

Report to the Cabinet



Report reference: C-022-2009/10
Date of meeting: 13 September 2010

**Epping Forest
District Council**

Portfolio: Housing

Subject: Open Market Shared Ownership Scheme

Responsible Officer: Alan Hall (01992 564004)
Director of Housing

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Council pilots, in 2010/11, the previously agreed Open Market Shared Ownership (OMSO) Scheme, but with Broxbourne Housing Association (BHA) instead of Moat, operated in the way previously agreed by the Cabinet subject to the following changes:

- (a) applicants of the Scheme also being allowed to purchase two-bedroomed houses;
- (b) the maximum property purchase price being increased to £210,000;
- (c) the purchased property being of modern construction, of brick/block or brick/timber cavity construction;
- (d) applicants also being able to purchase a property in Hertfordshire, or a London Borough immediately neighbouring the Epping Forest District;
- (e) if the Scheme is subsequently extended to a Phase 2, BHA's marketing, legal and administration costs being reduced from £2,500 to £2,000; and
- (f) if the scheme is over-prescribed, priority being given to those applicants seeking to purchase the cheapest properties;

(2) That the Director of Housing and the Director of Corporate Support Services be authorised to agree the detail of the scheme and the necessary legal agreements;

(3) That the Pilot Scheme be funded from the £435,000 payment received by the Council from McCarthy & Stone to fund affordable housing within the District (in accordance with the Section 106 Agreement for its recently completed development in Epping), in order to fund 8 shared ownership properties, and that budget provision be made within the Housing Capital Programme for 2010/11 accordingly;

(4) That the existing budget of £350,000 for the OEMSO Scheme within the Housing Capital Programme for 2010/11 be carried forward to 2011/12; and

(5) That the success of the Pilot Scheme be reviewed by the Housing Portfolio Holder on completion, and that the Housing Portfolio Holder be authorised to extend the OEMSO Scheme into a Phase 2 in 2011/12, if he considers appropriate, to provide a further 6 shared

ownership properties, utilising the £350,000 budget provision.

Executive Summary:

The Cabinet has previously agreed to pilot an innovative Open Market Shared Ownership (OMSO) Scheme to enable housing applicants on the Council's Housing Register to have an opportunity to get a foot on the home ownership ladder, and select a property on the open market that they would like to purchase on a shared ownership basis.

The Housing Association that the Council previously agreed to operate the Scheme with is no longer interested. However, following discussions with a number of other housing associations, Broxbourne Housing Association has expressed an interest to work in partnership with the Council to introduce the Scheme. A small number of changes to the previously-agreed Scheme are proposed.

Following a capital receipt from a developer required by a Section 106 Agreement, it is suggested that, on completion of the Pilot Scheme, consideration is given to the possible extension of the Scheme to assist 8 more applicants, funded from this capital receipt.

Reasons for Proposed Decision:

House prices within the District continue to be very high, resulting in many local people being unable to purchase their own home. The operation of the previously-agreedOMSOScheme, but with BHA, would assist 6 applicants on the Council's Housing Register to enter home ownership. An extension of the Scheme would assist a further 8 applicants.

If house prices increase, the Council's investment in the Open Market Shared Ownership Scheme would increase proportionately and would be re-couped when shared-owners purchase additional equity shares up to 100% (staircasing). The receipts would then be re-invested in further equity purchases to assist other applicants. The previously-agreed Risk Sharing Agreement would minimise and mitigate the Council's risk, especially if property prices decrease.

Other Options for Action:

- Not to operate the Pilot Scheme.
- To operate the Pilot Scheme with another housing association (but no others have been interested to date).
- Not to authorise the Housing Portfolio Holder to extend the Scheme to assist a further 8 applicants.
- Not to plan for the possible extension of the Scheme, and to not utilise the capital receipt from the developer to provide affordable housing on this Scheme.

Report:

Introduction

1. In December 2007, the Cabinet agreed to undertake a pilot scheme for an innovative new initiative with Moat Housing Group (one of the Council's Preferred Housing Association Partners, and the Homebuy Agent for Essex). The initiative was referred to as the Council's Open Market Shared Ownership (OMSO) Scheme and a capital budget provision of £350,000 was agreed to undertake a Pilot Scheme.

2. In simple terms, the previously-agreedOMSOScheme would enable housing applicants on the Council's Housing Register (including Council tenants) an opportunity to get a foot on the home ownership ladder, and select a property on the open market that they would like to purchase on a

shared ownership basis. Moat would purchase the selected property, and provide a shared ownership lease to the applicant. The applicant would hold 50% of the property's equity, and Moat and the Council would hold the remaining 50%. The applicant's equity purchase would be funded, as usual, through a mortgage from a bank or other lender and any cash deposit. Moat's equity share would be financed by a loan, with the interest payments for the loan funded from the rent that the applicant would pay in respect of the equity they did not own. Since this would be insufficient to fund the whole 50%, the Council would provide Moat with an interest-free loan to purchase the balance of the equity, secured by a mortgage.

3. The Cabinet recognised that this would enable the Council to assist local people to access home ownership, by using the Council's capital resources to invest in private housing – which would increase if the property's value increased – instead of providing, for example, non-returnable grants to housing association to provide affordable housing.

4. The main elements of the Scheme's operation, as agreed by the Cabinet in December 2007, are reproduced at Appendix 1.

Subsequent Circumstances

5. Shortly after the Cabinet agreed to go ahead with the Scheme, the Government introduced (and funded) a similar scheme, called MyChoiceHomebuy; the Housing Portfolio Holder therefore agreed to hold the Council's OMSO Scheme in abeyance. MyChoiceHomebuy proved to be very popular, however the following year, the Government ended the scheme, since it wanted to divert Government funding into new house-building by housing associations, to help kick-start the faltered housing market.

6. Moat was therefore approached to establish whether it would like to proceed with the Council's OMSO Scheme. However, Moat responded that its priority was to respond to the Government's policy of increasing new house-building, and therefore no longer wished to pursue the OMSO Scheme with the Council.

7. When the Housing Scrutiny Panel set up its Affordable Housing Sub-Group to consider ways in which the Council could increase the amount of affordable housing within the District, it considered this issue, and the Cabinet agreed the Sub-Group's recommendations that:

- (a) the £350,000 budget provision for the OMSO Scheme should be retained within the Capital Programme; and
- (b) that the Director of Housing should contact other Homebuy Agents to discuss the possibility of one of them working with the Council to operate the OMSO Scheme.

8. The Cabinet also agreed that, in the event that it is not possible to identify a housing association to undertake the OMSO Scheme, the budget should be utilised to supplement the existing budgets for the Council's Home Ownership Grants Scheme and for funding a housing association to purchase two or three houses from the open market, in order to let them at affordable rents to Council nominees.

9. The Director of Housing not only approached the two Homebuy Agents for neighbouring regions (Aldwyk and Orbit), he also approached the Council's four remaining Preferred Housing Association Partners. However, none expressed an interest in working with the Council, either because they wanted to concentrate on new-build schemes, or because there was a very limited financial return for them.

10. However, subsequent discussions with Broxbourne Housing Association (BHA) – the stock transfer housing association set up by neighbouring Broxbourne Council to purchase that Council's

housing stock – have established that BHA would be very interested in working in partnership with the Council to introduce an OMSO Scheme. BHA considers the scheme to be very innovative; appropriate in the current market; a scheme that gives choice to housing applicants; and a model that is likely to be attractive to offer other local authorities.

Proposed changes to the previously-agreed OMSO Scheme

11. BHA has considered the OMSO Scheme that the Council worked up with Moat and, with a few amendments, has agreed in principle to introduce a similar scheme in partnership with the Council. The proposed changes are set out below.

12. Generally, property values in the District have returned to their 2007 values. According to Hometrack, property values in the District in April 2010 were as follows:

Type	Average	Lower Quartile
1 Bed Flat	£142,000	£125,000
2 Bed Flat	£205,000	£169,000
2 Bed House	£260,000	£210,000

13. In order to increase the number of applicants who would be interested and eligible for the scheme, and to offer increased choice to applicants, it is suggested that:

- (a) Applicants should be allowed to purchase two-bedroomed houses, in addition to one and two bedroom flats;
- (b) The maximum property purchase price should be increased to £210,000; and
- (c) Applicants should also be able to purchase a property in Hertfordshire, or a London Borough immediately neighbouring the Epping Forest District.

14. In order to ensure that the property is sound, and to reduce the risk of structural problems, it is suggested that the property should be of modern construction (and of brick/block or brick/timber cavity construction). In any event, the property purchase would be subject to a structural survey. If the Scheme is over-prescribed, it is suggested that priority should be given to those applicants seeking to purchase the cheapest properties.

Funding and Extending the Scheme

15. As explained earlier, the Cabinet has already made provision within this year’s Housing Capital Programme of £350,000 to fund the OMSO Scheme. However, separately, the Council has recently received a payment of £435,000 from the developer, McCarthy & Stone, to fund affordable housing within the District, in accordance with the Section 106 Agreement for its recently completed development in Epping. Since the payment must be used to increase the provision of affordable housing, it is suggested that the existing budget provision of £350,000 is carried forward from 2010/11 to 2011/12, and that the £435,000 payment is used to fund the OMSO pilot scheme this year (2010/11), and that budget provision be made within the Housing Capital Programme accordingly. This increased budget would fund 8 shared ownership properties.

16. The £350,000 budget provision in 2011/12 could then be earmarked to fund a possible extension of the OMSO (Phase 2) in 2011/12. This would fund a further 6 shared ownership

properties. BHA has confirmed that it would be willing to extend the scheme next year, if the Pilot Scheme is successful, and has agreed to reduce its marketing, legal and administration costs to £2,000 per property for any extension of the scheme.

17. It is therefore suggested that the success of the Pilot Scheme should be reviewed by the Housing Portfolio Holder on its completion, and that the Housing Portfolio Holder be authorised to extend the OMSO Scheme into a Phase 2, if he considers appropriate.

Resource Implications:

Utilisation of the £435,000 payment from McCarthy & Stone to fund the scheme in 2010/11. The provision of a further £350,000 within the Housing Capital Programme for 2011/12 to possibly extend the Scheme.

Legal and Governance Implications:

The community wellbeing powers contained paragraphs (b) and (c), Section 2(1) of the Local Government Act 2000. One of the visions within the current Community Strategy is for Epping Forest to be a district that has safe, decent and attractive housing that meets the needs of those who want to live in the District and Objective 2 relating to the vision is to make affordable housing available, in rural and urban locations, for people who want to live in the District.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

In addition to Moat, two other Homebuy Agents and the Council's other four Preferred Housing Association Partners have been consulted on their interest in operating the Scheme, and have declined. BHA has been consulted on the proposed Open Market Shared Ownership Scheme and has suggested some minor changes referred to in the report.

Background Papers:

- Previous report to the Cabinet dated 17 December 2007;
- Proposal from BHA dated 5 August 2010; and
- Housing Policy File H701.

Impact Assessments:

Risk Management

The main risks of the Scheme, which were previously identified and reported to the Cabinet, are if:

- (a) The value of the property(ies) for which the Council has provided loans - at the time a shared-owner wishes to purchase additional equity - is less than the value at the time the Council originally provided the loan;
- (b) The shared owner defaults on their mortgage; or
- (c) If BHA was to go into liquidation.

In the first two cases, BHA would be at the same risk as the Council. However, these risks will be

mitigated by the Risk Sharing Agreement previously agreed by the Cabinet (and agreed in principle by BHA), included within the Operation of the Scheme in the Appendix.

Based on national experience, and the financial regulation of housing associations by the Tenant Services Authority, the third case is highly unlikely.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? Yes

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
Applicants with an income lower or higher than that required by the Scheme would be ineligible. However, this is to ensure that applicants with insufficient income do not over-stretch themselves, and that applicants on a high income, who can afford to purchase on the open market without assistance, do not stop others utilising the scheme.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
The report explains that the Scheme is to benefit those people who are unable to purchase on the open market, but have sufficient funds to be able to participate.

**Operation of the Open Market Shared Ownership (Pilot) Scheme with Moat
agreed by the Cabinet on 17 December 2007**

- (a) Moat to purchase the (head) leasehold of one and two-bedroomed flats on the open market, chosen by housing applicants on the Council's Housing Register approved under the scheme, up to a maximum property purchase price of £190,000;
- (b) Moat to simultaneously provide long (sub) leases for 50% of the equity to the applicants, using Moat's existing standard Do-it-Yourself-Shared Ownership (DIYSO) lease;
- (c) The applicant's lender (mortgagee) to have the first charge on the applicant's leasehold interest in the property;
- (d) Part of Moat's equity purchase to be funded through a private loan, with the amount of loan dependent on the amount of rent that can be charged to repay the interest (see 1(f) below), with Moat's funders to have a floating (first) charge on Moat's leasehold interest in the property (i.e. the headlease);
- (e) The remainder of Moat's equity purchase to be funded by an interest-free loan from the Council, secured by a mortgage on Moat's leasehold interest in the property through the Council having a second charge;
- (f) Applicants to pay Moat an initial annual rent equivalent to 2.5% of the value of the equity held by Moat, plus buildings insurance and a management fee;
- (g) No rent to be received by the Council;
- (h) Shared owners to be able to purchase up to three additional tranches of equity shares after 12 months ("staircasing"), subject to a minimum tranche of 10% of the unsold equity, with the price based on the open market value of the property at the time of each tranche purchase;
- (i) The risk to the Council's loan to be minimised and mitigated through a legally binding Risk Sharing Agreement with Moat, detailing the terms and the effect of equity sales, including the following key elements:
 - (i) The proceeds from each tranche of equity sale to be split between Moat and the Council, with the Council's share (capital receipt) representing the same percentage of the value of the equity sold as the percentage that the original loan represented of Moat's original equity purchase;
 - (ii) Any net receipts received by Moat from staircasing to be kept by Moat in a ring-fenced, interest-bearing account, and used to help fund further shared equity purchases in the future or, at the Council's discretion, to fund other affordable housing schemes;
 - (iii) If property values decrease, assuming that the ring fenced account holds a credit balance, Moat to be entitled to draw funds from the ring-fenced account to make up the difference between its capital receipt and Moat's private loan; and
 - (iv) If no positive balance exists in the ring-fenced account, the account to show a notional negative balance, with incurring interest charges, for a period until any surpluses

from future transactions are drawn in by Moat and the account returns to a positive balance;

- (j) The capital receipts received by the Council as a result of staircasing to be held and included within the Capital Programme, to fund further loans for shared equity purchases under the Scheme in the future, unless the Cabinet decides otherwise;
- (k) Moat's usual income multiples to be used to determine the minimum required income levels to participate in the scheme;
- (l) The purchased property must be within Essex;
- (m) Moat's marketing, legal and administration costs to met by a one-off fee of £2,500 per purchase, funded from the Council's loan;
- (n) Applicants must be registered on the Council's Housing Register and that priority to the Scheme be given in the following order, in both cases prioritised by reference to the Council's Housing Allocations Scheme:
 - (i) 1st Priority - Council tenants on the Council's Housing Register; and
 - (ii) 2nd Priority - Non-Council tenants on the Council's Housing Register; and
- (o) If the scheme is over-prescribed, that priority be given to those applicants seeking to purchase a one-bedroomed property;