

Resources and Fire & Rescue Overview and Scrutiny Committee

15 September 2021

Priority Worker Help to Buy Scheme (PWHTB)

Recommendations

That the Committee:

1. Considers and comments on the attached Priority Worker Help to Buy (PWHTB) report;
2. Considers and comments on the proposal to adopt a broad definition of a Priority Worker from which to make specific decisions about priority workers to target on a scheme-by-scheme basis, using local workforce data and intelligence, as developments come through the Warwickshire Property and Development Group; and
3. Makes recommendations to Cabinet in respect of any suggested amendments to the proposed arrangements in the report.

Report structure:

1. Background
2. Draft product description
3. Legal considerations
4. Subsidy control
5. Financial implications
6. Environmental considerations
7. Risk management considerations

1 Background to this report

- 1.1 This report follows the reports to Cabinet on the set up of the Warwickshire Property and Development Group (WPDG) and continues work on the operational delivery of the Commercial Strategy. It aims to provide the Overview & Scrutiny Committee with detail on the proposed Warwickshire Priority Worker Help to Buy Scheme, to enable the recommendations of the Committee to be fed into Cabinet consideration of the scheme when it meets on 14th October 2021.
- 1.2 The proposal in this paper aligns with the Council's Recovery Plan objective 7.8 'Working in partnership with Homes England, we will remove the blocks that have

prevented some sites in Warwickshire from being developed, providing more and affordable housing whilst also supporting the recovery of our local economy.’ The proposal is intended to complement the new (replacement) national Help To Buy Scheme, as amended from April 2020, the newly announced First Buy Scheme. The proposed Warwickshire Priority Worker Help to Buy scheme (PWHTB) has potentially less restrictive applicant criteria and is potentially less restrictive on whom the property can be sold on to than the new national Help to Buy Scheme.

1.3 This report sets out the rationale for proposals for Warwickshire County Council to:

- (i) progress development of a financial product of its own – the Warwickshire PWHTB scheme - to encourage home ownership; and
- (ii) have an option to offer this PWHTB product selectively across its own WPDG developed sites on a variable proportional basis.

1.4 This report is about the concept and development of a potential PWHTB scheme. Roll out of the PWHTB product would not take place until the scheme is approved in principle, further developed and after WPDG develops out and builds homes. We will be seeking Cabinet approval for the principle of the PWHTB scheme, based on the work to date, and approval for the further development of the product in collaboration with WPDG.

1.5 It is possible that thereafter the Council could widen and increase the scale of the scheme as further WPDG developments take place. There would also be future opportunities to work with central Government to jointly utilise and potentially operate some of Government’s funding programmes, building on the Council’s enhanced knowledge of the local area and local delivery vehicle through PWHTB.

1.6 The primary benefits of this proposed scheme are to provide the Council with a financial product it controls that:

- provides priority worker residents with a product that provides a ‘better’ alternative to the Government schemes, such as the new national Help To Buy and First Homes Schemes;
- helps existing or to be Warwickshire residents who are priority workers working in Warwickshire to afford to buy homes, thus contributing to ‘levelling up’ and demonstrating an innovative approach to addressing both local housing need and national priorities (this may potentially include some County Council employees in priority roles but will not be limited to council employees);

- de-risks WPDG sales from an affordability perspective by making homes more affordable on a site-by-site basis, although this would transfer some of the financial risk associated with reductions in house prices from buyers to WCC, as WCC's equity-based loan may decrease in value; and
- provides a recruitment and retention tool for those employing priority workers who live and work in Warwickshire, contributing to robust, resilient services to the public and helping mitigate significant recruitment and retention risks, which are well understood, in particular sectors, roles and places.

1.7 The legislation is complex, but, at present, is drafted in a way which means this scheme can only be applied to property WCC owns, or has provided development funding for (which will generally be the case for assets developed by WPDG). Subject to further work to finalise the details, it is envisaged that the key elements of, and principles underpinning, a Warwickshire Priority Worker Help To Buy Product would include:

- being available for homeowners where this will be their only home (so not a pure first-time buyer scheme as it will include movers and previous owners, but explicitly not those with other homes);
- being based upon equity-based loans¹ – such a product could be interest-free for 5 years (for example) after which it could convert into an interest-bearing loan. This loan crystallisation date could require the homeowner to either refinance on day 1 of year 6 so that WCC gets its investment % back based on the house value at that time, or the homeowner will pay WCC interest on the loan from the first day of year 6, in addition to WCC's stake in the property, until refinancing takes place;
- offering a loan rate on day 1 of year 6 that starts at x% and grows at RPI plus x% to help encourage refinancing (rates to be set higher than the prevailing market rate) and it is proposed that these rates will be set at the time of issuing a PWHTB scheme for a specific site;
- the ability for priority workers to buy out WCC's share of the equity on their property (known as 'staircasing up') in blocks of 5%, so if WCC's interest was a 25% share, the homeowner could in this example have 5 additional share buying 'staircasing' events, until they own the entire property;

¹ In this instance, an equity-based loan means that WCC would in effect take share of the property. This ties the loan to the current house price, so if house prices fall, the loan reduces in value, but if they rise, then the value of the loan rises proportionally.

- no restrictions on who the home can be sold to (unlike the First Homes Scheme where equity is left in in perpetuity and sales are restricted to priority workers only, which reduces the demand for First Homes, and so appears to be unpopular with lenders);
- an example split of funding whereby the homeowner (Mortgagor) funds a deposit of 5%, WCC/WPDG funds 25%, and the Lender (Mortgagee) 70%;
- the ability to set maximum house price levels for the WCC scheme in line with each development rather than being restricted by the maximum house price of £255,600 in the current national HTB scheme level (reduced from £600,000 in the Government's HTB Scheme 1); and
- the ability to set a timely maximum 'household' income level to be eligible for the scheme.

1.8 In essence, this is a scheme which could be used for specific WPDG developments with the potential for the Council to develop and promote access to homeownership within Warwickshire for current and future priority workers who work in Warwickshire and want to own a home in Warwickshire. This report is about consideration of the concept and development of such a product in advance of homes being built by WPDG so it is ready as an option for use when these homes are built. The appropriateness of the scheme for each WPDG development site would be considered as part of each Site Specific Business Case and thus considered at the WPDG Governance Group, and subject to recommendation from the Shareholder's Representative, to Cabinet for decision.

1.9 There are other options that could be considered in order to facilitate access to home ownership. These include Rent to Buy and lease products which provide support to potential buyers while they save for a deposit. These alternatives are not considered within this paper, other than to recognise that the proposed PWHTB scheme would potentially be one of a number of options available to help with affordability for Warwickshire priority workers at a point in time, as part of wider work by the Council to support the 'levelling up' agenda.

1.10 Depending on the final structure of the PWHTB scheme, the Council will have decision making authority in terms of its use and the terms of the product; this will enable the Council to develop a product that meets local objectives on a scheme-by-scheme basis. It will be important for the Council to signpost unsuccessful PWHTB applicants and interested parties to other alternative schemes.

1.11 The Council will need to consider the potential parameters of any product and the priority groups it may be made available to. The original Homes England Help to Buy scheme has had a significant impact on the new build market largely because it was made available to a very broad range of potential purchasers. This has, however, also been the source of much criticism of the scheme in that it has not provided targeted support. The new national Help to Buy scheme, which has been funded from April 2021, is a far more limited product designed to support first time buyers to access lower value properties.

1.12 The Council should consider as part of the design of any product the priorities for the Warwickshire area and the type of assistance which will make the most difference in the market. This should be aligned with the Council's existing priorities and programmes and local intelligence on market need. In Warwickshire the maximum house value for which Help to Buy can be used was reduced from £600,000 in the original scheme to £255,600 in the current scheme.

1.13 The following table provides the new levels across England, for comparison:

Region	Maximum House Price
West Midlands	£255,600
East Midlands	£261,900
North East	£186,100
North West	£224,400
Yorkshire and the Humber	£228,100
East of England	£407,400
London	£600,000
South East	£437,600
South West	£349,000

Note: The Price caps are set at 1.5 times the average price paid by first time buyers in each region of England in August 2018.

1.14 As part of each development proposal from WPDG, where it is proposed to utilise the PWHTB product, the Cabinet would consider recommendations in respect of the potential use of price caps against the objectives of the specific development and types of homes being built. It is possible the house price cap will not work for priority worker couples who for example have a requirement for three or more bedroomed new build homes or a further example, regardless of price, are looking at a flat as their home and the new national scheme excludes flats. By taking a local, scheme-by-scheme approach the Council can apply a more up to date and targeted offer appropriate to local circumstances and needs.

1.15 WCC engaged with a building society to test the appropriateness and mortgage-ability of this product. Feedback from these early discussions suggests broad support for the product with further consultation needed and planned to test this in more detail.

2 Draft product description

2.1 As set out above, the initial proposals are that the product:

- is purely available on WCC/WPDG developed assets - new builds only;
- must be the homeowner's only home, including houses and flats, (so not a pure first-time buyer scheme as will also include movers and excludes multiple homeowners and flats are no longer part of the new HTB2 Government Scheme);
- offers equity-based loans - interest free for 5 years then becomes an interest bearing loan - crystallise for refinancing on day 1 of year 6 and WCC gets its investment % back based on the house value at that time or the homeowner will pay WCC interest on the loan;
- offers a loan rate on day 1 of year 6 that starts at x % and grows at RPI plus x % to help with that refinancing decision. Rates could be set at the time of the Cabinet decision to approve the site-specific development plan, or nearer the time the homes are built;
- provide for staircasing² in 5% blocks so if WPDG/WCC equity was a 25% share the homeowner would be able to take up to five staircasing opportunities; and
- include no restrictions to whom the home can be sold to.

2.2 Other alternatives to setting a scheme-by-scheme maximum price might include increasing the national scheme cap of £255,600 to either a flat rate of say £350k or offer different maximum levels for 1, 2, 3 and 4 bed homes of say £200k, £250k, £350k and £400k respectively. This and options relating to the percentage contribution to be made by the home buyer will be considered in the next phase of work.

2.3 The scheme will be open to priority workers only who work in Warwickshire:

- i. Great care must be taken when deciding who may be eligible, and Equality Impact Assessments will be required in finalising the product. The current intention is for the scheme to be available to priority workers, under a

² Staircasing is the ability of the homeowner to buy out WCC's equity share in a series of transactions, to try and find a balance between these being affordable, without WCC having to micromanage a large number of small changes.

- definition to be determined with an income eligibility threshold, who work in Warwickshire and purchase Warwickshire developed homes through the WPDG as their sole residence.
- ii. As there will be limited volume of homes available from this offer and there are other national products available it may be advisable to keep the criteria for those eligible relatively narrow.
 - iii. In addition WCC should also ensure that unsuccessful applicants are directed towards other affordability products available at that time.

2.4 There are various definitions of priority workers / key workers in existence. Given this, it may be better to keep such a definition flexible at this stage. However, for the purposes of this report some of the potential included groups are shown below by way of example.

Narrow

- NHS
- Education (potentially incl. Higher Education)
- Police
- Firefighters
- Local Authority - all or just those highlighted as 'key workers' e.g. children's social workers, adult social workers, planners, HGV drivers
- Ministry of Defence (MoD) – include ex forces and their partners if they are deceased

Broader:

- Prison Service/Probation Service
- Highways Agency frontline workers
- Supermarket workers
- Bus drivers
- Nursery workers
- Court Service staff
- Delivery drivers
- Non-NHS medical
- Care workers, including domiciliary and in care home workers
- Energy and environmental workers

2.5 Adding others is something to consider against the volume of available PWHTB homes which is a factor in this consideration given the small numbers available, in addition to the local circumstances at the time of the developments.

3 PWHTB scheme and legal considerations

3.1 In summary, the legal advice received is as follows:

- i. An equity loan product in respect of housing stock owned or developed by the Council (including any wholly owned housing delivery vehicle or the JV) can be structured such that it is not FCA regulated (so the Council would not require FCA authorisation in order to offer it). This would need careful structuring and would need to be marketed appropriately to fit within the relevant FCA exemption, but it is considered that this would not be unduly restrictive in terms of the product the Council could offer.
- ii. An equity loan product in respect of open market housing (i.e. housing owned by persons who are unrelated to either the Council or its wholly owned subsidiary) is likely to require the Council to be FCA authorised and would also require the Council to offer the product on the basis of a statutorily prescribed interest rate which may make the product financially unviable for the proposed target purchasers.

4 Subsidy Control

4.1 Subsidy Control is the post-Brexit replacement for State Aid. It is an area on which the Government is consulting and a Subsidy Control Bill is expected within the lifetime of the current parliament. Therefore, the below position could be subject to change.

4.2 There are two potential classes of beneficiary from a PWHTB scheme, the Purchasers (who are in receipt of state assets to permit them to purchase a home) and the seller (who are in receipt of state assets in return for sale of that home). The below applies to both.

4.3 Subsidy Control treats the provision of social/affordable housing more generously than other economic activities. Funding aimed at enhancing low-cost home ownership (**LCHO**) could be a lawful subsidy provided that the relevant criteria are complied with.

4.4 These criteria currently require that an investment:

- must involve tasks in the public interest – LCHO can be seen to be in the public interest;
- must be assigned in advance of payment in a transparent manner – WCC must have a clear set of eligibility criteria;

- should satisfy the relevant Subsidy Principles, i.e:
 - a. should support a specific public policy objective to remedy an identified market failure;
 - b. be proportionate, limited to what is necessary;
 - c. be designed to bring about economic behaviour conducive to policy aims;
 - d. does not duplicate what recipients/beneficiaries would fund themselves;
 - e. be an appropriate policy instrument, with no other less distortive methods; and
 - f. make positive contributions which outweigh any negative effects
- should be limited to what is necessary to perform the task [in this instance the provision of affordable homes] plus, if necessary, a reasonable profit; and
- should not cross subsidise market activities.

4.5 Provided that care is taken, the above criteria can be navigated, and the proposed scheme can be structured in such a way as to be compliant with the current Subsidy Control regime.

5 Financial Implications

- 5.1 In offering a PWHTB product the Council will need to have funded a capital sum in the development for each house that it puts into the PWHTB scheme. It will be deferring a proportion of the receipt on the sale of the house to the value of the help to buy equity-based loan.
- 5.2 Whilst the balance sheet will have an asset to the value of all these deferred receipts, they will not be usable until such time as the priority worker exits the scheme. The equity-based loan may increase or decrease in value and valuations will take place annually for the accounts and can be more frequently estimated for reporting purposes. Where the home is a 100% WPDG home then in effect the Council is deferring the 25% if the equity based loan is 25% of the value of the home. Where the home is constructed through the JV then the Council will be deferring 50% of its share of the value of the home. 80% to 90% of the homes constructed are due to be constructed through the JV.
- 5.3 Each site development plan will need to be considered individually within the context of the MTFS.
- 5.4 The Help To Buy equity based loan is a financial instrument which is held at **and**

measured at 'fair value'. If the scheme is administered by the Council, any changes in value of each loan will need to be externally assessed at the end of each financial year and **any change in value recognised** through the Council's income and expenditure account. We would only need to resource any downward changes in value at the point they materialised i.e. at the point of the loan crystallisation; up to this point valuation changes will be an unusable reserve. However, we would also not be able to benefit from any upward valuation until this point also.

- 5.5 The relevant part of the Council making the investment will own a % of the property based on value and these values can go up or down. Whilst the homeowner would incur the first loss in this respect the Council will be second in line for any value losses which could become crystallised losses should a buyer have to sell the home at a price lower than the invested value. Consequently, the Council would be more protected through a 5% deposit scheme rather than a 3.75% one.
- 5.6 Assuming 20% of homes built by WPDG were available through PWHTB this would mean circa 440 PWHTB homes in total over say a 20 year period. Were these to have a value of say £250k per home the equity-based loan value of WPDG homes given the homeowner buying out our equity share, probably at least at the end of each five-year period, we will have exposure on some 100 homes at any given time. A reduction in house values of 10% across the portfolio would give rise to a loss of (100 homes * 25% * 10% of £250k) £625,000 of our £6,250,000,000 portfolio which would be a cost that would need to be resourced at the point the loan crystallises.
- 5.7 The Council will be leaving its capital investment as an equity-based loan in the properties it allocates to the PWHTB scheme. This is, in effect, a deferral of capital receipt that it would otherwise take at the point of sale. In the case of Joint Venture (JV) developed properties, the Council would need to purchase the JV share of the property, so in the case of a £250k property, for example, this value would be a cost to the Council of £25k per property). The financial impact of this additional cost/deferral of receipt will need to form part of the considerations, as part of the site-specific development plan, about whether to offer the PWHTB scheme on each development based on the prevailing market conditions at that time.
- 5.8 At this stage the focus of the financial implications is on seeking agreement to some high-level principles that can be used to form the parameters of the subsequent detailed financial analysis and considerations, if the concept is approved.
- 5.9 At the level of an individual property any help to buy option could be financially less attractive from a timing perspective than a straightforward sale at market

value which secures the full receipt immediately. For the County Council there will always be a cost in terms of either reduced returns (in the form of lower dividends at the time of sale from the WPDG) or the loss of dividends from any deferral of sale income for five years. That said, the dividend at year 6 (or beyond) on sale would be reflective of the house equity-based loan value at the point this is purchased by the homeowner.

5.10 Therefore, the overall framework within which the help to buy scheme is developed reflects the following key points:

- There should be no or minimal impact on the approved benefit to the County Council from WPDG approved as part of the MTFs and/or longer term financial implications;
- Consideration of whether help to buy is offered must be on a site-by-site basis and form part of the business case for the site, as the level of Council investment tied up in any site will vary depending on whether PWHTB is offered on a site;
- The cost of offering PWHTB **must** be lower than the profit element of any development that would be returned to the County Council as a dividend;
- There should be no or limited change to the level and timing of the repayment of any equity loans, the level and timing of the repayment of any construction loans and the level and timing profit share to the JV partner as a result of offering the help to buy scheme; and
- The cumulative financial impact of the PWHTB scheme across the different sites must be affordable to the Council and not have a material impact on the Council's financial resilience as reflected in the MTFs, Treasury Management and Investment Strategies.

5.11 To meet these requirements, it is likely that PWHTB can only be offered on a small proportion of houses on any WPDG development, and that the product will not be suitable or necessary for all WPDG developments. Each development will include the business case on whether help to buy is a product the Council wishes to include at that time.

5.12 The priority financial risks from offering such a scheme are:

- The assumption that homeowners' incomes will have increased sufficiently over the five year period to make taking on the full equity after five years affordable for them; and
- Assuming that the value of the Council's security in the asset is maintained over the period.

6 Environmental Considerations

- 6.1 There are no direct environmental implications (although there may be opportunities to reduce distances commuted) arising from the setup of the PWHTB. Environmental implications arising from the developments will be considered as part of each site-specific business case.

7 Risk and Risk Management

- 7.1 The following table summarises the key risks and proposed mitigations involved in setting up and operating the PWHTB scheme.

Risk	Mitigation
Fiduciary duties (PWLB, Prudential Code)	<ul style="list-style-type: none"> Continual testing by the finance team independently of WPDG in respect of relevant CIPFA codes, accounting requirements and MHCLG guidance.
Compliance with regulatory requirements	<ul style="list-style-type: none"> Regular checks by the legal team internally Specialist external legal advice as required
Default/loss, bad debts, interest rates, economic cycle risks	<ul style="list-style-type: none"> Annual valuations for the accounts More regular reporting and house price monitoring
Impact on MTFS	<ul style="list-style-type: none"> Ability to start small and build the PWHTB portfolio up slowly with ongoing review of impact on MTFS of external/internal borrowing Prudent accounting by including default assumptions in the business case and plan Annual review and annual business plan approval by Cabinet, effectively a site-by-site decision Specific further consideration of the adequacy of the £7.5m commercial reserve to cover any potential losses from PWHTB in addition to WRIF, WPDG and other commercial activity Full provision is made in the MTFS for any downside risk at the point the risk materialises, i.e. for any potential loss on valuation of the PWHTB equity loans, but any gain will not be reflected until it materialises Commercial Risk Reserve increase in value relevant to risk considerations and calculations
Reputational	<ul style="list-style-type: none"> Policy-driven objectives underpin PWHTB, with clear strategic priorities to drive decisions Development site approval of PWHTB plans Clear performance framework and benefits to track impact

	<p>of PWHTB scheme and annual valuation</p> <ul style="list-style-type: none"> • Member Oversight Group meets quarterly to review performance and operation of the portfolio
Skills and capability	<ul style="list-style-type: none"> • Mix of internal skills available through WPDG to run the PWHTB • Appointment of specialist support in Finance and Communities teams for financial valuation and advice if needed

Background Papers

None

	Name	Contact Information
Report Author	Chris Kaye	01926 412836 chriskaye@warwickshire.gov.uk
Assistant Director for Finance	Andrew Felton	01926 412441 andrewfelton@warwickshire.gov.uk
Assistant Director (Governance and Policy)	Sarah Duxbury	01926 412090 sarahduxbury@warwickshire.gov.uk
Strategic Director for Resources	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Strategic Director for Communities	Mark Ryder	01926 412811 markryder@warwickshire.gov.uk
Portfolio Holder (Finance and Property)	Peter Butlin	01788 816488 cllrbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

None

Local Member(s): none