits closely with new build and refurbishment work being carried out by the organisation and supports strategic objectives in terms of homelessness prevention and reducing the blight of empty properties.

For further information and background papers: For further information about this report or access to any background papers please contact Graham Pilling Tel: (01706) 864042

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