

DERBYSHIRE COUNTY COUNCIL

CABINET

11 February 2013

Report of the Director of Finance

**LOCAL AUTHORITY MORTGAGE SCHEME
(FINANCE AND MANAGEMENT)**

1 Purpose of the Report

To recommend that the County Council appoints Lloyds Banking Group's Local Lend a Hand scheme as the initial provider of a Local Authority Mortgage Scheme (LAMS) and agree the financial support the Council will provide.

2 Information and Analysis

Cabinet approved that the Council participates in the Sector Group led Local Authority Mortgage Scheme on 27 November 2012. Since gaining that approval, the Council has formally joined the scheme, and has undertaken an options appraisal of lenders.

A full options appraisal has been completed. A fundamental consideration has been the availability of access to the scheme to all residents of Derbyshire. The conclusion of the appraisal is that the most appropriate lender for the Council to enter into an agreement with is Lloyds TSB Bank, due to its national high street presence; experience in operating LAMS across the country (with thirty schemes to date); a preferential interest rate is offered and a scheme that benefits the wider property market by stimulating a chain rather than supporting new build sales.

As part of the scheme the County Council will be required to enter into an Indemnity Deed, the purpose of which is to indemnify the lender against a loss arising from a default on the mortgage by the borrower, to the maximum value of 20% of the original mortgage. The Local Authority Monitoring Officer (the Director of Legal Services) must provide Lloyds TSB Bank with an Opinion Letter confirming that the Council has the power to enter into and observe and perform the terms and obligations required of it under the Scheme. The Council will also be required to indemnify the Monitoring Officer in respect of any personal liability he may incur by providing the Opinion Letter. This is covered by existing insurance arrangements.

The Opinion Letter and the Monitoring Officer's Indemnity Deed will be in a prescribed form and, in addition to the resolution required to enter into the Mortgage Scheme Indemnity Deed, the Council will need to ensure that there is a suitable resolution or other form of authority for the grant of the Monitoring Officer's Indemnity Deed. These requirements are covered within the recommendations of this report.

Chesterfield Borough Council (CBC) announced in July 2012 its intention to participate in a LAMS; in the event that CBC chooses Lloyds as its LAMS partner, Lloyds operating restrictions prevent multiple schemes operating in a single geographical area. Discussions have taken place with CBC to ensure that the County Council can offer a LAMS scheme across the county area. To facilitate this it is therefore recommended that a proportion of the investment is invested in their scheme:

- LAMS 1 – led by the County Council with Lloyds TSB. This scheme would cover all Postcodes within the boundaries of Derbyshire County Council, excluding those in Chesterfield.
- LAMS 2 – led by CBC. The County Council would provide the District Council with a contribution to the funding of the scheme; for which the County Council will be jointly credited alongside CBC. The Council's proposed contribution is £0.25m and CBC intends to invest £1m, providing a total scheme value of £1.25m. The CBC scheme is yet to be formally approved; should there be any changes to the current funding proposal a further report will be presented to Members accordingly. This scheme would cover all Postcodes within Chesterfield. Management information would be made available to the County Council. A Service Level Agreement will be signed to formally agree the terms of the arrangement

Capital Receipts to the value of £2m have been identified as available to invest in these two schemes. Using a variety of different measures such as house values, tax base, population etc it is recommended that the investment is £1.750m to the rest of the county and £0.250m to the Chesterfield LAMS. Additional LAMS schemes may be offered in the future, however, £2m is currently the maximum permitted investment, by Lloyds, in any one single scheme.

An update to the details of the Chesterfield scheme will be presented to Cabinet at a later date.

It is a requirement of the scheme that local authorities set a maximum loan value per mortgage (this is a maximum loan, not maximum property value). Sector Group has undertaken a housing review of Derbyshire and has recommended in the report that in order to remain

accessible across the county, the maximum loan value should be in the region of £150,000. However the report also states that the average first time buyer mortgage nationwide is around £108,000.

It is, therefore, proposed to set the maximum loan value at £142,500. Such an assumption would result in the following:

Assumed Property value	£150,000
5% Deposit	£7,500
95% Mortgage	£142,500

Setting the maximum loan value at this level would mean that the local authority would be indemnifying a maximum of £30,000 per mortgage. An investment of £1.750m has the potential to support a minimum of 58 first time buyer mortgage applications across the county, not including Chesterfield. In practice it is expected to be many more. The knock on effect should be to facilitate another three to four moves up the housing chain for each first time buyer supported by the scheme.

The Council is also required to provide to Lloyds Bank, in due course, the post codes which will be approved for a mortgage under the scheme. This will cover all the post code areas for the county of Derbyshire and agree with Chesterfield Borough Council the post codes in its area.

The emphasis of the loan to the financial institution which is part of LAMS is that the overall aim or substance of the transaction is for the Authority to provide financial assistance to facilitate the financial institution loaning a greater amount to the borrower/mortgagor than would otherwise be their practice.

Section (1)(c) of Regulation 25 of The Local Authorities (Capital Finance and Accounting)(England) Regulations, defines that “the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure” shall be treated as being capital expenditure.

Given the above it is clear that the expenditure on LAMS, including the loan, should be treated as capital expenditure. The intention would be to fund the capital expenditure through the use of existing capital receipts, thereby avoiding a revenue account cost in respect of the loan.

Normally capital expenditure will increase the Capital Financing requirement (CFR) and would create a Minimum Revenue Provision (MRP) liability within the revenue account, broadly equal to 4% p.a. of the amount of the expenditure. However, it is proposed to set aside the associated repayment from the financial institution once the loan

matures in five years to meet the full MRP liability and this will avoid the need for any MRP cost to be met by the revenue account in the intervening period.

The Authority has a Minimum Revenue Provision Policy which is agreed annually by the Council as part of the Prudential Code for Capital Finance, Capital Programme Approvals & Treasury Management Strategy.

3 Financial Considerations

Financial implications are detailed in the report.

4 Legal Considerations

These are detailed in the report. Legal advice has been obtained by Sector on behalf of all participating local authorities; however, each authority is required to ensure that the council's monitoring officer is satisfied with the advice provided. The Director of Legal Services has considered the Sector advice and confirmed that he is satisfied with the advice provided.

5 Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

6 Key Decision

Yes.

7 Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? No

8 Background Papers

Sector reports - exempt.

Papers held in Technical Section, Corporate Finance.

9 OFFICER'S RECOMMENDATIONS

That Cabinet approves:

- 1) A contribution to the Chesterfield Borough Council LAMS of £0.250million.
- 2) An investment in a Derbyshire LAMS with Lloyds TSB of £1.750million.
- 3) That the Derbyshire LAMS sets a limit of £142,500 maximum loan value per mortgage.
- 4) That the Director of Finance, in consultation with the Director of Legal Services, be authorised to agree the final details of the LAMS scheme and enter into a Service Level Agreement with Chesterfield Borough Council which will allow the County Council to support the Chesterfield LAMS and
- 5) that the County Council indemnify the Monitoring Officer in respect of any personal liability that he may incur by providing a letter to the Lender confirming that the Council has the power to enter into and observe and perform the terms and obligations required of it under the scheme.

PETER HANDFORD

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MATLOCK

1 February 2013