

REPORT TO: COMMUNITIES COMMITTEE ON 7 JUNE 2012

SUBJECT: REVIEW OF THE MORTGAGE TO RENT SCHEME

BY: CORPORATE DIRECTOR (ENVIRONMENTAL SERVICES)

1. REASON FOR REPORT

- 1.1 This report presents a review of the Mortgage to Rent scheme to the Communities Committee.
- 1.2 This report is submitted to Committee in terms of the Council's Administrative Scheme relating to homelessness.

2. RECOMMENDATION

2.1 It is recommended that the Communities Committee:-

- (i) considers the review of the Mortgage to Rent Scheme; and**
- (ii) agrees that the Council does not participate in the scheme but continues to promote the scheme as a means to prevent homelessness.**

3. BACKGROUND

- 3.1 The Scottish Government operates two schemes to help home owners who are experiencing difficulty in paying loans that are secured against their property. These are the Mortgage to Rent scheme and the Mortgage to Shared Equity scheme. Both schemes are funded through the Scottish Government's Home Owners' Support fund.
- 3.2 The Mortgage to Rent Scheme aims to help households in financial difficulty and at risk of being made homeless to continue to live in their home and avoid repossession and the high costs associated with homelessness. Before an application can be considered by the Scottish Government, legal action must be underway to repossess the property.
 - 3.2.1 Under the scheme a social landlord (either a local authority or a Registered Social Landlord (RSL)) would purchase the qualifying property and rent it back to the occupier as a Scottish Secure Tenancy. Ownership and all rights associated with the property transfer to the landlord and the previous owner becomes a tenant of the landlord. The scheme has existed in Scotland since January 2003 but was revised in March 2009.
- 3.3 The Mortgage to Shared Equity Scheme involves the Scottish Government taking a financial stake in the property that is at risk of repossession. The owner still owns the property, continues to reside in it and have the responsibility of maintaining and insuring it but the amount the owner has to pay to the lender every month is reduced.
- 3.4 As of March 2012, the Home Owners' Support Fund has been reduced from £18.5m to £10m.

- 3.5 On 21 June 2011, the Communities Committee approved the Homelessness Strategy Action Plan for 2011/12 (paragraph 5 of the Minute refers). An action for 2011/12 was to carry out a review of the Mortgage to Rent Scheme and implement recommendations.

4. **REVIEW OF THE MORTGAGE TO RENT SCHEME**

- 4.1 Since 2009, the Scottish Government has received 17 applications from the Moray area for the Mortgage to Rent scheme of which 5 have been successful. The total Scottish Government subsidy awarded was £285k, averaging £57k per property.
- 4.2 Three Registered Social Landlords (RSLs) in Moray have participated in the scheme - Moray Housing Partnership, Grampian Housing Association and Langstane Housing Association.
- 4.3. In reviewing the scheme, representatives from two of the RSLs who participate in the scheme met with officers from Housing and Property to discuss the difficulties they have encountered with the scheme. Officers from Trading Standards also attended the meeting as they provide financial advice to those at risk of repossession, advise on eligibility for the scheme and assist with the application process. The third RSL was unable to attend but did provide information that was discussed at the meeting.
- 4.4 In analysing the operation of the Mortgage to Rent scheme in Moray the following issues were highlighted:-
- timescales for making an application through to completion of the process are tight;
 - the location, type and condition of properties can often result in a refusal from RSLs. RSLs stated that often the property was in a state of disrepair, or in a location where they had little demand which would impact on their ability to relet the property;
 - the amount of subsidy from the Scottish Government would not or rarely would cover the cost of purchasing the property;
 - there are financial implications in participating in the scheme. The level of funding from the Scottish Government is insufficient to carry out the repairs/improvements required to bring the property up to an acceptable standard;
 - Trading Standards Officers assist applicants with the application process and although they cope with the level of demand, they find the timescales associated with the processes are restrictive.

5. **APPRAISAL OF THE OPTIONS**

- 5.1 From the information gathered and the analysis made, officers considered whether or not to participate in the scheme. The options considered are as follows:

5.2 Option 1: Fully or partially participate in the scheme and determine an amount to be allocated from the Housing Revenue Account to fund the scheme.

5.2.1 Officers identified that the risk to the Council in terms of budget/resource implications in participating in the scheme would outweigh the benefit of preventing homelessness. The amount of subsidy from the Scottish Government would not or rarely would cover the cost of purchasing the property. The funding from the Scottish Government for repairs to meet the Scottish Housing Quality Standard is often less than required and additional costs are therefore incurred. The Council would have to cover any deficit. In addition, the Council would have to consider the possible increase in the level of funding required for repairs and maintenance as well as staff and related costs to administer the scheme, carry out legal work, complete repairs inspections and tenancy management etc.

5.2.2 The timescales for processing applications for the scheme can also mean that the owner's arrears are continuing to accrue with the likelihood of court action progressing to decree.

5.2.3 Participation in the scheme could add to the Council's housing stock, whilst enabling the owner to remain in the property as a Scottish Secure tenant. However, the cost of enabling this would vary by property.

5.2.4 During 2011/12, the Council received 16 homeless applications from owners who cited financial difficulties as their reason for applying. Given the criteria for the Mortgage to Rent scheme, it is estimated that very few of these would qualify for the scheme and be accepted by an RSL.

5.2.5 The view of RSLs participating in the scheme is that it is an expensive prevention of homelessness option. Given the limited success of the scheme in Moray to date, Officers do not consider that Council participation in the scheme would be beneficial at this time.

5.3 Option 2: Do not participate in the scheme but continue to promote it as a prevention of homelessness option.

5.3.1 This is considered to be the preferred option as the associated costs are considered to be disproportionate to the benefits. In addition, there are currently three RSLs in Moray who participate in the scheme. Officers could not identify any advantages in the Council becoming a fourth participant.

5.3.2 The Council could continue to promote use of the scheme to applicants who are in housing crisis and threatened with homelessness and who may be eligible.

5.4 As identified by the analysis of each of the options, the recommendation is that Option 2 is the preferred option.

6. SUMMARY OF IMPLICATIONS

(a) Single Outcome Agreement/Service Improvement Plan

This proposal relates to:

- (i) Local Priority 4 – Housing/Homelessness; and
- (ii) Service Improvement Plan Priority 2.2 – Preventing Homelessness

(b) Policy and Legal

There are no direct implications arising from this report.

(c) Financial Implications

The financial implications of participating in the Mortgage to Rent scheme are referred to in Section 5 of this report. If Option 1 were the preferred option, the Council would need to fund deficit costs ranging from £22k to £47k per property, dependent upon the detail of each application under this scheme. This would have budget implications for the Housing Revenue Account.

(d) Risk Implications

None arising from this report.

(e) Staffing Implications

There are staffing implications for implementing and managing both schemes but it anticipated that these will be contained within existing resources.

(f) Property

None arising from this report.

(g) Equalities

There are no equalities issues in this case.

(h) Consultations

Discussion on this report has taken place with the Homeless Strategy Group. Consultation on this report has taken place with the Head of Housing and Property, the Principal Accountant (Deborah O'Shea) and the Legal Services Manager (Aileen Scott) who agree this report.

6. CONCLUSION

6.1 This report presents an overview of the Mortgage to Rent scheme and seeks agreement that the Council does not participate in the scheme but continues to promote it as a prevention of homelessness option.

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Ref: JS/Strategy Action Plan/