PETERBOROUGH CITY COUNCIL

MINUTES OF A MEETING OF THE SUSTAINABLE GROWTH SCRUTINY COMMITTEE HELD AT THE BOURGES/VIERSEN ROOM - TOWN HALL ON 29 JUNE 2011

Present:	Councillors C Burton (Chairman), S Allen (Vice Chairman), N Arculus, D Day, J Peach, E Murphy, N Sandford
Also Present:	Councillor M Dalton, Cabinet Member for Communications Councillor M Jamil
Officers Present:	Paul Phillipson, Executive Director of Operations Steven Pilsworth, Head of Corporate Services Kim Sawyer, Head of Legal Services Paulina Ford, Senior Governance Officer, Scrutiny

1. Apologies for Absence

There were no apologies for absence.

2. Declarations of Interest and Whipping Declarations

The following declarations of interest were made:

Councillor Arculus declared that he worked at a conveyance firm which bought and sold properties and secured mortgages against properties and that his father was Chairman of a bank but one that was not involved with the Local Authority Mortgage Scheme.

Councillor Murphy declared that he owned property in Peterborough and had dealings with some of the banks that might be involved.

Councillor Peach also declared that he owned property called Broadway Properties within Peterborough.

The Chair requested that the Legal Officer advise if the declarations amounted to an interest. The Legal Officer's response was that having assessed the papers and having considered the declarations of interest in her opinion those declarations had not amounted to a personal interest. The Legal Officer had produced a written advice note regarding this and copies were made available.

3. Request to Call-In an Executive Decision – Local Authority Mortgage Scheme - JUN11/CAB/061

The purpose of the meeting was to consider the Call-In request that had been made in relation to the decision made by Cabinet on 13 June 2011 with regard to the Local Authority Mortgage Scheme.

The request to Call-In this decision was made on 17 June 2011 by Councillor Murphy and supported by Councillor Jamil. The decision for Call-In was based on the following grounds:

1. The decision did not follow the principles of good decision making set out in Article 12 of the Council's Constitution, specifically that the decision maker did not:

(a) realistically consider all alternatives and, where reasonably possible, consider the views of the public

After considering the request to call-in and all relevant advice, the Committee were required to decide either to:

(a) not agree to the request to call-in, when the decision shall take effect;
(b) refer the decision back to the decision maker for reconsideration, setting out its concerns; or
(c) refer the matter to full Council.

In support of the request to call-in Councillor Murphy and Councillor Jamil made the following points:

Before Councillor Murphy addressed the Committee the Chair requested that Councillor Murphy should not discuss pecuniary interests as it was not a matter for the Scrutiny Committee but if there were a complaint it would need to be referred to the Standards Committee.

- Councillor Jamil advised that in principle he was not opposed to the scheme, but he wanted to make sure the scheme was going to work for Peterborough, and was the best use of Council money.
- The scheme may make properties prices artificially high and it would have been useful to have had examples of the scheme already working in other Authorities.
- Did the Council consider other providers or other expertise within the council or a partnership to provide mortgages directly?
- Were alternatives considered?
- Why weren't the views of the public and other stakeholders effectively sought?
- Who initiated the idea with the Council and who developed the policy?
- Did Treasury Services Ltd receive a payment from the Council and would they get commission.
- Where will the £1 million funding come from.
- Had a risk assessment been completed?
- Do applicants have to be resident in Peterborough at the time of application?
- What would happen if the interest rates go up?
- Has there been an Equality Impact Assessment done on this policy?
- What effect would this have on the rental market within Peterborough?
- Was it sensible to tie £10 million up for 5 years at 4.7% interest rate, when there was an expectation that interest rates would go up?

Questions and Comments from Members:

- Cllr Arculus hoped that by determining the eligibility criteria this would alleviate any concerns about the scheme and the process. The fine details of the eligibility criteria would be decided at Full Council.
- Would the £1million deposit with Lloyds happen on day one or only once an applicant had passed the criteria?
- Who will be responsible for ensuring that the banks don't routinely ask the Council to make the full 20% deposit for anyone passing the application for a mortgage?
- Are we taking on security for the deposit we give?
- Why were new builds excluded from eligible properties in the scheme?
- When Lloyds assess the level of interest to charge the mortgagees will the bank apply the normal criteria for the level of interest?
- How much would it cost to buy in the expertise to run our own mortgage scheme?
- Do you think this scheme will have an effect on the value of property in Peterborough?

Councillor Matthew Dalton, Cabinet Member for Communications spoke in favour of the Local Authority Mortgage Scheme.

Steven Pilsworth, Head of Corporate Finances responded in answer to the Call-In request:

- The overall aim of the scheme was to offer help to first time buyers and the issues they were facing due to the credit crunch where significant deposits were required to enable them to get onto the property ladder. With the initial £1 million and given the average price of properties at the moment, help could be given to fifty first time buyers. If the scheme were extended to £10 million, as the Cabinet recommendation proposed help could be given to up to five hundred first time buyers. This was out of a total of 78,000 properties in Peterborough. It was felt that this would not cause a significant effect on the property prices.
- Lloyds TSB Banking Group was currently the only provider signed up to the scheme but the Authority was keen to have other providers on board to ensure a high level of choice. Sector was currently engaged with fifteen other providers to get them on board with the scheme. Sector would need to demonstrate to the European Union that they had actively pursued other providers if they were not to fall foul of EU state rules for only having one banking provider. Other lenders would not be accepted unless the Authority had adhered to the Council Treasury Management Strategy which governed where sums of money could be deposited as approved by Full Council as part of the Medium Term Financial Strategy. The UK Government Guarantee provided security for the deposit.
- With regard to whether the Council could have proceeded on their own with an alternative scheme. The Council did not have the necessary expertise to offer mortgages directly as it was not a bank. Significant amounts of time and money would have needed to be invested engaging with the banking sector to establish such schemes. This would have duplicated the work Sector had already done but 100% of the cost would have been met by the Council rather than it being shared out by a number of councils. An example of a local authority getting involved in a banking set up was Essex Local Authority. A partnership with Santander was set up but no longer existed. It had cost over £400,000 to set up. The Council did not have back office functions to offer such a set up and would have had to enter into partnership with another banking or mortgage corporation to assess the mortgage applications.
- With regard to public consultation, the scheme had been published on the Forward Plan on 17 May 2011 well in advance of the Cabinet meeting and a previous meeting of this Committee. Broader consultation had not been necessary as it only affected those people who wanted to opt in. The financial risk was very low and did not affect the other services or the overall finances of the Council. Greater consultation would have delayed implementation of the scheme until next year. There would be an opportunity for Council to discuss the local eligibility policy at the Full Council meeting on 13 July 2011. Eligibility criteria would be debated and equality issues would be published.
- With regard to Sector's role in the scheme. Sector led nationally on all the work liaising with banks, had conducted all of the dealings with the EU on state aid issues, prepared all the legal documents for the scheme, sought Council's opinion and provided appropriate advice. The Council had paid £3000 for all the information and guidance to enable the Council to proceed. A smaller fee had been paid for independent legal advice to Q & A all the information supplied and the legal documents the banks had provided.
- The Council would only face costs if two things happened firstly if there was a default and secondly if the property was repossessed and resold at a considerably lower value than the original mortgage. The estimate of that, in terms of the risk assessment has been done and was outlined in the Cabinet report. The Council would receive interest on the deposit and the level would be significantly higher than if it were deposited straight into Lloyds. Some of this could be used to support any default and any costs that arose.
- In terms of timing and the ability to participate in a pilot, those councils that were involved earlier were assisting Sector in designing the scheme and helping to develop the documentation and producing the guidance that was released in April. There had then

been a period of due diligence and external legal advice had been sought before the Council were satisfied that the scheme could be brought forward. It had then been published on the next available Forward Plan.

- The interest rate offered by Lloyds was currently 4.7% and would be fixed for five years. Only £1 million would be tied up in the first instance with an opportunity to extend that to £10 million subject to the terms offered.
- £1 million would be deposited with Lloyds at the point of signing the agreement with them. The money would then be available to them to offer mortgages with an indemnity up to the value of that mortgage. The deposit would only be extended with Lloyds once the initial £1 million was exhausted. When the numbers of lenders involved in the scheme had increased a deposit would also be made with them this would then give applicants greater choice.
- Lloyds would assess loan to values and amount of deposit. There would be an assessment of how much people could afford. The Council would provide 20% indemnity.
- There was no security on the 20% deposit. There was however a legal requirement and case law on banks seeking best consideration/house prices in the case of default. If banks were selling at a lower rate on default mortgages then we could legally challenge them and make a claim against our indemnity.
- It was Lloyds policy not to include new builds as part of the scheme. However, the Authority was very keen for other lenders to get involved who would offer a scheme to include new builds.
- The Policy might provide a ceiling on the values of property that the scheme would cover and this was under discussion.
- Mortgage applicants would get a better rate of interest on this scheme as they would be assessed as if they were providing a 25% deposit.

RECOMMENDATION

The request for Call-in of the decision made by Cabinet on 13 June 2011, regarding the Local Authority Mortgage Scheme was considered by the Sustainable Growth Scrutiny Committee. Following discussion and questions raised on each of the reasons stated on the request for call-in, the Committee did **not** agree to the call-in of this decision on any of the reasons stated.

It was therefore recommended that under the Overview and Scrutiny Procedure Rules in the Council's Constitution (Part 4, Section 9, and paragraph 13), implementation of the decision would take immediate effect.

CHAIRMAN
6.30 - 8.00 pm