

## **POLICY & FINANCE COMMITTEE**

**23 JANUARY 2020**

### **NEWARK AND SHERWOOD HOMES ASSET TRANSFER**

#### **1.0 Purpose of Report**

1.1 The Board of Directors of Newark and Sherwood Homes will need to make a determination as to the disposal of the Company's wholly owned assets, this paper is to invite the Policy & Finance Committee to make a recommendation as to their preference for the future ownership of these properties.

#### **2.0 Background Information**

2.1 The approvals given by the Policy & Finance Committee on 26 September 2019 were as follows:

“a) having regard to the results of the tenant and leaseholder consultation and the previous ‘in principle’ decision, the Committee agree to bring the housing management services in-house for direct service provision by the Council;

c)iv. that the necessary arrangements be made to transfer any properties owned by the Company to the Council upon its dissolution;”

2.2 Between the years 2014 and 2018 Newark and Sherwood Homes acquired 25 properties under its direct ownership, through development and a number of acquisitions; separate to its management of the circa 5500 properties held within the Council's Housing Revenue Account (HRA). In advance of the winding up of Newark and Sherwood Homes, a determination needs to be made as to the future of its 25 wholly owned properties.

2.3 In addition to the 25 properties there are also two small parcels of land in Newark and Sherwood Homes' ownership, these are areas remaining following the developments at Second Avenue - Edwinstowe and the site off Belle Vue Lane – Blidworth.

#### **3.0 Options and implications for disposal of the property assets**

3.1 The 25 owned properties, comprise 15 houses and 10 flats, all of which are let on assured tenancies to tenants. The properties were acquired via four different routes;

- The Empty Homes Community Grants Programme
- Section 106 transfers from a developer
- New Build Development by the Company
- Acquisitions from Company Balances

3.2 The two small parcels of land held as assets on the company's balance sheet, were acquired as a result of the two developments that the company undertook directly. The first parcel at Second Avenue forms the car parking for the flats and is laid with tarmac, the second off Belle Vue Lane can be classified as open space and is laid to grass with some wild flower beds, both of these sites are low maintenance. Neither parcel offers any future development potential.

- 3.3 There are three options available to the board as to the disposal of these assets;
- i) Maintain Newark and Sherwood Homes as a shell company.
  - ii) Effect a sale of the assets to a third party.
  - iii) A transfer of the assets to the Council's Housing Revenue Account.
- 3.4 There are a number of implications in maintaining a shell company to hold these assets; the first is that it is in conflict with the Council's previous decision in closing the company down. Secondly there are a number of cost implications in maintaining and operating a company for such a small number of properties, for example the need to retain directors and prepare company accounts; in addition to the fact that SLA's would need to be prepared to undertake the ongoing management of the stock.
- 3.5 With regard to the sale of the assets to a third party, the company's articles of association clearly state the following:
- "1 Winding Up  
If, upon the winding up or dissolution of the Organisation, there remains, after the satisfaction of all its debts and liabilities any property whatsoever, the same shall be paid or transferred to the Housing Revenue Account (as defined in the 1989 Act) of the Council."
- 3.6 In addition, for those properties which were acquired using external funding, there are various conditions appended which are relevant to any decision making. For the properties purchased using the Empty Homes Community Grants Programme the funding agreement clearly states that if there is a desire to transfer ownership or in the case of a company being wound up, there is a requirement to repay the £50k of funding.
- 3.7 For the properties acquired via a Section 106 any subsequent sale is conditioned as being to a Housing Association or other person as approved by the Council. For the properties developed by the Company as affordable housing, the sale is conditioned as to a Registered Provider.
- 3.8 It is also relevant to note that if Newark and Sherwood Homes were to dispose of the properties to a third party, the price paid for the assets will likely be below market value, due to the nature of the existing tenancies. Typically the reduction rate applied is 42%, if this were to be the case we would be unable to replace these units on a like for like basis.
- 3.9 In transferring the assets to the Council's Housing Revenue Account, we would satisfy the above conditions, although final confirmation is still being sought from the Ministry of Housing, Communities and Local Government. A consequence of transferring the properties into the HRA however, is that they would become subject to the 'Right to Buy', which they are not currently (as they were acquired post transfer), however the four properties purchased using the Empty Homes Community Grants Programme as currently subject to the 'Right to Acquire', which is a similar scheme albeit with smaller discounts.
- 3.10 Lastly, it is recognised that these properties were either built or purchased from funding that was generated originally from the Housing Revenue Account via the management agreement.

#### **4.0 Equalities Implications**

4.1 There are no direct equalities implications arising from this report.

#### **5.0 Financial Implications (FIN19-20/5001)**

5.1 Newark and Sherwood Homes (NSH) currently receive around £100,000 a year of rental income from the 25 properties, after the costs of maintaining them.

5.2 NSH acquired four of these 25 properties using a £50,000 grant from the Empty Homes Community Grants Programme. At the time of writing, it is not clear whether the Government requires this grant to be repaid or not. If the grant needs to be repaid whilst NSH is operating as a company, the cost will be met from company resources. If the grant needs to be repaid after the company's resources have transferred to the Council, the Council will set aside resources to repay the liability until it has obtained relevant advice.

5.3 The Council would seek expert external advice on the (tax and other) implications of transferring the 25 NSH properties into the Housing Revenue Account (HRA). The cost of this external advice would be met from a specific budget within the HRA for the costs of the Council bringing its housing management services back in-house.

5.4 If the properties are transferred into the HRA, the Council will need to get the properties valued. This is so that the Council can account for the properties at their Existing Use Value for Social Housing (EUV-SH). Currently, the company will be holding the properties at either Market Value or Historic Cost. Subsequent valuations would be as part of the Council's routine of valuing capital assets.

#### **6.0 Community Plan – Alignment to Objectives**

6.1 The transfer of the 25 properties into the Council's Housing Revenue Account aligns with the following objective as set out within the Community Plan "Generate more income, improve value for money and increase residents' satisfaction with the Council".

#### **7.0 RECOMMENDATION**

**That upon the winding up of the Council's Arms' Length Management Organisation (Newark and Sherwood Homes) the Council's preference is that the 25 company owned properties are transferred into the ownership of Newark & Sherwood District Council's Housing Revenue Account.**

#### **Reason for Recommendations**

**That retention of these assets will give security to the tenants living within them and the transfer will support the viability of the Council's Housing Revenue Account Business Plan.**

Background Papers – Nil

For further information please contact Edward Langtry, Capital Projects Manager on 01636 655771.

**Karen White**

**Director – Governance & Organisational Development**