1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

2.1 Cabinet extends the authorisation it gave on 25th January 2010 for Council and RBH officers to work with Brighter Horizons to purchase up to ten homes under the Governments/Homes and Communities Mortgage Rescue scheme to 31st March 2012. 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.

Delays in developing a mechanism to enable ALMOs to acquire properties through the Mortgage Rescue Scheme have meant that Brighter Horizons were only able to purchase 3 of the 10 properties approved by Cabinet which means that seven properties have still to be acquired.

2.2 The appropriate Executive Director be given delegated authority to progress the development of the Mortgage Rescue scheme and approve each transaction in consultation with the Cabinet Member for Health, Adult Care & Housing, 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.

3. MAIN TEXT INCLUDING ALTERNATIVES CONSIDERED/CONSULTATION CARRIED OUT

3.1 In July 2009 Brighter Horizons/RBH obtained pre-qualification status with the Homes and Communities Agency (HCA) which means they are able to bid for grant funding for the refurbishment of properties and acquisition of homes via the Mortgage Rescue Scheme.

3.2 Brighter Horizons became a syndicated partner of the Mortgage Rescue Scheme in January 2010.

3.3 Mortgage Rescue is a national Government scheme with Great Places Housing Group acting as the local lead Registered Social Landlord (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.

3.4 Great Places carry out the administration of the scheme in the Greater Manchester area. As a syndicated partner the role of Brighter Horizons/RBH is 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.
3.5 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 has 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.

3.6 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.

3.7 Cabinet gave its approval to Brighter Horizons becoming a syndicated partner to the Mortgage Rescue scheme in January 2010. Cabinet also gave its approval for Council and RBH officers to work with Brighter Horizons to purchase up to ten homes under the Governments/HCA Mortgage Rescue scheme to 31st March 2011.

3.8 As RBH, through Brighter Horizons, were the first ALMO to sign up to the Mortgage Rescue Scheme the HCA had no processes in place to enable them to acquire properties through the scheme. Developing a mechanism in partnership with the HCA and Great Places to facilitate acquisitions took longer than anticipated and as a result Brighter Horizons were only able to acquire 3 properties by the end of March 2011 rather than the 10 they had approval for.

3.9 Now that the processes have been developed both RBH/Brighter Horizons and Strategic Housing Services are confident that the remaining 7 units can be acquired in the current financial year.

3.10 There are strong business case, management and strategic reasons for Brighter Horizons/RBH continuing to participate 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.

3.11 If Cabinet approves the recommendations in this report then Brighter Horizons/ RBH will take forward discussions with the Council’s Finance Services regarding the terms of the loan to support the Mortgage Rescue of up to 7 properties by March 2012.

3.12 It is recommended that the appropriate Executive Director approves each transaction in consultation with Head of Finance, Head of Legal and the Cabinet Member for Health, Adult Care & Housing. RBH will be required to provide a Business Plan and risk assessment for each transaction

**Alternatives considered**

3.13 If the sufficient syndicated partners do not sign up with the HCA 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.
3.14 If Mortgage Rescue is delivered only by partner RSLs within the Borough and not by Brighter Horizons then these RSLs will own and manage pepper potted properties within RBH estates where they have no strategic or operational interest.

3.15 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 Right to Buy (RTB).

Consultation proposed/undertaken

3.16 Mortgage Rescue properties will be purchased on an individual basis, as they are 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.

4. FINANCIAL IMPLICATIONS

4.1 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.

4.2 Prudential Borrowing will 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.

4.3 The estimated Prudential Borrowing required by the Council to support the Mortgage Rescue scheme is £290,000. This will provide flexibility to purchase the remaining seven properties via the scheme up by March 2012. 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 will 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 appropriate Executive Director in consultation with the Portfolio Holder for
Finance.

5. **LEGAL IMPLICATIONS**

5.1 No legal implications have been identified

6. **PERSONNEL IMPLICATIONS**

6.1 There are no personnel implications.

7. **RISK ASSESSMENT IMPLICATIONS**

7.1 All the issues raised and the recommendations in this report involve risk considerations as set out below:

- **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 has 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.
8. **EQUALITIES IMPACTS**

8.1 **Workforce Equality Impacts Assessment**

There are no significant workforce equality issues arising from this report.

8.2 **Equality/Community Impact Assessments**

There are no significant equality/community issues arising from this report.

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