

North Tyneside Council

Delegated Decision Report to Chief Executive

Date: 4 May 2018

Title: Purchase of additional properties by North Tyneside Trading Company (Development) Limited for affordable housing
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Portfolio(s): Elected Mayor Finance and Resources	Cabinet Member(s): N Redfearn Councillor Ray Glindon
Report from Service Area: Finance	
Responsible Officer: Alison Campbell / Richard Brook	(Tel: (0191) 643 7038)
Wards affected: Battle Hill, Riverside Camperdown and Chirton Wards	

PART 1

1.1 Executive Summary:

The purpose of this report is to seek approval for the Authority to authorise the purchase of the properties highlighted in this report by North Tyneside Trading Company (Development) Limited in order to provide affordable housing in the Borough.

The homes to be purchased are:

- West Mount, Killingworth (in addition to home already purchased in this street)
- Northumbrian Way, North Shields (in addition to home already purchased in this street)
- Chelford Close, Wallsend (in addition to home already purchased in this street)
- Kilburn Gardens, North Shields

Cabinet agreed the Affordable Homes Programme in 2013, created the Trading Company subsidiary on 9 March 2015 and included the funding in the 2015-2018 (and future) Investment Plans. This report requests approval of funding to be provided to North Tyneside Trading Company (Development) Limited in order to acquire the properties above from the monies received by the Authority pursuant to section 106 of the Town and Country Planning Act 1990 for affordable housing as value for money has been demonstrated.

1.2 Recommendation:

It is recommended that the Chief Executive, in consultation with the Elected Mayor and Head of Finance, agree to:

- (a) the purchase of the properties highlighted in this report by North Tyneside Trading Company (Development) Limited in order to provide affordable housing in the Borough;
- (b) approve the use of the Section 106 Town and Country Planning Act 1990 commuted sums available for affordable housing as funding for the Company;
- (c) approval of funding of up to £605,000 to North Tyneside Trading Company (Development) Limited of which £490,000 is to be released now in order to acquire and refurbish the properties;
- (d) agree to provide funding to the North Tyneside Trading Company (Development) Limited in the form of equity funding as that being the form of funding that is most beneficial to deliver the desired objectives of the Authority as detailed in Section 1.5 of this report.

1.3 Forward Plan:

This report appeared on the Forward Plan that was published on 2 January 2018.

1.4 Council Plan and Policy Framework:

This report relates to the following priorities in the 2018-2020 Our North Tyneside Plan:

Our Places will:

- Be places that people like living in and will attract others to either visit or live
- Have more quality affordable homes

1.5 Information:

Purchase of the homes

The Council report of 15 February 2018, 2018-2020 Financial Planning and Budget Process: Elected Mayor and Cabinet Budget and Council Tax Requirement Resolution for 2018/19, included a delegation to the Chief Executive, in consultation with the Elected Mayor and Head of Finance to authorise the purchase of properties, on the open market, providing value for money is demonstrated and the cost can be contained within existing financial resources of the Authority. This was to ensure that the programme of delivery of affordable homes and homes at market rent is progressed in line with Cabinet's priorities. The report requests approval of funding to be provided to North Tyneside Trading Company (Development) Limited in order to acquire the properties detailed in this report from the section 106 monies received by the Authority for affordable housing.

A business case for each of the properties selected for purchase is included as Appendices A to D to this report. These demonstrate that at their asking prices the following yields can be obtained based on the anticipated rent level achievable:

Property	Asking price (£)	Offer accepted (£)	Yield
West Mount	105,000	102,000	3.3%
Northumbrian Way	112,000	112,000	3.1%
Chelford Close	119,950	110,000	3.1%
Kilburn Gardens	120,000	115,000	3.0%
Total purchase price		439,000	
Other costs including survey, legal, stamp duty and refurbishment (estimated at approximately £12,000 per home)		48,000	
Additional contingency proposed		3,000	
Total maximum funding required		490,000	

The table above also shows the amount of the offers in principle that have been accepted by the vendors of the properties and therefore approval is sought to purchase these properties.

Value for money for the price can be clearly demonstrated as the purchase prices are lower than a comparative cost to build a two or three bedroom home. These purchases will provide new affordable homes that will contribute to the Authority's Affordable Homes Programme in a quicker time than it would take to complete a new build property. The proposed homes are also in areas of high rental demand.

In addition to the purchase price of each home, funding is also required to cover other costs such as survey, legal, stamp duty and refurbishment costs and therefore approval is sought for funding of up to £490,000 (in total to cover all four homes), Whilst initial inspections of the homes have identified them as being in good condition, the final total cost will not be known until all surveys have been completed and the work undertaken. For this reason a small contingency has been included above. Any contingency not used for these purchases will be held for use with the final transfer of the £115,000 remaining balance of the £605,000 approved s106 release when the fifth property has been identified and confirmed.

It is proposed that the funding to purchase and refurbish the properties be made available to the Development Company from Section 106 Town and Country Planning Act 1990 monies which are currently available for use. There will also be rental income from the homes received by the Development Company once they have been let.

The Section 106 funding currently available in 2018/19 is set out in the table below and demonstrates that sufficient funding is available to fund this purchase:

	£'m
Received and available S106 funding at 31 March 2018 following drawdown of properties purchased in 2017/18	1.726
Required to purchase the properties set out in this report	(0.490)
S106 balance remaining	1.236

Method of funding

The funding from the Authority can be provided either by way of a grant to the Development Company, which does not need to be repaid, or the purchase of equity in the Trading Company by the Authority, which will in turn purchase equity in the Development Company. There are advantages and disadvantages to both methods of funding.

Grant funding

Grant funding would be an advance of monies by the Authority to the Trading Company / Development Company which is only repayable in the event of certain conditions, and it is anticipated that these conditions are unlikely to arise such that the grant could be interpreted as a form of gift. There would be restrictions placed on the expenditure of the monies in the form of grant conditions which set out the outputs to be achieved and the milestone dates these will be achieved by. If the outputs and milestones are not met, this would trigger the option to clawback the funding provided as is usual with grant funding.

The introduction of a grant to the Development Company is likely to create taxable income in the structure. For any expenditure on capital assets that could be sold in the future, and therefore within the scope of capital gains tax, any expenditure that is met by a grant out of public money reduces the base cost of the assets for tax purposes (by the amount of the grant). If a grant of £0.490m was used to acquire the properties, the Development Company's base cost for tax purposes would be £nil. A sale of the properties in the future for £0.490m would be fully taxable, unless the proceeds for the properties are used to repay that grant. In addition, grant income is normally outside of the scope of VAT.

Equity funding

Equity funding can be provided to the Trading Company and onwards to the Development Company.

Providing equity should give the shares in the Development Company a higher tax base cost, which is relevant for any potential future sale or part disposal of the company. For example if the Trading Company subscribes for 490,000 £1 shares in the Development Company its base cost would be £0.490m and therefore the amount subject to tax would be significantly reduced.

Recommended method of funding

Providing funding by way of equity does not preclude a repayment of equity, which is normally undertaken by way of a capital reduction process. On this basis, the benefit of base cost via equity is deemed to be most appropriate to deliver the objectives of the Authority.

It is therefore recommended that funding is made available to the Development Company via the purchase by the Authority of equity in the Trading Company, which will in turn purchase equity in the Development Company.

1.6 Decision options:

The following decision options are available for consideration:

Option 1

To approve the recommendation at paragraph 1.2 of this report.

Option 2

Not to approve the recommendation at paragraph 1.2 of this report in which case the Development Company will be unable to support the Authority with its programme of delivery of affordable homes in line with the Cabinet's priorities.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended because it will help to meet the objective of the Authority to assist in the delivery of 3,000 affordable homes across 10 years.

1.8 Appendices:

Appendix A West Mount business case
Appendix B Northumbrian Way business case
Appendix C Chelford Close business case
Appendix D Kilburn Gardens business case

1.9 Contact officers:

Roy Marston, Senior Manager, Strategy and Support Services, tel. (0191) 643 7580
Richard Brook, Housing Growth Manager, tel. 07540 182 225
Alison Campbell, Senior Business Partner, tel. (0191) 643 7038
Sarah Heslop, Manager, Legal Services, tel: (0191) 643 5456

1.10 Background information:

The following background information has been used in the compilation of this report and is available at the office of the author:

(1) [Cabinet Report, Delivering the Affordable Homes Programme, 09 April 2018](#)

(2) **2018-2020 Financial Planning and Budget Process: Elected Mayor and Cabinet Budget and Council Tax Requirement Resolution for 2018/19**
<https://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/2.%202018-2020%20Financial%20Planning%20and%20Budget%20Process%20%28Council%2015%20February%202018%20HOLD%20FINAL%29.pdf>

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

The funding to North Tyneside Trading Company (Development) Limited of up to £490,000 can be provided from the Section 106 Town and Country Planning Act 1990 commuted sums available for affordable housing.

It is proposed that the Company is funded via an equity purchase by North Tyneside Council.

2.2 Legal

The Authority can provide funding to the Trading Company via contributions received pursuant to section 106 of the Town and Country Planning Act 1990. Such contributions are commuted for the purpose of affordable homes. The purchase of equity within the Trading Company will ensure that the funding is utilised for affordable housing.

2.3 Consultation/community engagement

Comprehensive governance arrangements have been put in place for the Affordable Homes Programme which supports internal consultation. Cabinet receive an annual update report on the Affordable Homes Programme.

Members and key officers are consulted through the Strategic Property Group comprised of the Elected Mayor, Deputy Mayor, Cabinet Members for Housing and Transport and Finance and Resources, Chief Executive, and Heads of Housing, Environment and Leisure, Commissioning and Investment, Finance and Business and Economic Development. They receive a monthly update on the Affordable Homes Programme and make recommendations for key decisions.

In addition our Investment Programme Board comprised of the Deputy Mayor, Cabinet Member for Finance and Resources, Deputy Chief Executive, and Heads of Housing, Environment and Leisure, Commissioning and Investment, Business and Economic Development and the Head of Finance receives financial management information on the Housing Growth agenda.

2.4 Human rights

There are no human rights implications arising from this report.

2.5 Equalities and diversity

There are no equality and diversity implications directly arising from this report.

2.6 Risk management

Risks associated with the proposal to acquire this home have been considered. At this stage, it is felt that no specific risk needs to be added to the Corporate Risk Register

2.7 Crime and disorder

The proposal was considered for crime and disorder issues as part of the planning process.

2.8 Environment and sustainability

The properties are all of modern construction and all have Energy Performance Certificates rating the properties efficiency in terms of energy consumption. All the properties are rated D or C with the ability to reach a rating of B. A full survey of the property will be completed before purchase and any areas of concern identified in terms of energy efficiency will be addressed as part of any improvement works required ahead of the property being let.

PART 3 - SIGN OFF

- Chief Executive
- Head(s) of Service
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Head of Corporate Strategy