



CALEDONIA GROUP MORTGAGE TO RENT POLICY

POLICY IMPLEMENTATION CHECKLIST	
Policy Guardian:	Director of Assets
Author:	Director of Assets
Version number:	1.1
Approved by Caledonia Management Board on:	21 April 2015
Effective from (Caledonia):	April 2015
Approved by Cordale Committee of Management on	May 2015
Effective from (Cordale):	May 2015
Approved by Bellsmyre Committee of Management on	June 2017
Effective from (Bellsmyre):	June 2017
Date Last Reviewed:	April 2018
Date of Next Review:	April 2021
Diversity compliant:	Yes
Equality Impact Assessment required:	No
Data Protection compliant:	Yes
Health & Safety compliant:	Yes
Procedure implemented:	April 2015
QL system changes made:	None required
KPIs / reporting arrangements implemented:	None required
Training Completed:	None required
Posted on intranet:	Yes
Posted on website:	Yes
Publicity material issued:	N/A
Business Services – Implementation Review:	

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and in a variety of languages

1 BACKGROUND

The Scottish Government, through the Home Owners' Support Fund, offers support to home owners who encounter financial difficulties, and are in danger of having their home repossessed.

Where home owners meet particular criteria they may apply to have their home purchased by an RSL, the proceeds of which go towards settlement of debts against the property. When the transaction has been completed they become a tenant of the RSL, on the basis of a Scottish Secure Tenancy.

Grant funding is made available through the Scottish Government, who administer the scheme, on a case by case basis to enable a social rent to be charged and any necessary repairs to be made to the property.

This is called the Mortgage to Rent (MTR) Scheme.

2 POLICY

It is the policy of the Caledonia Group, comprising Caledonia, Bellsmyre and Cordale Housing Associations to support the Scottish Government with this initiative, and thereby help to prevent homelessness within our areas of operation, through the purchase of properties through the MTR scheme.

It is however also recognised that the Associations need to exercise prudence when proceeding with the acquisition of properties through the scheme. We must therefore ensure that properties are located within a reasonable distance of existing properties to assist the management and maintenance of them, and that they represent a sustainable investment for the Association that will purchase them.

3 IMPLEMENTATION

Before applications for the scheme can be considered, the household must have received independent financial advice on the options available to them. Applications are only progressed where there are no practical means of enabling the household to remain living in their home, such as rescheduling mortgage payments, or trading down in the owner occupied market. All of this is carried out by the Home Owners Support team within the Scottish Government.

The Scottish Government's aim is to advise the applicants if they are eligible to participate in the scheme as quickly as possible at a time when they are threatened with homelessness. The following system has been applied by the Scottish Government to enable this to be achieved and has to be adhered to by participating landlords:

- Maximum local property values have been introduced for different sized properties eligible for the scheme.
- Landlords will receive a copy of the "Scheme 2" survey of the property completed by a Scottish Government appointed surveyor. The landlord must be willing to accept the

findings of the survey to participate in the scheme, and must carry out the repairs identified in the survey.

- The maximum repairs subsidy that the Scottish Government will make available to bring a property up to the Scottish Housing Quality Standard will be £8,500.
- The actual amount of subsidy to meet the costs of any repairs identified will be based on the estimates included in the Scheme 2 survey and the outcomes of the gas and electrical safety checks carried out by the Associations.
- The level of subsidy provided to assist the relevant Association to purchase the property will be based on the standard assumptions set out in Scottish Government guidance
- Participating landlords must confirm their agreement to progress a particular case within 10 working days of receiving the Scheme 2 survey from the Scottish Government. The Scottish Government are of the view that to achieve this it is essential that officers have delegated authority to handle individual cases without requiring authority from governing bodies (see also Section 6 below).

Caledonia, Bellsmyre and Cordale Housing Associations, as participating landlords, must adhere to the provisions of the scheme as set out in the Scottish Government's administrative procedures. This will involve the following:

- Subject to review, accepting the findings of the Scheme 2 survey reports provided by the Scottish Government's appointed surveyors
- Carrying out an initial visit to the property to explain to the owners their prospective rights and obligations as a tenant of the Association, and to ascertain the accuracy of the Scottish Government Scheme 2 survey

The Associations will not progress the acquisition of properties that:

- Require repairs that cannot be accommodated within the maximum repairs subsidy of £8,500
- Are contained within multi-tenure blocks of flats, particularly old tenement style blocks, as this can lead to severe difficulties in achieving SHQS compliance, and in managing and maintaining the property to an acceptable standard. The exception to this would be where the Association owns other properties in the same block, and the purchase of a particular property in that block through the Mortgage to Rent scheme will assist the Association meet regulatory standards, including SHQS and EESSH, with regard to the existing properties in that block
- Cannot be managed effectively, for instance if it is not located close to other properties currently owned or managed by the Association
- Will not meet SHQS or EESSH requirements
- For any other reason it would not represent a sustainable investment by the Association

4 FINANCIAL IMPLICATIONS

The Scottish Government will provide public subsidy for all MTR acquisitions. The amount of subsidy is calculated on the basis of the standard assumptions set out in Scottish Government Guidance. This includes allowances made for management and maintenance of the property.

For the purposes of the capital subsidy calculation for the property purchase, the Scottish Government assumes rent levels as being in line with the National Benchmark rent, as set

out for new housing developments. The Association purchasing the MTR property will set the rent at the benchmark rent level used by the Scottish Government in their subsidy calculation, as set out in the Caledonia Group Rent Policy.

The Association purchasing the property will therefore have to fund the difference between the purchase price and the public subsidy. The amount of finance required will be set out in the Project Risk Appraisal, as detailed below.

5 RISK MANAGEMENT

The key risk to the Group Associations is that properties purchased through the MTR scheme may not be sustainable in the longer term.

To mitigate this risk, all potential MTR acquisitions will be subject to a full Project Risk Appraisal that will consider, amongst other things:

- Housing Needs in the area
- Financial implications relating to the proposed purchase, including a discounted cash flow (DCF) analysis and the associated net present value assessment (NPV)
- Proposed rents and allowances for management and maintenance
- The condition of the property and the likely cost of associated repairs both in the short and longer term
- Potential SHQS and EESSH implications
- Details of the private finance required for the purchase after the grant has been deducted from the purchase price, and how this will be funded

To further assist in mitigating this risk, detailed property inspections will be carried out to make our own independent assessment of repairs required to the property.

6 DECISION MAKING AND DELEGATED AUTHORITY

The administrative procedures set out by the Scottish Government for the operation of the MTR scheme insist that RSLs make two key decisions within set timescales.

The first is that the Association must make a decision ‘in principle’ to consider a potential MTR case within 2 working days of receiving an initial notification.

When this has been decided a “Scheme 2 Survey” will be forwarded to the Association. The Association then has 10 working days to:

- visit the property to make our own assessment of repairs required
- speak with the owners to discuss their potential of becoming tenants of the Association
- arrange for gas and electrical inspections to be carried out
- confirm to the Scottish Government if the Association intends to proceed to acquire the property

It is not always possible to make the decisions required to progress MTR cases within the current schedule Group governing body meetings and therefore authority may require to be delegated to officers of each of the Associations. The Scottish Government guidance specifically requests that Associations agree to this.

It is proposed that authorisation to acquire properties through the Mortgage to Rent scheme be delegated to the Group Chief Executive.

This authority is delegated on condition that:

- The Project Risk Appraisal is discussed and agreed by the Executive Management Team
- The Project Risk Appraisal shows a positive Net Present Value
- The property will comply with SHQS & EESSH once repairs identified in the NPV calculation have been completed
- Scottish Government guidance has been followed
- The report on title for the property to be purchased confirms that there are no extraordinary legal issues that would adversely affect the Association should it proceed with the purchase
- All decisions made by the Group Chief Executive on Mortgage on Rent acquisitions will be reported to the next applicable governing body meeting, including details of all MTR acquisitions completed for that Association to date in that financial year.