

Cherwell District Council

Council

18 December 2017

Bespoke / Custom Build Mortgage Bridging Loan Fund

Report of Chief Finance Officer

This report is public

Purpose of report

To consider the creation of a capital budget for a pilot scheme of 10 bridging loans available to self-builders qualifying for mortgages under the Arlingclose Bespoke/Custom Build Mortgage scheme which will be considered by Executive in January 2018.

1.0 Recommendations

The meeting is recommended:

- 1.1 To approve the creation of a capital budget of up to £2,500,000 to be made available in the event that Executive agree the business case for the pilot scheme in January 2018.
- 1.2 To delegate authority to the Chief Finance Officer to approve the final amount of each individual loan within the pilot scheme and the form of the loan agreements to facilitate those loans.

2.0 Introduction

- 2.1 At the end of October 2017, the Commercial Development Panel gave its support to a business case recommending that CDC join the Arlingclose Bespoke / Custom Build (BCB) mortgage scheme. A detailed business case will be put to Executive in Jan 2018 for a pilot scheme of 10. A budget for bridging loans will need to be added to the capital programme by Council for the scheme to go ahead should Executive give its support.

3.0 Report Details

- 3.1 The BCB had been developed to support local authorities in meeting the requirements of the government's Right to Build aspirations, the Self-build and Custom Housebuilding Act 2015 and the Planning and Housing Act 2016. BCB is a partnership between local authorities and a range of stakeholders, aiming to open

up this new market to people without the skills and resources to embark on a self-build project.

- 3.2 BCB provides high loan to value (LTV) mortgages (up to 95%) on bespoke new build and custom build properties, without the need for stage payments. BCB is mainly designed for land owned by the local authority, but it is also suitable for land owned by a wholly owned company, a joint venture and / or third parties. As well as making high LTV mortgages available, BCB removes some of the key risks usually associated with custom and self-build.
- 3.3. Graven Hill is the largest custom and self-build site in the UK; however, research (from both the marketing and sales experience at Graven Hill and consultations with mortgage brokers) suggests that access to self/custom build mortgage finance is a barrier to building.
- 3.4 As such the BCB mortgage pilot proposal provides a good opportunity to partner with a reputable treasury management company and provider of financial advice to offer a product that would directly support the council's commitment to self and custom build.
- 3.5 How the scheme works in brief:
 - The local authority will make land available, or provide financial support for an applicant on land owned by a third party,
 - An applicant will secure a plot of land from the local authority (or a third party), with proof of a pre-approved mortgage from a panel of mortgage lenders,
 - A 5% deposit will be paid by the borrower (some or all of the deposit will be non-refundable),
 - The council will enter into a build contract with a developer / builder to construct the property to completion. The payments to the contractor by the council will constitute the bridging loan,
 - On completion, the lender will advance the mortgage and the local authority will recover all costs, including interest and potentially a development profit,
 - The council could recycle the repaid bridging loans to support other borrowers if the pilot scheme is deemed successful,
 - The participating local authority will provide an indemnity of up to 20% of the mortgage, in effect underwriting the difference between 75% lending – the market norm for custom build mortgages – and 95% lending, for a fee (payable by the lender to the council).
- 3.6 This approach ensures that each plot of land released by the local authority will have a new property built within an acceptable timescale. It removes the need for stage payments, thereby opening the market to people who would not currently be able to embark on a self-build project.
- 3.7 Lenders do not currently offer high loan to value mortgages on self-build or new build properties, hence the need for the council to provide an indemnity. The

indemnity remains in place for 5 years, and may be extended for a further 2 years if a mortgage is in arrears of 3 months + at the end of the initial 5 year period.

- 3.8 The scheme is focused on enhancing the availability of self and custom build mortgages rather than on maximising returns. It would specifically support the council's long term priorities around increasing access to housing in what is an expensive market. The scheme would be aimed at sections of the population who would not be eligible for social housing, but who may struggle to access housing (particularly self or custom build) due to affordability issues in the area.

4.0 Conclusion and Reasons for Recommendations

- 4.1 BCB has been developed to be relevant and available for customers wanting to self or custom build. The approach generates small returns for the authority and as a partnership activity does not require significant investment in people and expertise to run the scheme. The primary benefits are the ability to start small and test the extent to which the product may increase access to the self-build market.

5.0 Consultation

- 5.1 This proposal is a product of the council's Succeeding in a Commercial Environment (SIACE) programme which seeks to improve the commercial skills of participants through instruction and application of commercial techniques to a selection of ideas generated by other council initiatives (e.g. Innovation Weeks).
- 5.2 As part of that programme, this proposal has been thoroughly researched, market tested, presented to a panel of officers and directors and to the Commercial Development Panel.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To not create the capital pot. This option has been rejected because creating the pot in advance of the Executive decision will allow the pilot to be launched immediately and the capital commitment can be included in the capital programme for 2018-19.

7.0 Implications

Financial and Resource Implications

- 7.1 The proposed addition to the capital programme is required in order to offer bridging loans as part of the Arlingclose mortgage scheme. Interest charged to homebuilders will result in revenue income to the council. The full financial implications will be set out in the business case to be considered by Executive in Jan 2018.

The scheme is designed to recover its costs and may provide a modest return if the council's borrowing costs are significantly lower than the rate applied to the bridging loans.

The cost of construction in Cherwell is currently in the region of £1,800 per square meter. Ten properties of an average 138 square meters could be built with the proposed £2,500,000 capital allocation.

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Legal Implications

- 7.2 There are no legal implications which arise directly in connection with the detail of this report as the impact is primarily a financial matter.

There are a number of legal issues which arise in connection with the BCB scheme overall which will be included in the report to the Executive in January. To assist members in understanding these issues at this stage, a summary of the advice to be provided in detail to the Executive is set out below:

The Council has the statutory power to indemnify mortgage lenders in certain circumstances pursuant to section 442 of the Housing Act 1985.

The Council can supplement the power under the Housing Act 1985 with the general power of competence pursuant to section 1 of the Localism Act 2011 and the incidental power under section 111 of the Local Government Act 1972 to mitigate any risks associated with relying on the Housing Act 1985.

The fact that the land is not owned by the Council does not affect its ability to rely on the above powers to enter into the scheme.

There are no restrictions on the Council applying any eligibility criteria for borrowers to be eligible to participate in the scheme.

There are a number of potential State Aid issues which the scheme presents but none of these are considered to present a barrier to implementing it. Providing that suitable conditions are attached to the loans to be provided by the Council to carry out the development and the fee paid to the Council by lenders is at a suitable market rate then the Market Economy Operator Principle provides a potential exemption to the State Aid rules which would protect the Council,

There are a number of contracts which will be required to be entered in order to govern the management of the scheme and the relationship between the parties.

The Council can lawfully receive the development profit which may arise as a result of participation in the scheme.

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8.0 Decision Information

Wards Affected

All Bicester

Links to Corporate Plan and Policy Framework

Housing – Cherwell a Thriving Community

Lead Councillor

Councillor Tony Ilott, Lead Member for Financial Management

Document Information

Appendix No	Title
None	
Background Papers	
None	
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