

FALKIRK COUNCIL

Subject: MORTGAGE TO RENT SCHEME
Meeting: HOUSING AND SOCIAL CARE COMMITTEE
Date: 10 November 2009
Author: DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES

1. INTRODUCTION

- 1.1 Members may recall the report to Policy and Resources Committee of 2 June 2009 as a referral from the Housing and Social Care Committee on 26 May 2009 about the Mortgage to Rent scheme. Approval was given to participate in the Mortgage to Rent scheme with an undertaking to review the operation of the scheme and report back to Members in due course.

2. BACKGROUND

- 2.1 Since June four cases have been received from the Scottish Government at the time of writing. Applications are being processed in accordance with the scheme procedures, however issues are arising when processing these applications particularly in respect of finance.
- 2.2 From experience to-date, after calculating the financial cost to the Council of acquiring the properties in accordance with the Scottish Government guidelines, there would be an annual net cost to the Council of around £500 per annum per property secured under the scheme. This annual cost would exist until the loan undertaken by the Council against a property is paid off. Given the size, type and location of these properties appears at this stage to be typical of property types which could be acquired through the scheme. Further analysis suggests that although in some cases there will be nil cost to the Council, in extreme cases this could be up to £1000 per property per annum until the Council's debt is cleared.
- 2.3 Members may wish to note that the average Council rent for similar properties is significantly below the benchmark rents the Scottish Government applies in calculating the amount of Government grant to be made available to the Council for purchasing the property. The low level of the Council's rents is in this case contributing to the shortfall in funding from the Scottish Government resulting in the likely costs to the Council highlighted in paragraph 2.2. At present it is not possible to predict how many properties this will apply to as the cost to the Council will depend on the property purchase price which is in turn dependant on market forces and desirability of location as well as Council rent levels.
- 2.4 It would appear that a number of local authorities involved in the scheme have the same issue in respect of a shortfall in rental income against cost of any loan to purchase a property. Where a shortfall exists these local authorities have chosen to accept this shortfall in income in order to secure the properties as a means of increasing Council stock numbers and assisting owners to remain in their homes that face the possibility of being made homeless with the associated resource implications for the Council. The average cost of purchasing a property would be £40,000 which is a substantial saving on the cost of a new build property (£100,000).
- 2.5 Taking into account the fore-going and in order to ensure that the Council can participate in the Mortgage to Rent scheme at no cost it is proposed that when purchasing properties through the scheme where a financial shortfall exists that the rent is increased on a property by property basis

to cover the cost and Members are invited to comment with a view to making a recommendation to Policy and Resources Committee.

- 2.6 Members may also wish to note that the “modernized” Right to Buy entitlements would apply, i.e. a tenant would be able to buy the property after having a tenancy for 5 years. In addition where a substantial expenditure has been incurred by the Council on improvements and repairs to the property, the cost floor provisions would apply to reflect the cost of repairs/improvements carried out by the Council within the 10 years prior to the purchase.

3. CONCLUSION

- 3.1 Participation in the national Mortgage to Rent scheme allows the Council to take an active part in helping home owners who are in financial difficulty to avoid homelessness and is entirely consistent with the Homelessness Strategy approved by the Council on 10 December 2008.
- 3.2 In order to participate in the scheme there will be a financial implication to the Council unless where a shortfall exists the rent is increased on a property by property basis to cover the cost.

4. RECOMMENDATIONS

It is recommended that Committee:

- 4.1 Notes that participating in the Mortgage to Rent scheme will have a financial cost in acquiring some properties based on existing Council rent levels unless the financial shortfall is covered by increasing the rent on a property by property basis to cover the cost; and
- 4.2 Agree to refer the report to Policy and Resources Committee for approval.

.....
DIRECTOR OF CORPORATE AND NEIGHBOURHOOD SERVICES

Date: 20th October 2009

Ref: AAL1109

Contact Officers: Jennifer Litts, Corporate & Neighbourhood Services, ext 0789
David Dunbar, Corporate & Neighbourhood Services, ext 0833