

North Tyneside Council

Delegated Decision Report to Chief Executive

Date: 20 August 2018

Title: Purchase of additional properties by North Tyneside Trading Company (Development) Limited for affordable housing

Portfolio(s): Elected Mayor Finance and Resources	Cabinet Member(s): N Redfearn Councillor Ray Glindon
Report from Service Area: Finance	
Responsible Officer: Matt Calvert / Richard Brook	(Tel: (0191) 643 7025)
Wards affected: Northumberland and Wallsend Wards	

PART 1

1.1 Executive Summary:

The purpose of this report is to seek approval for the Authority to authorise the release of section 106 funds for 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:

- Waltham Close, Wallsend
- Praetorian Drive, Wallsend
- Wimslow Close, Wallsend
- Worthing Close, Wallsend

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 £475,000 to North Tyneside Trading Company (Development) Limited 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 4 May 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
Waltham Close	100-110,000	100,000	3.4%
Praetorian Drive	110,000	108,000	3.1%
Wimslow Close	109,950	107,000	3.3%
Worthing Close	100-110,000	103,000	3.2%
Total purchase price		418,000	
Other costs including survey, legal, stamp duty and refurbishment		56,000	
Additional contingency proposed		1,000	
Total maximum funding required		475,000	

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 £475,000 (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 drawn down by the Company but not spent on the fourth property purchase will be retained by the Company and used on the next property purchase undertaken.

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
Value drawn down against Delegated Decision approved May 2018	(0.487)
Required to purchase the properties set out in this report	(0.475)
S106 balance remaining	0.764

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 which are explored below.

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 claw back 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 £475,000 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 £475,000 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 is 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 475,000 £1 shares in the Development Company its base cost would be £475,000 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; this 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 to 2023.

1.8 Appendices:

Appendix A Waltham Close business case
Appendix B Praetorian Drive business case
Appendix C Wimslow Close business case
Appendix D Worthing Close 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
Matt Calvert, Finance Manager, tel. (0191) 643 7025
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](#)

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 £475,000 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, Acting 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, Acting 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

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

Waltham Close, NE28



NORTH
TYNESIDE
**DEVELOPMENT
COMPANY**

Portfolio evaluation

Address: Waltham Close , NE28

Description: 2 Bedroom mid link house

Asking price: offers £100,000-£110,000

Achievable market rent and other Info: £550 PCM, chain, EPC C

Agent: Next to Buy

Demand: High

Yield: 3.0%

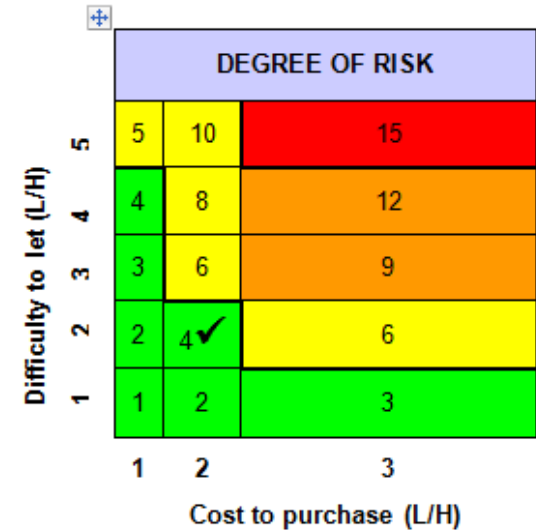
Purchase: Yes



Costs

Purchase	Management	Rent level/yield
Survey: £325	Void and debt: £199	PCM: £440
Legal: £850	Management: £325	PA: £5,280
Stamp Duty: £3,420	Maintenance: £673	Net Rent: £3,870
Refurbishment: £7,560	Life cycle: £213	Yield: 3.0%

Cost/Risk exposure



Degree of Risk	Risk Level
1 to 4	Low
5 to 8	Tolerable
9 to 12	Substantial
13 to 25	Unacceptable



**NORTH
TYNESIDE
DEVELOPMENT
COMPANY**

Refurbishment Allowance

Provisional Allowance	Cost based on KNT Schedules
Provision for rewire	Up to £2500
Boiler Upgrade	£1200
Renew bath and sink taps	£115.60
Property Clean and welcome pack	£142
Renew Wall Fan	£61
Supply and fit smoke alarm x2	£118.30
Supply and fit CO alarm	£48.05
Decorate elements of house	£888.85
Renew Doors and Windows	£1800
10% Contingency	£687
Total	£7,560

Neighbourhood information

Potential growth: Yes

Stable market: Yes

Vulnerable market: No

NTTC Stock: Yes

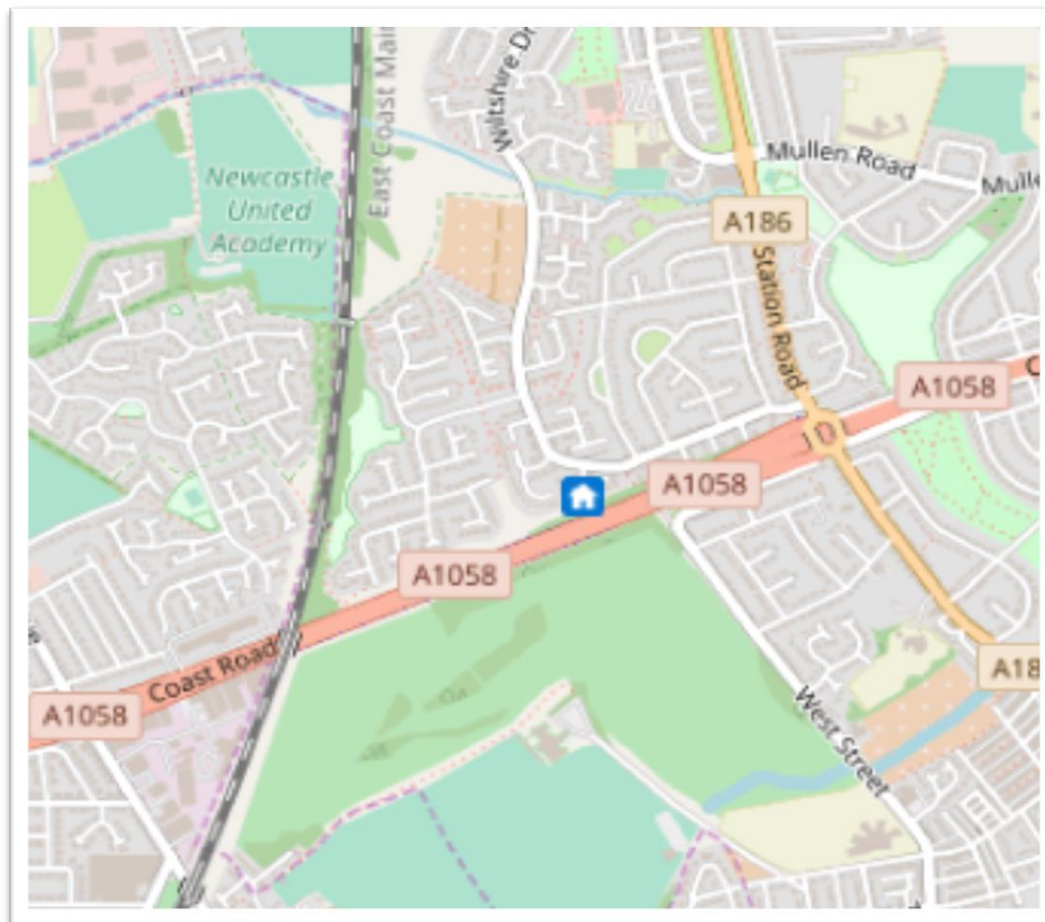
NTC Stock: Nearby

Transport: Bus & Road

Amenities: Battlehill

Healthcare: Battlehill

Schools: Nearby

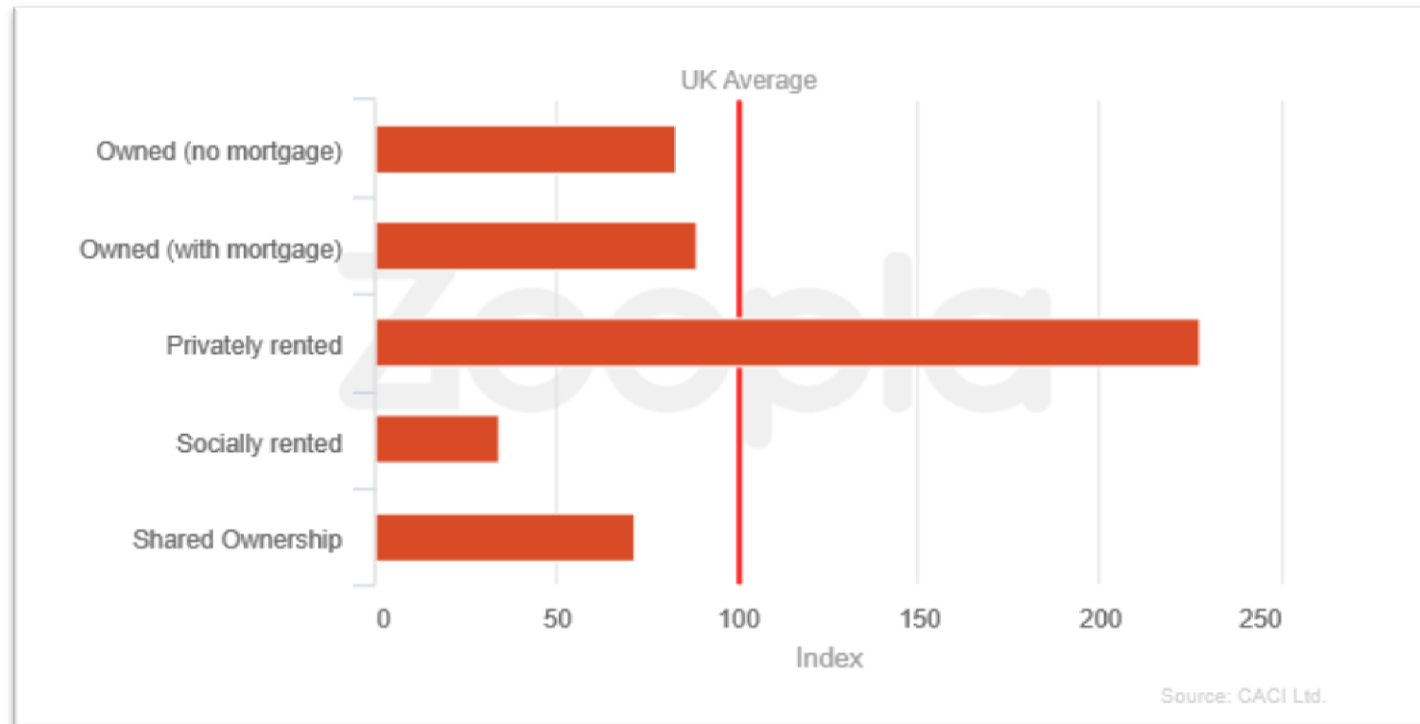


Purchasing Strategy – Pre-requisites

Property size:	2 and 3 bedroom homes	2 Bed
Property type:	Houses are preferable to flats	House
Property age:	Preferable 1980s - new build	Yes
Tenure:	Freehold or long leasehold (999yrs). If a house is on a shorter lease any offer made will be subject to the freehold being purchased by the seller prior to completion	Freehold
Possession:	All offers subject to vacant possession on completion. Offers will not be made on tenanted properties where a current tenant wishes to stay insitu	No chain
State of repair:	No major works required. All offers made are subject to survey	Some updating required
Key attributes:	Healthy demand for rental homes in the area	High demand area

Further information

The property is in a mixed tenure area and popular area for private renters. Market advice from local agents indicate that this a strong housing market and popular rental area.



Recommendation and Purchasing Strategy

This property is in the popular development of Redesdale Park in Wallsend not far from the company's property at Ribblesdale.

Demand for rental property in the area is strong and the area has good road and public transport links. Local agents report that similar sized privately rented accommodation in the area is commanding a rent of £550 PCM.

The property also has an allocated parking space and private garden. The agent has advised the property is freehold and there is no onward chain. The property would be a great starter home or ideal for someone who is looking to downsize.

Its is recommended that the Company approves an offer limit of £114,000 to achieve the minimum 3.0 % yield.

Board Decision

Proceed: Yes	No	Envelope (£): starting.....	max.....
Signed.....		Date.....	
Signed.....		Date.....	
Signed.....		Date.....	

Praetorian Drive, NE28



NORTH
TYNESIDE
**DEVELOPMENT
COMPANY**

Portfolio evaluation

Address: Praetorian Drive, NE28

Description: 2 Bedroom semi detached house

Asking price: offers around £110,000

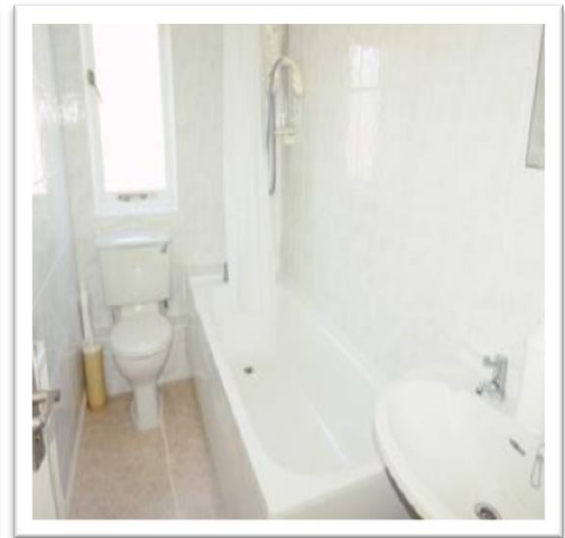
Achievable market rent and other Info: £550 PCM, chain, EPC C

Agent: Next to Buy

Demand: High

Yield: 3.0%

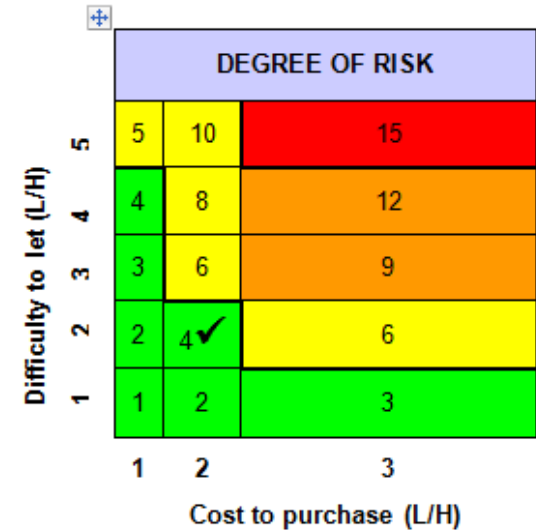
Purchase: Yes



Costs

Purchase	Management	Rent level/yield
Survey: £325	Void and debt: £199	PCM: £440
Legal: £850	Management: £325	PA: £5,280
Stamp Duty: £3,420	Maintenance: £673	Net Rent: £3,870
Refurbishment: £9814	Life cycle: £213	Yield: 3.0%

Cost/Risk exposure



Degree of Risk	Risk Level
1 to 4	Low
5 to 8	Tolerable
9 to 12	Substantial
13 to 25	Unacceptable



**NORTH
TYNESIDE
DEVELOPMENT
COMPANY**

Refurbishment Allowance

Provisional Allowance	Cost based on KNT Schedules
Provision for rewire	Up to £3500
Boiler and heating upgrade	£2200
Renew bath and sink taps	£114
Property Clean and welcome pack	£142
Renew Wall Fan	£61
Supply and fit smoke alarm x2	£118.30
Supply and fit CO alarm	£48.05
Decorate elements of house	£488.85
Renew Doors and Windows	£2,250
10% Contingency	£892
Total	£9814

Neighbourhood information

Potential growth: Yes

Stable market: Yes

Vulnerable market: No

NTTC Stock: No

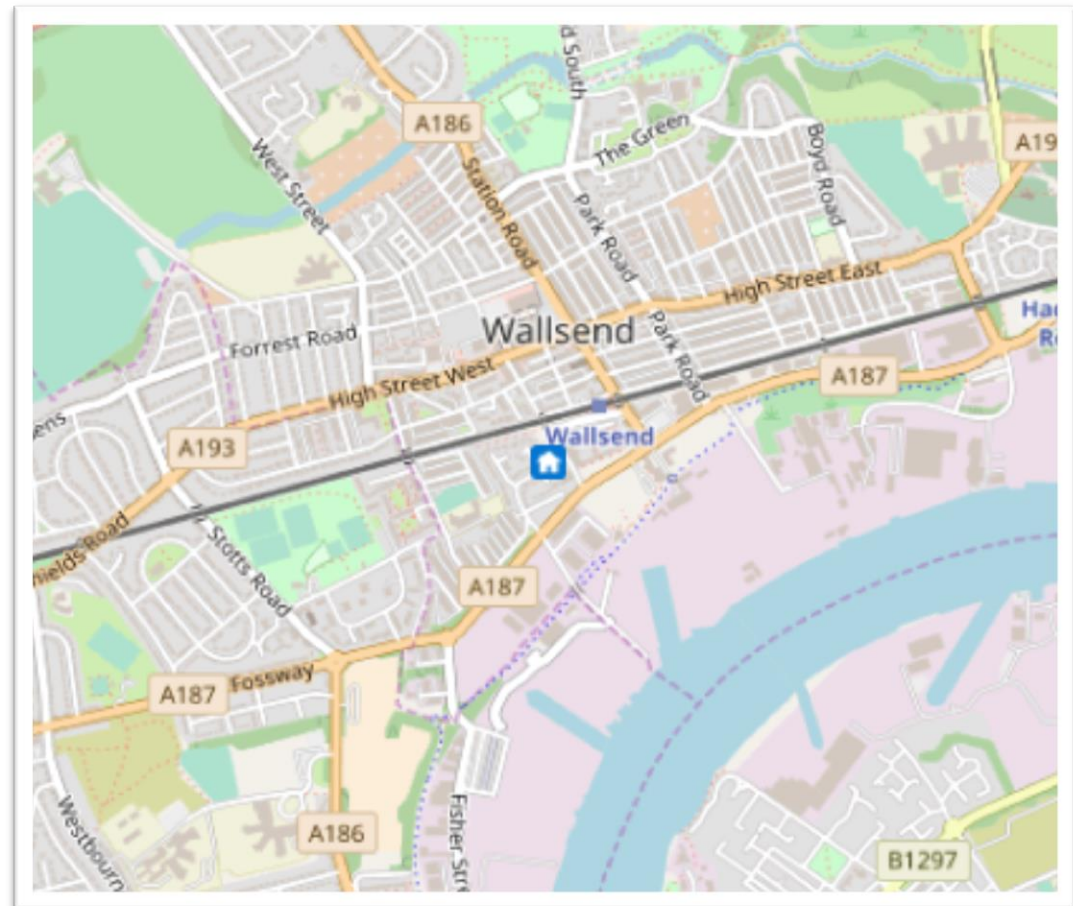
NTC Stock: Nearby

Transport: Bus & Metro

Amenities: Wallsend

Healthcare: Wallsend

Schools: Nearby

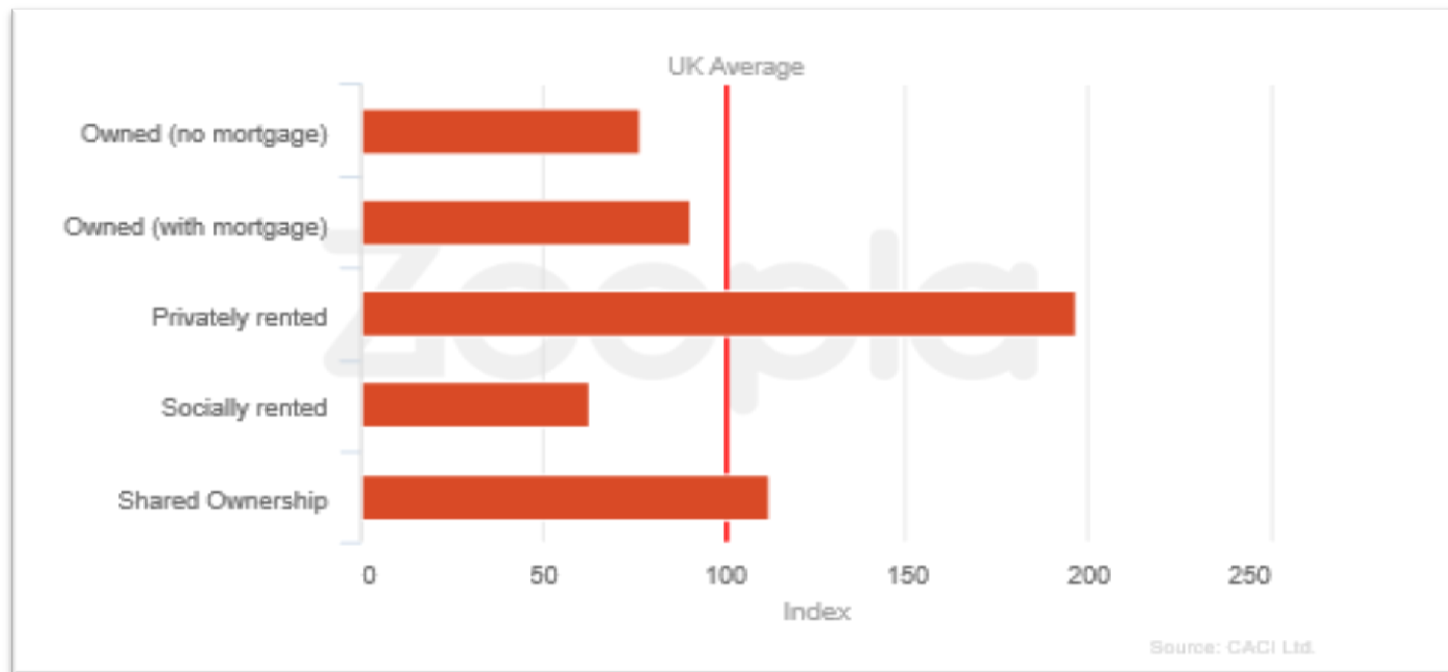


Purchasing Strategy – Pre-requisites

Property size:	2 and 3 bedroom homes	2 Bed
Property type:	Houses are preferable to flats	House
Property age:	Preferable 1980s - new build	Yes
Tenure:	Freehold or long leasehold (999yrs). If a house is on a shorter lease any offer made will be subject to the freehold being purchased by the seller prior to completion	999 year lease
Possession:	All offers subject to vacant possession on completion. Offers will not be made on tenanted properties where a current tenant wishes to stay insitu	No chain
State of repair:	No major works required. All offers made are subject to survey	Some updating required
Key attributes:	Healthy demand for rental homes in the area	High demand area

Further information

The property is in a mixed tenure area and popular area for private renters. Market advice from local agents indicate that this a strong housing market and popular rental area.



Recommendation and Purchasing Strategy

This property is in a quiet Cul-de-sac close to the amenities of Wallsend Local agents advise that demand for rental property in the area is strong and the area has good road and public transport links and is within easy reach of the local metro station. The property has a gated driveway for private parking and ample outside space.

Agents report the property has rental potential of £550 plus PCM and would suit first time householders and downsizers alike.

The property has wooden double glazed windows which appear sound but significant allowance has been included in the business case for replacement doors and windows should replacement be necessary.

Its is recommended that the Company approves an offer limit of £114,000 to achieve the minimum 3.0 % yield.

Board Decision

Proceed: Yes	No	Envelope (£): starting.....	max.....
Signed.....		Date.....	
Signed.....		Date.....	
Signed.....		Date.....	

Wimslow Close, NE28



NORTH
TYNESIDE
**DEVELOPMENT
COMPANY**

Portfolio evaluation

Address: Wimslow Close, NE28

Description: 2 Bedroom mid link house

Asking price: offers over £109,950

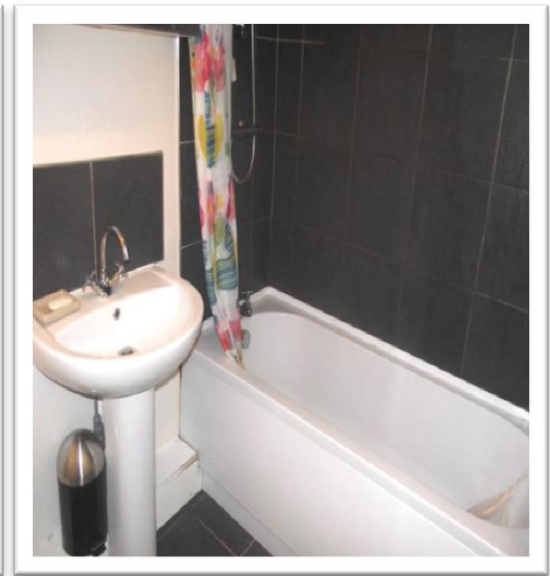
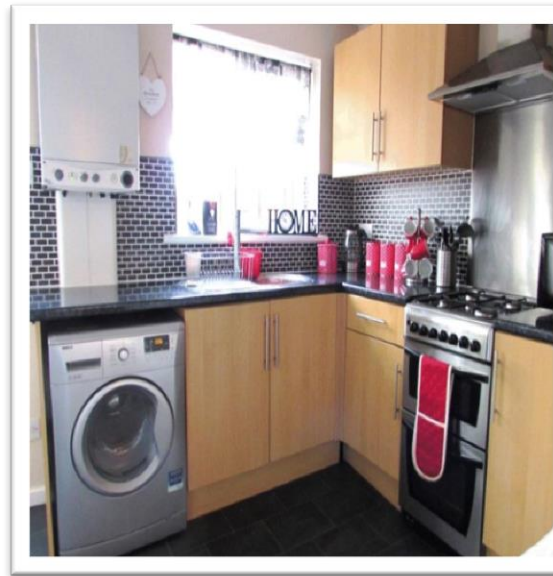
Achievable market rent and other Info: £550 PCM, chain, EPC D (under review)

Agent: Mike Rogerson

Demand: High

Yield: 3.0%

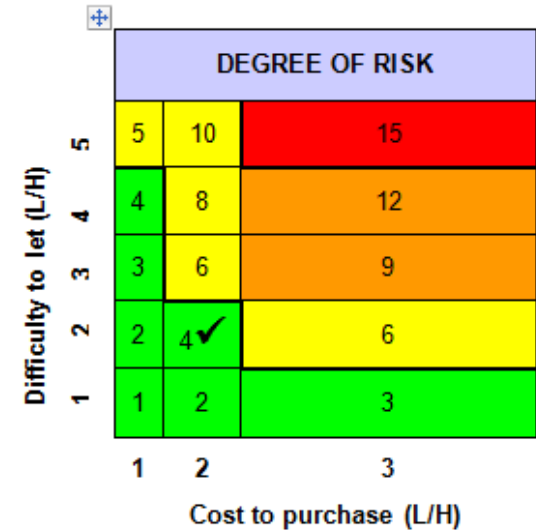
Purchase: Yes



Costs

Purchase	Management	Rent level/yield
Survey: £325	Void and debt: £199	PCM: £440
Legal: £850	Management: £325	PA: £5,280
Stamp Duty: £3,360	Maintenance: £673	Net Rent: £3,870
Refurbishment: £5,765	Life cycle: £213	Yield: 3.0%

Cost/Risk exposure



Degree of Risk	Risk Level
1 to 4	Low
5 to 8	Tolerable
9 to 12	Substantial
13 to 25	Unacceptable

Refurbishment Allowance

Provisional Allowance	Cost based on KNT Schedules
Provision for electrical safety	Up to £1500
Provision for boiler	Up to £1200
Renew Fascia/Bargeboard x 2	£104
Electric fan	£61.72
Property Clean and welcome pack	£142
Provision for renew sink top/kitchen units	Up £315
Supply and fit smoke alarm x2	£118.30
Supply and fit CO alarm	£48.05
Decorate elements of house	£910.85
Renew/repair windows	£903
10% Contingency	£524
Total	££5765

Neighbourhood information

Potential growth: Yes

Stable market: Yes

Vulnerable market: No

NTTC Stock: Yes

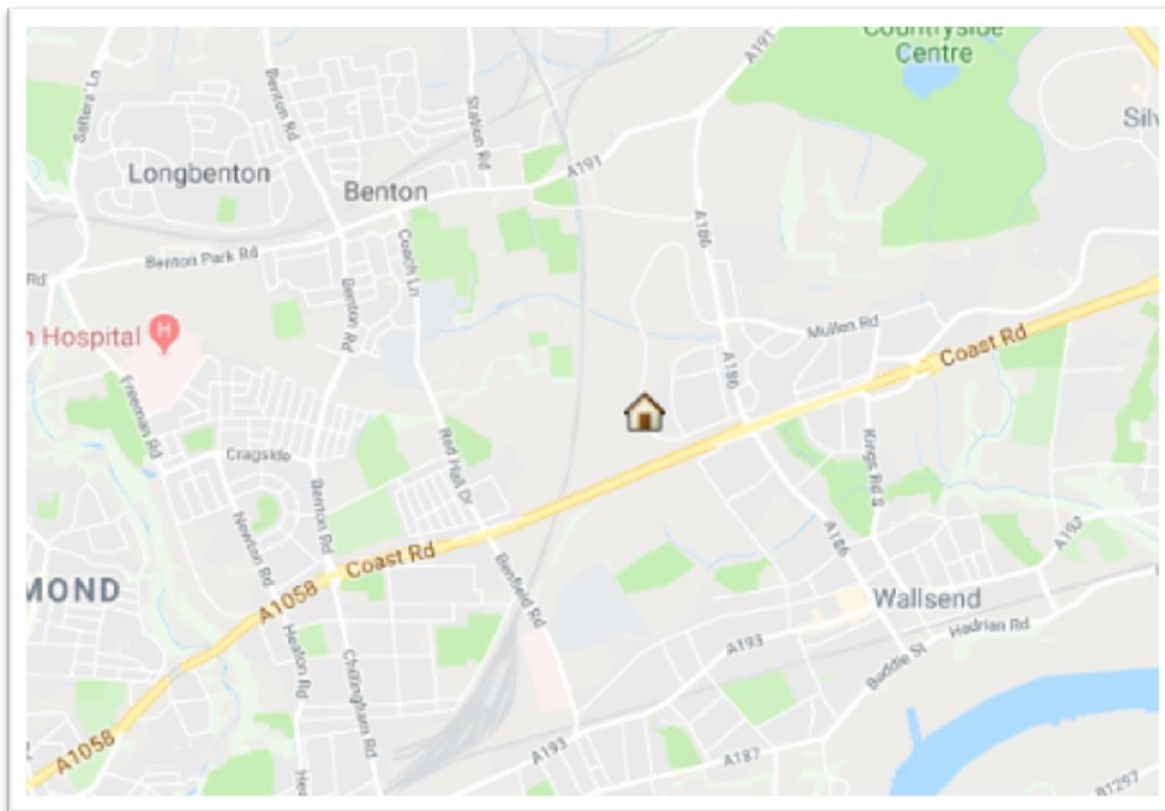
NTC Stock: Nearby

Transport: Bus & Road

Amenities: Battlehill

Healthcare: Battlehill

Schools: Nearby

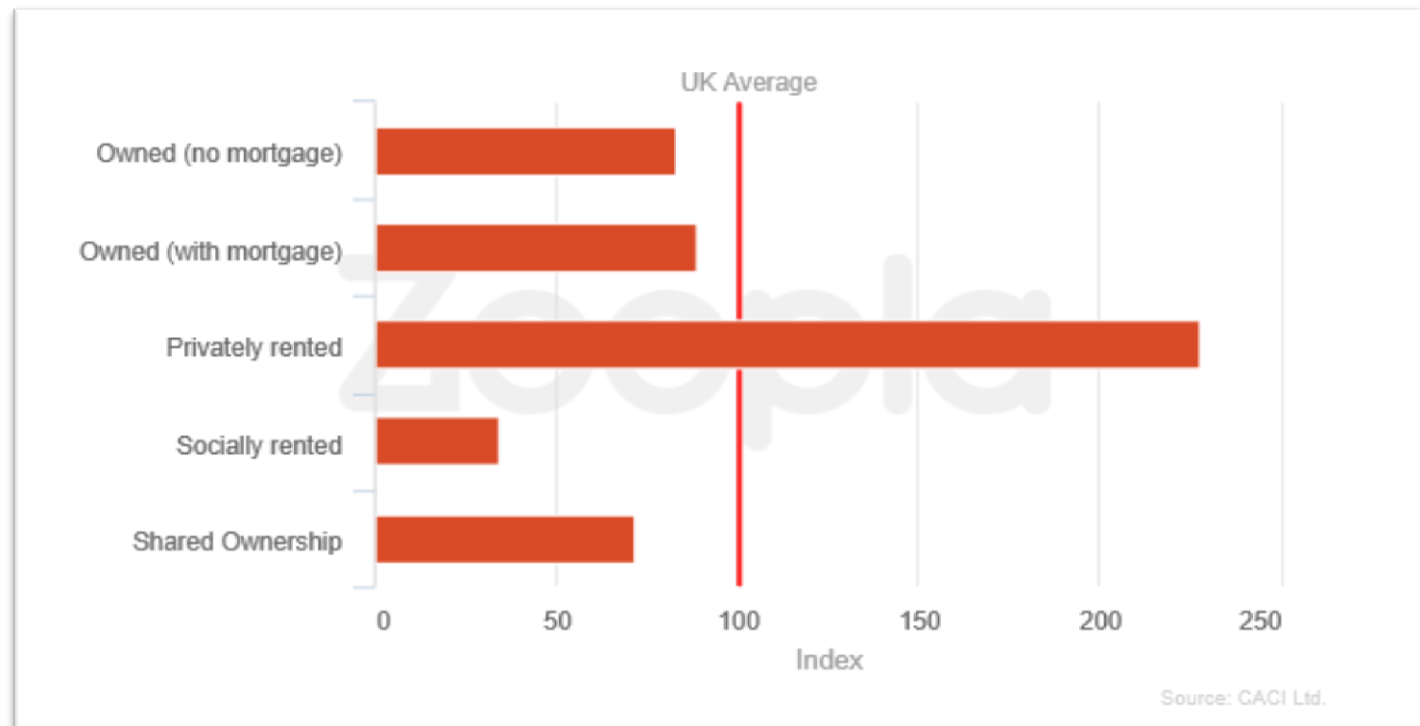


Purchasing Strategy – Pre-requisites

Property size:	2 and 3 bedroom homes	2 Bed
Property type:	Houses are preferable to flats	House
Property age:	Preferable 1980s - new build	Yes
Tenure:	Freehold or long leasehold (999yrs). If a house is on a shorter lease any offer made will be subject to the freehold being purchased by the seller prior to completion	Freehold
Possession:	All offers subject to vacant possession on completion. Offers will not be made on tenanted properties where a current tenant wishes to stay insitu	No chain but tenanted until December
State of repair:	No major works required. All offers made are subject to survey	Some updating required
Key attributes:	Healthy demand for rental homes in the area	High demand area

Further information

The property is in a mixed tenure area and popular area for private renters. Market advice from local agents indicate that this is a strong housing market and popular rental area.



Recommendation and Purchasing Strategy

This property is set in the Hadrian Lodge area of Wallsend. Demand for rental property is strong and advice from local agents indicate an achievable market rent of £550PCM. The property has an allocated driveway and enclosed rear garden.

The vendor is a private landlord and although there is no onward chain (the current tenants are moving to a new home at Benton Rise) the current tenants do have an agreement until December 2018. The agent has advised the property is freehold.

The property has good road and public transport links and provides an ideal starter home or for families looking to downsize. It is recommended that the Company agrees to an upper bid of £115,000 to achieve the minimum 3% yield.

Board Decision

Proceed: Yes	No	Envelope (£): starting.....	max.....
Signed.....		Date.....	
Signed.....		Date.....	
Signed.....		Date.....	

Worthing Close, NE28



NORTH
TYNESIDE
**DEVELOPMENT
COMPANY**

Portfolio evaluation

Address: Worthing Close, NE28

Description: 2 Bedroom terraced house

Asking price: offers £100,000-£110,000

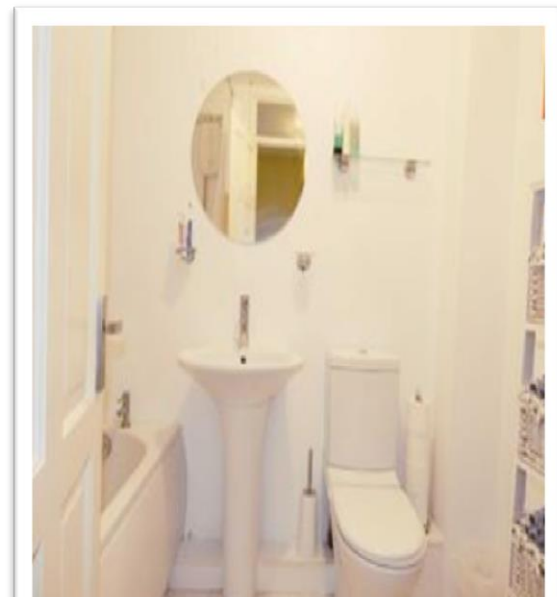
Achievable market rent and other Info: £550 PCM, chain, EPC E (under review)

Agent: Next to Buy

Demand: High

Yield: 3.0%

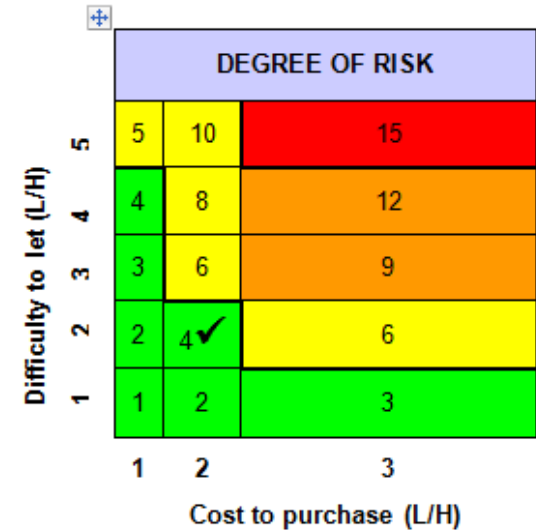
Purchase: Yes



Costs

Purchase	Management	Rent level/yield
Survey: £325	Void and debt: £199	PCM: £440
Legal: £850	Management: £325	PA: £5,280
Stamp Duty: £3,300	Maintenance: £673	Net Rent: £3,870
Refurbishment: £12,049	Life cycle: £213	Yield: 3.0%

Cost/Risk exposure



Degree of Risk	Risk Level
1 to 4	Low
5 to 8	Tolerable
9 to 12	Substantial
13 to 25	Unacceptable

Refurbishment Allowance

Provisional Allowance	Cost based on KNT Schedules
Provision for rewire	Up to £3500
Boiler Service	£35.62
Renew Fascia/Bargeboard x 2	£51.68
Property Clean and welcome pack	£142
Renew kitchen	Up to £6000
Supply and fit smoke alarm x2	£118.30
Supply and fit CO alarm	£48.05
Decorate elements of house	£488.85
Renew Window x2	£518
10% Contingency	£1,095.49
Total	£12,049

Neighbourhood information

Potential growth: Yes

Stable market: Yes

Vulnerable market: No

NTTC Stock: Yes

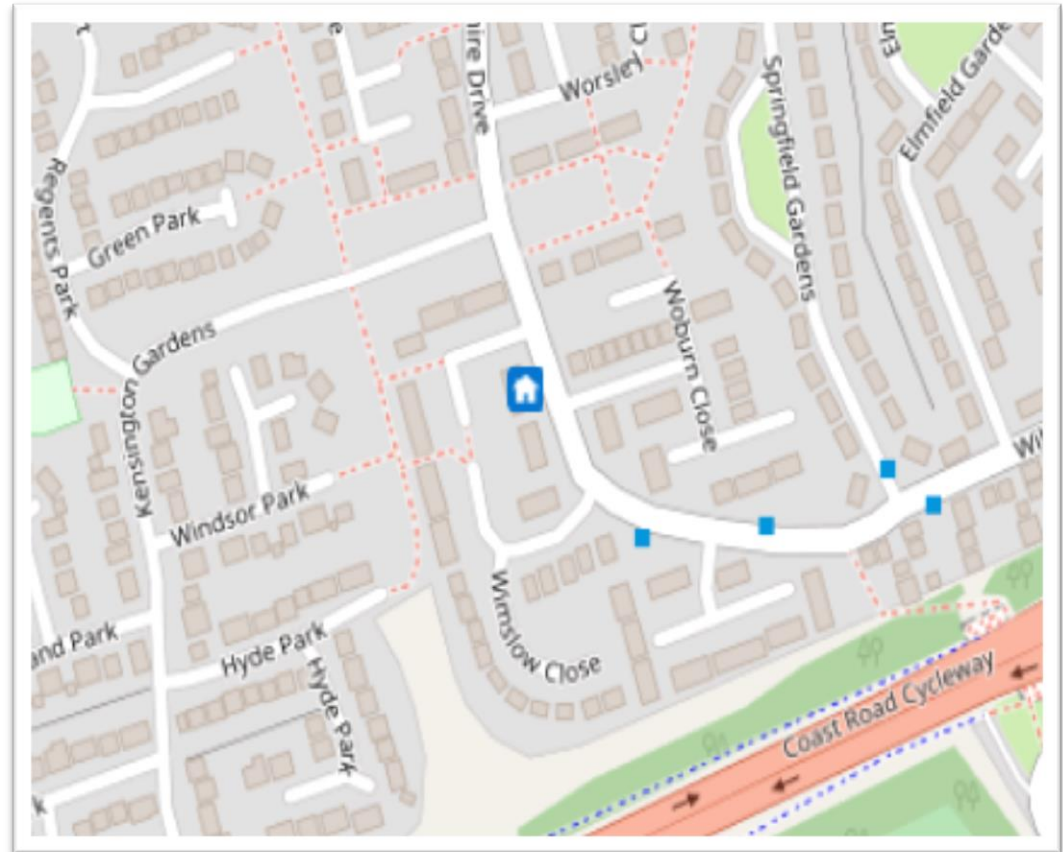
NTC Stock: Nearby

Transport: Bus & Road

Amenities: Battlehill

Healthcare: Battlehill

Schools: Nearby

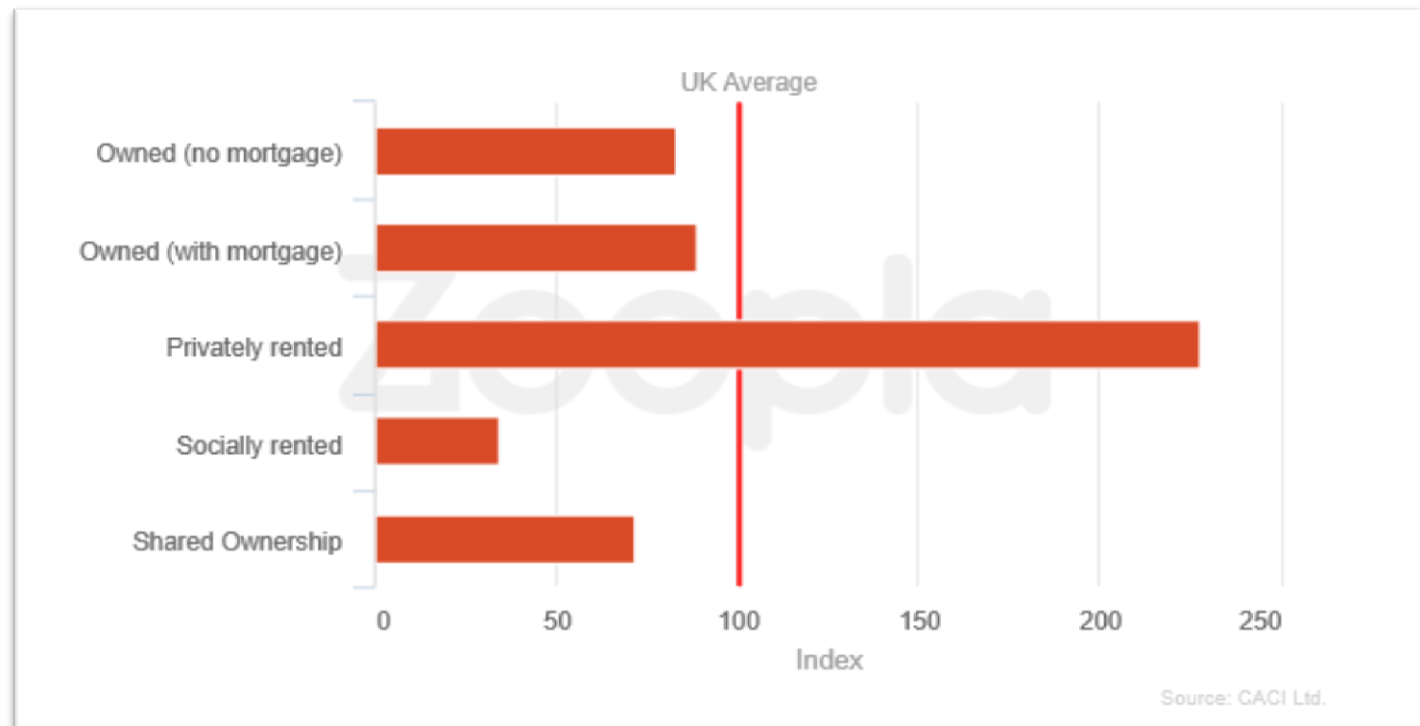


Purchasing Strategy – Pre-requisites

Property size:	2 and 3 bedroom homes	2 Bed
Property type:	Houses are preferable to flats	House
Property age:	Preferable 1980s - new build	Yes
Tenure:	Freehold or long leasehold (999yrs). If a house is on a shorter lease any offer made will be subject to the freehold being purchased by the seller prior to completion	Freehold
Possession:	All offers subject to vacant possession on completion. Offers will not be made on tenanted properties where a current tenant wishes to stay insitu	No chain
State of repair:	No major works required. All offers made are subject to survey	Some updating required
Key attributes:	Healthy demand for rental homes in the area	High demand area

Further information

The property is in a mixed tenure area and popular area for private renters. Market advice from local agents indicate that this is a strong housing market and popular rental area.



Recommendation and Purchasing Strategy

This property is located in the Redesdale Park area of Wallsend not far from the companies property at Ribblesdale. Redesdale Park is a popular area for first time householders and is an area in which demand for rental property is strong. Local agents report that currently similar sized privately rented accommodation in the area are commanding rents of £550 PCM. The property has an allocated parking space and is an area with good road and public transport links. The kitchen requires replacing and a estimated cost for this has been included in the business case.

The agent has advised the property is freehold and there is no onward chain.

Its is recommended that the Company approves an upper offer limit of £110,000 to achieve a 3% yield.

Board Decision

Proceed: Yes	No	Envelope (£): starting.....	max.....
Signed.....		Date.....	
Signed.....		Date.....	
Signed.....		Date.....	