

TITLE OF REPORT: Disposal of Former Lyndhurst Centre

REPORT OF: Mike Barker, Strategic Director, Corporate Services & Governance
Paul Dowling, Strategic Director, Communities & Environment
Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. To seek Cabinet approval to the disposal of the freehold interest in the former Lyndhurst Centre ('the Site') to the Gateshead Trading Company ('GTC'), the provision of a Loan to GTC in order to facilitate the development of new housing and approval to enter into a contract with GTC for the delivery of the development.

Background

2. The Site comprises a cleared land area extending to approximately 3 acres (1.2 Ha), as shown on the attached Plan.
3. The Site was declared surplus by Cabinet 25 June 2013 (Min. No. C54). Since that date, the Site has been used by the adjacent Cleveland Hall Community Association as overflow car parking, under the terms of a licence agreement.
4. The Site has not been marketed, but GTC has submitted an offer to purchase, in the sum of £100,000 subject to the receipt of planning permission for the construction of 36 new houses.
5. The Service Director, Legal, Democratic & Property Services considers this offer to be below the Market Value for the property. The Market Value is calculated as £324,000.
6. The Local Government Act 1972 General Disposal Consent (England) 2003 ('the General Consent'), provides local authorities with a power to dispose of land for less than the best consideration reasonably achievable, where such a disposal will contribute to the achievement of the promotion or improvement of the social, economic or environmental well-being of the whole or part of its area or all or any resident or person in its area. Disposal under the General Consent is subject to the condition that the under-value does not exceed £2,000,000.
7. Cabinet on 30 January 2007 (Min. No. C268) agreed a proposal to consider sales of land at less than best consideration using a two stage procedure. It is proposed to combine this two stage procedure into a single report in this instance, to progress an early disposal and redevelopment of the Site, (subject to the grant of planning permission).

8. The Council can take advantage of the General Consent to support its policy objectives. The disposal of the Site to GTC will guarantee the construction of a number of affordable homes. The Service Director, Legal, Democratic & Property Services confirms that should the Site be disposed of on the open market, it is likely that any purchaser would seek to reduce their planning obligations in respect of affordable housing, on the grounds of viability.
9. The under-sale does raise state aid issues which have been considered by the Council. The Council has concluded a “no state aid” position on the basis that the assistance is provided for construction related activities within a deprived area and therefore there would be no effect on trade between Member States.
10. To facilitate the development, GTC has requested a revolving credit loan facility from the Council, estimated to be up to £5.294m, to provide resources to fund the construction of the scheme until sales income is received.

Proposal

11. To dispose of the Site to GTC in the sum of £100,000 subject to the receipt of planning permission for the construction of new homes. The offer is considered less than best consideration, but the guarantee of the development of new affordable housing for rent and four units designed as lifetime homes is considered grounds for relying on the provisions of the General Consent.
12. It is proposed that the scheme is financed by way of a revolving credit loan facility from the Council to the GTC for the capital costs of the development, estimated to be up to £5.294m. However, given the planned early engagement around sales and phased nature of the development, it is anticipated that sales income will be received prior to the completion of the development, particularly relating to the disposal of the affordable units, which will help to offset the loan drawdown requirement meaning that the full loan facility is unlikely to be drawn down by the GTC.
13. The interest rate associated with the revolving credit loan facility provided by the Council will need to be set in a State Aid compliant manner. In addition, further work is required to explore options around the timing of loan drawdowns and repayments following confirmation of the development
14. It is proposed that the Council enter into a contract with the GTC for the delivery of the development including design and construction.

Recommendations

15. It is recommended that Cabinet approves:
 - (i) the disposal of the former Lyndhurst Centre to Gateshead Trading Company for the sum of £100,000 subject to the receipt of planning permission for new residential development;
 - (ii) using powers granted under the Local Government Act 1972 General Disposal Consent (England) 2003 a disposal at an under-value based on a guarantee of the development of affordable housing by GTC;

- (iii) delegating authority to the Service Director, Legal, Democratic & Property Services to negotiate the final terms of the disposal;
- (iv) the provision of a Loan facility to Gateshead Trading Company of £5.294m to facilitate the proposed development;
- (v) delegating authority to the Strategic Director, Corporate Resources to finalise the terms of a Loan Agreement with Gateshead Trading Company;
- (vi) that the Council enter into a contract with the GTC for the delivery of the development including design and construction; and
- (vii) delegating authority to the Strategic Director, Corporate Services and Governance following consultation with the Strategic Director, Communities & Environment to finalise the terms of the contact with Gateshead Trading Company.

For the following reasons:

- (i) To ensure the early re-use of an under used site.
- (ii) To obtain a capital receipt.
- (iii) To ensure the development of new affordable housing in the area.

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APPENDIX 1

Policy Context

1. The proposed disposal will support the overall vision for Gateshead as set out in Vision 2030 and the Council Plan, in particular 'Sustainable Gateshead' and will assist in the aspiration of providing a wide variety of attractive housing supporting sustainable and cohesive communities.
2. The proposal will accord with the provisions of the Corporate Asset Strategy & Management Plan 2015-2020. In particular, using the Council's land to support housing growth and employment.

Background

3. The Site comprises a cleared land area extending to approximately 3 acres (1.2 Ha), as shown on the attached Plan.
4. The Site was declared surplus by Cabinet 25 June 2013 (Min. No. C54). Since that date, the Site has been used by the adjacent Cleveland Hall Community Association as overflow car parking, under the terms of a licence agreement.
5. The Site has not been marketed, but GTC has submitted an offer to purchase, in the sum of £100,000 subject to the receipt of planning permission for the construction of 36 new houses.
6. The Service Director, Legal, Democratic & Property Services considers this offer to be below the Market Value for the property. An Internal Valuation report has been prepared to provide an opinion of Market Value of the site. Using market assumptions including planning approval for the construction of 36 dwelling houses to include 6 affordable units it is considered the market value of the site is £324,000.
7. The Local Government Act 1972 General Disposal Consent (England) 2003 ('the General Consent'), provides local authorities with a power to dispose of land at less than the best consideration reasonably achievable, where such a disposal will contribute to the achievement of the promotion or improvement of the social, economic or environmental well-being of the whole or part of its area or all or any resident or person in its area. Disposal under the General Consent is subject to the condition that the undervalue does not exceed £2,000,000.
8. Cabinet on 30 January 2007 (Min. No. C268) agreed a proposal to consider sales of land at less than best consideration using a two stage procedure. It is proposed to combine this two stage procedure into a single report in this instance, to progress an early disposal and redevelopment of the Site, (subject to the grant of planning permission).
9. The Council can take advantage of the General Consent to support its policy objectives. The disposal of the Site to GTC will guarantee the construction of a number of affordable homes. The Service Director, Legal, Democratic & Property Services confirms that should the Site be disposed of on the open market, it is likely

that any Purchaser would seek to reduce their planning obligations in respect of affordable housing, on the grounds of viability.

10. The proposal to undertake commercial housebuilding by GTC will respond to the need to build 11,000 new homes in the borough by 2030 and respond to the challenge in the Medium Term Financial Strategy of an estimated revenue funding gap of £71.8M over the next three years by generating additional income for the Council.
11. GTC proposes to develop houses for sale and contract with the Council for the provision of Design and Construction Services which provides additional income to the Council during the development through design fees and overhead contributions. In addition the Council would receive Council Tax income of £43,000 per annum following its completion.
12. To facilitate the development, GTC has requested a revolving credit loan facility from the Council to meet the capital costs of the development, estimated to reach £5.294m. This is required to provide resources to fund the construction of the scheme until sales income is received and the loan can be repaid.
13. The interest rate associated with the Loan facility provided by the Council will need to be set in a State Aid compliant manner. In addition, further work is required to explore options around the timing of loan drawdowns and repayments following confirmation of the development programme.
14. It will be necessary for there to be a contract between the Council and the GTC setting out the obligations of each in relation to the delivery of the development including its design and construction. It is proposed that the construction works will be carried out by Kier Living Ltd which will be through a sub-contract between the Council and Kier Living Ltd in respect of the construction Works. It is proposed to appoint Kier Living via the SCAPE framework.

Consultation

15. In preparing this report, consultations have taken place with the Leader, Deputy Leader and Cabinet Member for Housing. Ward councillors have also been consulted.

Alternative Options

16. The option of disposing of the site on the open market has been considered. Whilst a higher capital receipt may be generated, it is likely that any Purchaser will seek to reduce the level of affordable housing required under planning policy (ie 15%) on the grounds of viability. This option has therefore been discounted.

Implications of Recommended Option

17. **Resources:**

- a) **Financial Implications** – The Strategic Director, Corporate Resources confirms that the disposal of the Site will generate a capital receipt for the

Council of £100,000 subject to the receipt of satisfactory planning permission.

The revolving loan facility required by Gateshead Trading Company to facilitate the development can be accommodated as an addition to the Council's future capital programme on the basis that the loan repayments and associated financing costs will be fully funded by GTC, ensuring there is no adverse impact upon the Council's revenue budget.

- b) **Human Resources Implications** – there are no human resources implications arising from this report
- c) **Property Implications** - The sale of the site accord with the provision of the Corporate Asset Strategy and Management Plan 2015 – 2020 with particular reference to use the Council's land to support the development of both market value and affordable housing to meet the needs of the residents of the borough.

- 18. **Risk Management Implication** - the loan to Gateshead Trading Company will be granted using a State Aid compliant interest rate, which considers the level of risk associated with the organisation and the specific development opportunity. GTC will require income generated through the sale of the completed properties within the proposed development to meet the loan repayments.
- 19. **Equality and Diversity Implications** - there are no equality and diversity implications arising from this report.
- 20. **Crime and Disorder Implications** – there are no crime and disorder implications arising from this report
- 21. **Health Implications** – the development of four Lifetime Homes on site will assist the health agenda
- 22. **Sustainability Implications** - the proposed sale to GTC will ensure a vacant site is brought back into economic use
- 23. **Human Rights Implications** - there are no human rights implications arising from this report.
- 24. **Area and Ward Implications** - High Fell, Chowdene

Background Information

- 25. Cabinet 25 June 2013 (Min. No. C54)
Cabinet 30 January 2007 (Min. No. C268)