

# 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%
<b>Total purchase price</b>		<b>418,000</b>	
Other costs including survey, legal, stamp duty and refurbishment		56,000	
Additional contingency proposed		1,000	
<b>Total maximum funding required</b>		<b>475,000</b>	

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)
<b>S106 balance remaining</b>	<b>0.764</b>

### 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