

CALL IN – LOCAL AUTHORITY MORTGAGE SCHEME

Informal meeting held on Wednesday, 29 May 2013

Present

Councillor Finch (Cabinet Member: Leader), Councillor Lord

Officers: Peter Fairley, Margaret Lee, Robert Fox

Introduction

This decision FP/149/02/13 had been called in by Councillor Lord on 24 May 2013. Councillor Lord raised the following seven issues:

- His view that it is not the place of the County Council or Borough/City/District Councils to replace either banks or building societies to be involved in mortgage lending
- Sir Mervyn King, the Governor of the Bank of England has warned against governments' existing *Help to Buy Mortgage Scheme* saying "I am sure there is no place for this scheme in the long term"
- The sub-prime defaults, causing so many problems for banks, were caused by highly leveraged borrowing such as the LAMS scheme encourages at 95%
- An extra £7million would, in balance-sheet terms, be seen as a potential liability to the Council
- The cut-off point of £250,000 is much higher than the average person would expect to pay as a first-time buyer or for a starter home
- To some degree the scheme could encourage local property price inflation
- The shortage of affordable housing can be addressed in many other ways such as supporting Housing Associations to supply affordable rental properties at much lower cost

In summing up Councillor Lord reiterated his objection, in principle, that, through the LAMS, the County Council will try and influence activity best served in the free market. The County Council, he stated, should be trying to assist those who cannot get housed. The County Council is not a housing authority, unlike District Councils who have an obligation to provide housing and releasing land for development.

Councillor Lord has no personal or pecuniary in the decision.

General response by Councillor Finch and Margaret Lee

The following points were made:

- Councillor Lord reiterated his view that the Authority should not be entering the mortgage market. Councillor Finch responded that the Council will not be mortgage lending. The Authority can get involved in the LAMS because it is of benefit to the

community at-large and around 6,000 residents could benefit from the scheme. People applying to the scheme will be subject to the same stringent credit checks as they would if applying to a bank or building society

- Responding to a further point relating to Mervyn King's statement from Councillor Lord that the Government is pushing their own scheme with an express aim to take over 10% of the mortgage market, which is an extension of current borrowing plans Councillor Finch reiterated that the Council will not be in the business of mortgage lending, but assisting people with deposits. Councillor Finch stated that Sir Mervyn King is correct in stating that the scheme is not a long-term option
- The £7million will not be a liability – it will go onto the reserve. Margaret Lee explained that ECC has established various scenarios with regard to interest rates and different rates of default. The £7m will sit on the balance sheet as an investment. A provision for bad debt will be created to reflect the possibility of default – this is a prudent course of action. The £7million will be part of the assets of the Authority, therefore, and not a liability The Council does not borrow against its asset base. Its borrowing requirement is covered by the Prudential Code incorporated into the Budget Report to Council each year. Councillor Finch stated that this year is the third year in which there has been no increase in the Council Tax thus showing the Authority recognises its responsibilities to the local tax payer.
- Councillor Finch stated £250,000 is the ceiling, however the houses the Authority sees the scheme operating with are lower cost houses and flats. It is sometimes difficult for buyers to fund the deposit on these homes and this is where the Authority wishes to assist. Average house prices across Essex are similar with specific areas having lower or higher prices. The most likely house price range where assistance will be given is £105-£110,000 for flats; £170-£190,000 for other properties
- With regard to local property price inflation Councillor Finch stated that scheme would not fuel property price inflation in the county
- Responding to Councillor Lord who stated his concern that the 95% mortgage borrower through this scheme will have an advantage over other borrowers – an advantage effectively subsidised by ECC, Councillor Finch stated the scheme is trying to assist and facilitate people owning their own homes, as we are a society of homeowners. Margaret Lee also pointed out that the scheme was open to all first time borrowers buying a house in the relevant areas, if one borrower chose to not take advantage of the guarantee scheme, that would be their choice. It was acknowledged that Housing Associations have a part to play in terms of the provision of affordable homes
- With regard to assisting those who cannot get housed Councillor Finch stated that help is available from the County Council to assist people through grants to voluntary organisations

Outcome

Councillor Lord confirmed he wished to refer the LAMS to the Corporate Scrutiny Committee at a meeting to be called within 10 clear working days of the call-in. The meeting will take place on Monday, 10 June 2013 at 9.00 a.m. in Committee Room 2, County Hall.

Robert Fox

30 May 2013