TEIGNBRIDGE DISTRICT COUNCIL

EXECUTIVE PART 1

31ST OCTOBER 2019

Report Title	**SHARED EQUITY SCHEME IN CHUDLEIGH**
Purpose of Report	To seek Member approval for Section 106 offsite affordable housing contributions of **£667,559** generated within the Parish of Chudleigh to be used for a Shared Equity Scheme within the Parish.
Recommendation(s)	**The Committee recommends to Council that a Shared Equity Scheme is set up in Chudleigh using £667,265.69 of capital receipts received by way of offsite affordable housing contributions to assist up to 13 local purchasers.**
Financial Implications	(Comment on financial implications from Finance) Andrea Snape, Accountant. Tel: 01626 215261 Email:andrea.snape@teignbridge.gov.uk Section 2.2 details the financial implications for funding which has been approved within the capital programme.
Legal Implications	(Comment on legal implications from Legal Services) Paul Woodhead Legal Services Team Leader and Deputy Monitoring Officer – paul.woodhead@teignbridge.gov.uk See Sections 2.4 and 2.11. The funding proposals are in accordance with the relevant Section 106 planning agreements and the loans comply with the Consumer Credit Act 1974.
Risk Assessment	See Section 2.12. Risks are relatively minor and can be mitigated against.
Environmental/ Climate Change Implications	There are no implications other than the ability to assist first time buyers to remain in their existing locality rather than moving away and having to commute.
Report Author	Graham Davey, Housing Enabling and Development Manager Tel: 01626 215412 Email: graham.davey@teignbridge.gov.uk
Portfolio Holder	Councillor Jackie Hook Portfolio Holder for Climate Emergency and Housing
Appendices	None
Background Papers	Overview and Scrutiny Committee Report 15th January 2018 re Teignbridge Shared Equity Scheme

1. PURPOSE

To seek Executive approval for the use of Section 106 affordable housing commuted sum payments generated from sites in Chudleigh to be used for a Home Buy (Shared

Equity) Scheme for the Parish of Chudleigh. This being the subject of a previous report to Overview and Scrutiny Committee on 15th January 2018 (Appendix A) when a decision was deferred pending further information and consultation with the Chudleigh Town Council and Ward Members.

2. REPORT DETAIL

2.1 In 2013 Sovereign Housing Association and Teignbridge District Council launched an open market Homebuy product for prospective first time buyers wishing to purchase on the second hand homes market. The scheme involved investment of £256,925 (plus admin fee) from the Council and £90,000 from Sovereign Housing Association. Its purpose was to stimulate the local housing market and assist first time buyers with the deposits required to access a mortgage and reach their first step on the housing market. 9 properties were purchased under the scheme. To date 5 properties have been sold providing a gross return on investment of 14% to Teignbridge District Council enabling further investment. The money goes back into Housing Capital Receipts.

2.2 The Commuted Sums received in Chudleigh.

2.3. There are two commuted sums received. £620,706.69 of commuted sums were paid by the Rivendell development in Woodway Street, Chudleigh instead of providing 12 affordable homes on site. The affordable housing contribution must be spent within 10 years of receipt and has come in two tranches:

- **£313,853.41** - spend date is 8 September 2026
- **£306,853.28** - spend date is 28 June 2027

2.4. There are restrictions on expenditure of the commuted sums. These are set out in the Section106 agreement:

1. It has to be spent by an Affordable Housing Provider which is defined as a Registered Provider (TDC is a Registered Provider) or a Housing Association or a body whose main object is the provision of Affordable Housing.

2. For Affordable Housing defined to mean housing as defined in the NPPF Annex 2 (as amended by NPPG 2018).

3. First preference has to be given to provision within the parish of Chudleigh but if that is not achievable then within the neighbouring parishes of Kenn, Kenton, Trusham, Hennock, Kingsteignton, Ideford and Ashcombe and if that is not achievable elsewhere in Teignbridge.

The second is **£46,559** from Old Chapel, Exeter Road, Chudleigh which has similar, but less onerous restrictions and has been received in lieu of one unit of affordable housing on site.

The total commuted sums available are therefore £667,265.69.

The proposals put forward in this report accord with the stipulations of the Section 106 Agreements

2.5. The Chudleigh Scheme.

The proposal is based on an investment in each home of a maximum 25% equity share or £55,000 (whichever is the lower) and subject to affordability. The proposal is to cap the house purchase price at £220,000. Initial research is based on Rightmove house prices in Chudleigh in July 2019.

2.6. Who is the scheme designed to help?

The scheme will be aimed at First Time Buyers with a local connection to Chudleigh. It will be able to provide assistance to applicants with a combined household income of around £35,000 or less.

2.7. A typical Example.

2/3 bedroomed house purchased in Chudleigh for £220,000.

Teignbridge Share reduces purchase price to £165,000 (£55k / 25% equity)

Deposit will range between £11,000 and £8,250. (depending on 5% of purchase price of £220k or 5% of purchase price less TDC equity £165k)

Mortgage will be between £154,000 and £156,750.

Based on a 30 year mortgage this equates to monthly mortgage repayments of between £728 and £741 per month which compares favourably with an equivalent private rent of £890 per month for a 3 bed house in Chudleigh and affordable rents of £663 to £714 per month.

It is estimated that the Councils intervention of the equity loan will save the prospective purchaser between £170 and £200 per month in interest repayments making home ownership much more affordable during the 10 years that the equity loan is in place.

2.8. How will the scheme be administered?

Applicants will be assessed by one of our Registered Provider Partners, Westward Housing Group Ltd who will administer the scheme on our behalf and draft heads of terms have been agreed. The cost of administration will be funded from the commuted sums.

The eligibility criteria proposed are subject to detailed consultation with Ward Members and the Town Council but essentially will be as follows:

2.9 Eligibility criteria.

1. Local connection to Chudleigh

2. Joint (household) earning of less than £60,000 pa gross and unable to purchase a house on the open market without the equity loan.
3. Mortgage repayment period no more than 35 years and the sum no more than the share being purchased.
4. Evidence of sufficient funds to cover legal; costs, stamp duty (if applicable), and deposit.
5. Not an existing homeowner.
6. Equity Loan to run for no more than 10 years when the applicant will be expected to fund the loan independently or earlier if the property is sold.
7. The loan repayment remains at the original equity loan percentage based on the selling price.
(For example purchase price of £200k with 25% equity of £50k. A resale at £240k would require a 25% repayment to TDC of £60k)
8. The Council would have a second charge on the property.
9. Applicants will be responsible for their legal costs, stamp duty and other associated buying costs.

Additional criteria can be added, such as Keyworkers, if deemed appropriate by the ward Members and Town Council.

2.10. Consultation so far.

Consultation on the options for the use of the Commuted sums took place at a drop in event in Chudleigh on 14 April 2018. An Options Paper was sent to Chudleigh Town Council (CTC) on 06 September 2018 and a meeting held on 8th October 2018 to discuss the Options.CTC passed a resolution supporting the scheme on 3 December 2018

18) **Resolution: "The Town Council endorses the report provided by TDC on the value of a shared equity scheme to provide affordable housing. The Council asks that the TDC Executive supports such a scheme in Chudleigh using the affordable housing contribution made as part of the section 106 agreement relating to the Rivendell development"** Proposed by Councillor Underwood. Seconded by Councillor Lillington. Councillors voted 10 in favour with 1 abstention. Councillors have asked if contact can be made with Teignbridge District Council, to see if there is also a possibility of doing a rental scheme. **Action point 9**

Teignbridge District Council's Capital Review Board, reviewed the scheme on 24th April 2019 and approved. The new Chudleigh Town Council were briefed on the scheme on 1st July 2019. District Councillors were notified of that meeting and fully briefed afterwards.

2.11. Legal and Financial Implications

Compliance with the Consumer Credit Act 1974. For the previous Teignbridge wide scheme the TDC loan (equity share) was charged at a rate of 0.75%, with an additional annual review with an additional yearly increase of RPI plus 0.5%. In order to avoid registration with the Financial Conduct Authority we need to ensure any product we offer is at a rate lower than the market. The Council will have an exemption as the scheme will apply to a restricted group of qualifying persons and the charge on the equity share will be lower than the market as will be based on small return over the Public Works Loan Board rate. We intend this scheme to be structured on the same basis.

2.12. Risk

There are a number of risks to the project. These are detailed below:

Risk	Impact	Likelihood	Mitigation
Properties do not increase in value or decrease in value and applicants cannot pay deposit	5	2	Current property values in TDC have increased on average of 7.29% amount per year.
Applicants unable to pay loan at end of term due to financial circumstance	5	1	Robust financial assessment of applicant's financial situation at point of application.
Properties purchased have structural/repair issues	3	1	Requirements for structural surveys on any property purchased.
Applicants defaults on mortgage	3	1	Robust financial assessment Council has second charge on property.
Fire, Flood Subsidence or structural defect	3	1	TDC to ensure applicants are adequately insured on an annual basis.

2.13. Timescale

Subject to approval it is intended to launch the scheme in early 2020 with a review of progress after 12 months.

3. CONCLUSION

There is a need for a form of intermediate housing for those households that do not qualify for Devon HomeChoice and cannot access the open market. The Shared Equity Homebuy proposal is simple to understand and administer and has potential to generate a return on capital that can be reinvested in affordable housing.

All Shared Equity Loans meet Homes England definition of affordable housing and therefore are able to contribute to our affordable housing delivery as well as providing a quick intervention into the Housing Market.