**Revised at Sept 2017**

# HRA Business Plan

## 2017/18 to 2046/47

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Sutton

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# 1. Introduction

1.1 This document sets out Sutton Council's plans for managing and maintaining over the coming years its housing stock of just under 5,900 rented and almost 1,500 leasehold properties held in the Housing Revenue Account (HRA). Its fundamental purpose is to ensure the efficient use of the Authority's housing assets.

1.2 It is a substantial revision to the version published in March 2017, in particular with regard to the Council's programme of property acquisitions that will be funded through the HRA (see chapters 3 and 5) and as a result of a review of the investment needed to the existing stock, this also including a review of additional fire safety measures to be provided in the wake of the Grenfell Tower fire.

1.3 Sutton Housing Partnership (SHP), the Council's arms-length management organisation or 'ALMO' has been managing the Authority's housing since 2006. Although all housing management functions including the day-to-day financial management of the HRA are delegated to SHP, the Council, in its strategic role, retains responsibility for the HRA Business Plan and decisions around the long-term future of its housing assets.

1.4 Last year the Council embarked upon a commissioning review of its housing management service, with a view to determining the best way for the service to be delivered going forward, particularly in light of the more difficult financial circumstances facing the HRA since the Government's imposed reductions in social rents. This has resulted in a decision to retain the ALMO in a remodelled form, where back office functions are transferred into the Council or its shared services and front end services are delivered on a more generic geographical basis. Overall the change will result in significant revenue savings.

1.5 As with previous HRA Business Plans, this document provides up-to-date information on the makeup and condition of the housing stock and sets out the latest position regarding investment needs into the future. It also contains details of our revised 30 year HRA Business Plan modelling, based on current and projected resources, covering the period 2017/18 to 2046/47.

1.6 The HRA Business Plan has been produced in partnership with SHP, and up to date information on day to day service delivery, performance and resident involvement can be found in SHP's latest delivery plan at:

http://www.suttonhousingpartnership.org.uk/Documents/AboutUs/OurPlansandPerformance/CurrentPlans/SHP-Delivery-Plan-Update-2017-18-vAPPROVED.pdf

## Strategic and Policy Context

### National Context

1.7 Despite the freedoms granted under HRA self-financing back in 2012, the Government imposed a 1% p.a. reduction over four years, commencing in 2016, notwithstanding the Coalition Government having previously given a guarantee that social rents would increase by CPI + 1% for the next 10 years. This change of policy has significant implications for the HRA Business Plan and the housing management service offered to residents.

1.8 The Council's HRA could also be adversely affected by a further proposed policy change, namely the intention to extend the Right-to-Buy (RTB) to housing association tenants, with the costs of doing so being funded by local authorities who will be expected to sell off their 'high value' stock when it becomes vacant. At this stage, Government guidance on this policy proposal is yet to be published and so it is difficult to assess its impact. However, the potential impact, based on informed assumptions has been undertaken as part of the financial modelling.

1.9 In April 2012 the Government introduced its "reinvigorated" RTB policy aimed at increasing home-ownership amongst social tenants while at the same time replacing, on a one-for-one basis nationally, the additional homes sold. The policy has already begun to have a significant impact, with the Council seeing a very substantial increase in RTB sales over the last five years albeit that sales now appear to be dropping off.

### Regional context

1.10 Along with investment powers for new affordable housing, the Mayor of London had responsibility for allocating decent homes backlog funding to individual boroughs. Over the five years 2011/12 to 2015/16 the Council was successful in securing nearly £70m of decent homes backlog funding. It also successfully secured over £5m of extra HRA borrowing capacity for new build through the Government's Local Growth Fund, administered by the GLA. A further £80k of grant has been obtained from the GLA towards the £160k cost of a pilot project to explore the potential for a self funding model for zero carbon target retrofit of energy efficieny and affordable warmth technologies.

### Local context

1.11 At the local level, the Council's latest housing strategy, published in 2015, takes into account the objectives within the corporate plan; it also links into a number of its other strategies. Covering the housing function in its widest sense, the housing strategy contains five broad strategic aims or priorities, most of which have a bearing on, or implications for, the Authority's responsibilities as a landlord:

*A. Increase the supply of affordable housing*

*B. Invest in and make best use of the borough's existing housing stock*

*C. Promote excellent housing management standards across all types of housing*

*D. Provide housing options advice and address homelessness*

*E. Provide housing support and improve the health and wellbeing of residents*

1.12 The HRA Business Plan, and its delivery through SHP as the Council's housing management provider, will help to realise these wider housing strategic objectives, as summarised in table 1.1 below:

**Table 1.1: HRA Business Plan Contribution to the Council's Strategic Housing Priorities**

| Strategic housing priority | HRA Business Plan contribution |
|---|---|
| Increase the supply of affordable housing | As part of the asset management process, through identifying land that could be used for new affordable housing development; also potentially through the use of HRA funding and RTB receipts to develop and acquire new local authority-owned homes |
| Invest in and make best use of the borough's existing housing stock | Through programmes of major repairs and improvements to the council stock including works to improve energy efficiency. Through the redevelopment of estates to provide more appropriate housing, from the re-provision of shared facility sheltered housing and through the conversion and de-conversion of individual dwellings |
| Promote excellent housing management standards across all types of housing | Through SHP's policies and procedures for managing the Council stock and its service improvement planning process. |
| Provide housing options advice and address homelessness | Through the provision of Council accommodation for homeless applicants and the work done to support vulnerable tenants to maintain their tenancies and prevent homelessness. |
| Provide housing support and improve the health and wellbeing of residents | Through the support provided to vulnerable council tenants by SHP as part of its sheltered and other housing management services. |

1.13 In addition, the delivery of the HRA Business Plan will help achieve the Council's vision, set out in its corporate plan, of creating a more open, fairer and greener borough through producing and maintaining decent homes and implementing regeneration programmes. It will also assist the Council to achieve its corporate aims and objectives as set out in a number of its other strategies.

1.14 In 2015 SHP published a new asset management strategy setting out the strategic framework within which it will manage the Council's HRA assets over the coming five years. Feeding into and informing the HRA Business Plan it sets out how the ALMO will deliver repairs and improvements to the stock in a structured and sustainable way while maximising performance and value for money, with the ultimate aim of making best use of the assets to meet current and future demand.

## Aims and Objectives

1.15 Set within the national, regional and local policy context and the Council's overall housing strategic aims, our principal aim or mission as a landlord is:

> **"To deliver excellent, cost effective housing management services that improve the quality of life of the Council's tenants and leaseholders and provide a decent home for all"**

1.16 The more specific objectives which underlie the thrust and purpose of this Business Plan are:

1. To bring all dwellings up to the decent homes standard and continue to improve and maintain them as an asset for the future
2. To regenerate homes where required and develop and acquire new local authority owned housing subject to funding and land availability
3. To invest in and improve estate grounds and the communal areas of flatted blocks
4. To provide high quality responsive repairs and cyclical maintenance services
5. To provide excellent tenancy management and leaseholder services and create attractive neighbourhoods where people feel safe and want to live
6. To ensure all customers have access to services and that the diverse needs of tenants and leaseholders are fully met
7. To promote and maximise the opportunities for customer involvement with service delivery

NB: The aims and objectives also apply to ‘s16 freeholders’ who have purchased houses within estates and who pay a service charge to the Council

1.17 Objectives 1, 2 and 3 are principally the focus of the HRA Business Plan while other objectives are addressed through SHP’s delivery plans.

# 2 The Council's Housing Stock

## Stock Make Up

2.1 As at 1 April 2017, the Council's HRA stock comprised 5,886 rented homes, 12 shared ownership properties (the equivalent of 6.75 rented units) and 1,492 flats and maisonettes sold on long leases. Also, within various estates are 120 houses sold freehold where the owner pays a service charge to the Council (commonly referred to as 's16 freeholders'). The rented portfolio includes 508 sheltered units and also held within the HRA are around 1,200 garages and a number of commercial units.

2.2 Of the total rented stock none of our homes are currently classified as unfit or designated as difficult-to-let. We anticipate the number of rented units to fall to around 5,700 during the next five years as a result of RTB sales and other disposals. This doesn't at this stage take into account the new local authority housing due to be built or acquired over the coming years, the potential impact of sales of 'high value' stock and the impact of proposed estate redevelopment set out in the draft Sutton Town Centre Master Plan (see chapter 4).

2.3 Council housing is located in most parts of the borough. There are, however, a number of larger estates or concentrations of stock, the principal ones being:

- Around 2,600 inter-war cottages and low rise flats at St Helier in the north of the borough;
- the Benhill estate in central Sutton, built in the late 1960s and comprising 429 flats and maisonettes ;
- 'Shanklin Village' in Belmont, made up of 424 deck-access designed, 70s-built flats maisonettes and houses.

2.4 The following table gives a breakdown of the HRA rented stock by type, size and age as at 1 April 2017.

**Table 2.1: Breakdown of the HRA Rented Housing Stock by Type, Size and Age**

| | Pre 1945 | 1945-64 | 1965-74 | 1975-84 | Post 1985 | All ages |
|---|---|---|---|---|---|---|
| Houses (traditionally built) | | | | | | |
| Terraced -1 bed | | | | | 18 | 18 |
| Terraced -2 bed | 1033 | 6 | 12 | 6 | 13 | 1070 |
| Terraced -3 bed | 1058 | 62 | 45 | 33 | 21 | 1219 |
| Terraced -4+ bed | 14 | 11 | 1 | 1 | | 27 |
| Semi-detached -2 bed | 50 | 1 | | 1 | | 52 |
| Semi-detached -3 bed | 156 | 45 | 2 | 3 | 5 | 211 |
| Semi-detached -4+ bed | 5 | 2 | | | | 7 |
| Detached -3 bed | 3 | | | | | 3 |
| Detached -4 bed | 1 | | | | | 1 |
| Houses (non-traditionally built) | | | | | | |
| 3 bed | 5 | 61 | 1 | | | 67 |
| **All Houses** | 2325 | 188 | 61 | 44 | 57 | 2675 |
| Bungalows | | | | | | |
| 1 bed | 5 | 25 | 10 | 17 | 7 | 64 |
| 2 bed | 2 | 1 | | 3 | 2 | 8 |
| 3 bed | 9 | 1 | | 5 | | 15 |
| 4 bed | 1 | | | | | 1 |
| **All Bungalows** | 17 | 27 | 10 | 25 | 9 | 88 |
| Flats and Maisonettes | | | | | | |
| Low Rise Bedsit/ studio | 12 | 21 | 61 | | | 94 |
| Low rise -1 bed | 434 | 55 | 108 | 179 | 148 | 924 |
| Low rise -2 bed | 62 | 78 | 14 | 21 | 12 | 187 |
| Low rise -3 bed | 13 | 8 | | | | 21 |
| Low rise -4 bed | 1 | | | | | 1 |
| Med Rise Bedsit/ studio | 7 | 17 | 41 | 3 | | 68 |
| Med Rise -1 bed | 8 | 131 | 331 | 108 | 34 | 612 |
| Med Rise -2 bed | 110 | 318 | 117 | 21 | 23 | 589 |
| Med Rise -3 bed | 19 | 141 | 187 | 21 | | 368 |
| Med Rise -4+ bed | 5 | 4 | 4 | | | 13 |
| High Rise Bedsit/ studio | | 5 | | 18 | | 23 |
| High rise -1 bed | | 25 | 21 | | | 46 |
| High rise -2 bed | | 153 | 17 | 7 | | 177 |
| **All Flats and Maisonettes** | 671 | 956 | 901 | 378 | 217 | 3123 |
| **All dwellings** | **3013** | **1171** | **972** | **447** | **283** | **5886** |

2.5 Flats and maisonettes comprise 53% of the stock, with houses and bungalows making up the remaining 47%. Of particular note is that over half of the stock was built before

1945, and only 12% was built since 1974. Within the total, 508 (8.6%) are sheltered dwellings, grouped within 13 schemes.

2.6 In terms of dwelling size, Sutton's HRA stock contains 1,954 'family-sized' units (3+ bedrooms) representing one third of the total. However, of this number, only 50 units have four or more bedrooms, amounting to less than 1% of the stock.

## Stock Condition

2.7 Since the last major independent condition survey was carried out, by surveying consultants Savills in 2004, the data on stock condition has been updated on a rolling basis by SHP as part of its asset management strategy. In addition, validation work has been undertaken over the years by other independent surveying consultants.

2.8 Originally a large proportion of individual dwelling condition assessments were based on the 'cloning' of archetypes. Over time the cloned data has gradually been replaced with survey data, the original 2004 data gradually updated, and since 2015 works programmes have been based on actual surveys. SHP has commenced a data cleanse and validation exercise of the asset management database and this year SHP is prioritising the validation of the new five year programme of planned decent homes maintenance works to ensure the most cost effective immediate use of scarce resources, while an ongoing 5 yr cycle of stock condition surveys will strengthen long term planning with the data held in a comprehensive proprietary asset management database (Codeman).

2.9 Following the award of Decent Homes Backlog Funding, the asset management strategy focused on the delivery of decent homes related works. The consequence of this has been that works that fell outside the decent homes standard were not always completed at the appropriate point in the investment cycle. Given that 100% decency is now set to be achieved at the end of 2017/18, SHP's asset management strategy seeks to redress the imbalance between the two work streams and ensure that in future an appropriate portion of the annual investment programme is focused on communal services and areas of estates and deficiencies not covered by the decent homes standard.

2.10 These works will include repairs to mechanical and electrical plant and equipment, repairs and upgrades to communal areas, and works to ensure that our estates meet the needs of residents in the 21st century. It will also involve addressing other physical attributes that contribute to the well being and quality of life of residents, such as the cost of heating homes and the quality of the environment outside the front door such as improvements to design out crime and reduce anti-social behaviour. Most importantly, in light of the tragic fire at Grenfell Tower, the programme will have a renewed focus on fire safety measures in flatted blocks and increased resources for fire safety have been given the highest priority.

### Sustainability

2.11 In terms of assessing sustainability SHP has classified each property as either 'Red', 'Amber' or 'Green'. The definition of the three categories is as follows:

**Red** – Those properties deemed to be 'high risk' in that they require significantly higher than average levels of investment in order to bring them up to or maintain them in a good lettable condition and/or that are in low demand (i.e. are difficult to let or have an unjustifiably high void turnover rate).

**Amber** – Those properties that offer peripheral performance and that require further investigation to be reclassified as either red or green.

**Green** – Those properties that are in high demand and that require average or below average levels of investment. This category may otherwise be described as 'core stock' and is of low risk.

2.12 Generally those properties designated 'Green' will continue to receive investment given their commercial viability. Those classified as 'Amber' or 'Red' are effectively highlighted for further consideration, option appraisals and ultimate decision making in terms of their long term future.

2.13 Taking into account works undertaken to the stock in recent years, properties that remain designated as 'Red' or 'Amber 'are listed in Appendix A. As can be seen, only one property is showing as 'Red', this being the vacant property 110 London Road, Hackbridge which has been designated for disposal and redevelopment.

2.14 There are 155 properties that are currently designated as 'Amber'. However, this is not to suggest that all these units should receive no further investment but it triggers a need to consider the causes of their relative unsustainability and what can be done to improve viability. It should be noted that investment costs for properties designated 'Amber' are still included in the calculation of the overall stock investment requirement at this stage (see below). Also, the list excludes homes that form part of ongoing regeneration or redevelopment schemes.

### Future investment requirement

2.15 Set out in the Table 2.2 is the latest estimate of the need for capital investment in the housing stock, by type of works over the 30-year time span where Year 1 is 2017/18. The full detail of this, by building element and including a breakdown for Years 1 - 5, is set out in Appendix B. It should be noted that this is based on the assumption that all existing homes, with the exception of those designated for or currently undergoing redevelopment, are maintained into the future. Should further elements of the stock be redeveloped the overall investment need will change accordingly.

2.16 It should be noted that Appendix B excludes provision for any estate re-modelling, conversions of properties or the creation of new homes or communal facilities within estates. These opportunities have been flagged up in SHP's asset management strategy and, subject to resources being available, will be considered by the Council at the appropriate juncture. It also, at this stage, takes no account of the proposed redevelopment over the next 15 years of a number of estates close to Sutton town centre (see chapter 4).

**Table 2.2: Summary of Stock Investment Needs 2017/18 to 2046/47 (Years 1 - 30)**

| Element | Years | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017/18 – 2021/22 (1 to 5) (£) | 2022/23 – 2026/27 (6 to 10) (£) | 2027/28 – 2031/32 (11 to 15) (£) | 2032/33– 2036/37 (16 to 20) (£) | 2037/38 – 2041/42 (21 to 25) (£) | 2042/43– 2046/47 (26 to 30) (£) | 2017/18 – 2046/47 (1 to 30) (£) |
| Catch Up Repairs | 8,504,619 | 0 | 0 | 0 | 0 | 0 | 8,504,619 |
| Future Major Repairs | 17,864,558 | 18,952,421 | 18,593,756 | 30,402,801 | 19,215,480 | 26,212,596 | 131,241,612 |
| Improvements | 10,479412 | 3,805,169 | 2,774,585 | 2,774,585 | 2,774,585 | 2,774,585 | 225,382,920 |
| Estate Works | 0 | 946,209 | 512,090 | 520,970 | 509,975 | 500,000 | 2,989,244 |
| Contingent Major Repairs | 1,150,000 | 1,054,699 | 942,000 | 942,000 | 942,000 | 942,000 | 5,972,699 |
| Exceptional Extensive Works | 2,650,000 | 3,211,528 | 0 | 0 | 0 | 0 | 5,861,528 |
| Adaptations | 2,000,000 | 2,000,000 | 2,000,000 | 1,950,000 | 1,950,000 | 1,950,000 | 11,850,000 |
| **Total** | **42,648,588** | **29,970,027** | **24,822,431** | **36,590,356** | **25,392,040** | **32,379,181** | **191,802,623** |
| | | | | | | | |
| **Adjusted Totals*** | **48,821,000** | **40,467,600** | **39,134,700** | **67,357,100** | **54,577,400** | **81,260,395** | **334,124,100** |
| | | | | | | | |
| Of which decent homes related | 69% | | | | | | |
| Of which non decent homes related | 31% | | | | | | |

*These adjusted totals include fees and preliminaries (at 8.75%), allow for building cost inflation (at a rate of 3.5**%** p.a.) and allow for projected stock number changes. They also exclude associated costs of management.

2.17 As can be seen, the overall investment requirement over 30 years now amounts to £191.8m. When other elements such as fees and preliminaries, inflation, adjustments for changing stock numbers and leaseholder contributions are factored in, the adjusted total rises to £334.1m. However, it should be noted that this excludes associated costs of management.

2.18 The estimated level of fees and preliminaries of 8.75% has been maintained for the purposes of projecting over the 30 year life of the Business Plan. Clearly this rate may vary over the coming years, but it is felt that over the whole period is as reasonable an estimate of the average rates as can be made at the present time.

2.19 The previous iteration of the HRA Business Plan used a rate of inflation for building costs of 4%. However, in line with build cost indices provided by the Royal Institute of Chartered Surveyors, taking account of long term trends, this has been revised downwards to 3.5%.

2.20 In terms of projected stock losses, for the modelling of future resources (discussed in chapter 3) an estimate of the numbers of sales resulting from the Government's reinvigorated RTB policy together with other known future disposals has been used.

2.21 Of particular note is that it is now estimated that £48.8m of capital investment is required in the first five years (i.e. to 2021/22), largely driven by the amount of catch up and planned repairs and improvements required. Of this amount, some 69% is required to fund decent homes-related works (i.e. those works that fall within the decent homes standard definition).

2.22 At 1 April 2017, 373 units were classified as non-decent, representing 6.3% of the total rented stock of 5,886. All of these properties fail on just one criteria: disrepair.

2.23 The energy efficiency rating of the stock under the Standard Assessment Procedure (SAP) was 71.6 out of 100 at the beginning of 2017/18. A breakdown of the stock by energy rating, using the standard A to G classification as well as the SAP rating scores, is set out in Appendix C. This shows that the large majority of the stock is rated as C or D, with just 79 properties having a lower rating.

2.24 Since March 2017, SHP has reviewed the stock investment requirement in light of further survey work undertaken and a re-assessment of when certain works need to be carried out. This has resulted in the amount to be spent over the first five years, before adjustment, reducing by around £6m despite £1.9m of additional fire safety works having been built in across Years 1 to 3. The position will, however, be further reviewed prior to the next iteration of the Business Plan is produced next year.

## Housing Supply and Demand

2.25 Sutton's latest Strategic Housing Market Assessment identified a requirement for over 1,000 new affordable homes per annum over the next 18 years. The demand for affordable housing is further evidenced by the large number of households in need of social housing on the Housing Register and increasing numbers of homelessness households in temporary accommodation.

2.26 It should be noted that under the Council's current housing allocations policy, implemented in October 2012 and since updated, households without a housing need or those deemed able to access appropriate private rented accommodation are excluded from the Housing Register and so the overall numbers on the Register have reduced considerably from what they were previously.

2.27 The Council has lost large numbers of its homes through the Right to Buy and other disposals over time, with the rented stock reducing from a figure in excess of 9,000 in the 1980s to under 6,000 today. This reduction has resulted in a gradual decrease in lettings becoming available each year, which has not always been compensated for by nominations to new social housing in the form of housing association units.

2.28 It is clear that the local authority housing stock is likely to remain in high demand, at least for the medium term and probably into the longer term. On that basis the Council needs to ensure its continued maintenance as an asset for the full 30 year period of the business plan.

# 3 Resources

3.1 Under HRA self-financing the Council is able to retain for use locally all of its rental income as well as being able to borrow up to a certain limit. Resources for council housing in Sutton also include an element of Right to Buy (RTB) receipts. Each of these and certain other funding sources, are briefly discussed in turn. The rest of this chapter focuses on financial modelling, taking into account projected resources and investment requirements.

## Resources under HRA Self-financing

3.2 As part of the cessation of the national HRA subsidy system, which enabled stock-owning authorities to retain all their rental income locally, councils like Sutton that were in ‘negative subsidy’ under the old regime were required, in March 2012, to make a payment to Government to collectively cover the national HRA debt. To be able to make its allocated self-financing debt settlement payment of £141.1m the Council took out a single 30 year loan for that amount from the Public Works Loans Board. The Government agreed a special one off reduced interest rate of 3.5% p.a. for the purpose.

3.3 The taking out of the self-financing loan raises the costs to the HRA of estimated interest and debt management expenses to around £6.4m p.a. over the remaining loan period. However, this is significantly outweighed by the extra rental income retained (in the last year of the old national subsidy system Sutton was contributing over £10m p.a. to the Exchequer).

3.4 In terms of the loan principal the Council has decided to make provision to pay this off during the 30 year term by setting sums aside annually. Under the latest modelling the set aside will commence in Year 9 and end in Year 25 (2041/42) when the loan matures and will need to be paid back. Importantly, although the sums are set aside they will earn interest for the HRA.

3.5 The Government’s self-financing determination valued Sutton’s housing stock at £173.870m in 2012. This was based on modelling of income and expenditure over 30 years, with the valuation calculated on a ‘net present value’ basis using a 6.5% discount rate. The opening debt settlement that each authority was required to take on equaled its stock valuation less any decent homes backlog funding awarded for 2011/12 and less the assumed level of debt or Subsidy Capital Financing Requirement (SCFR) held within its HRA at the end of 2011/12. Sutton’s SCFR at that point in time was £32.744m; this figure included £10m of decent homes backlog funding awarded for 2011/12.

3.6 The Council’s opening debt settlement was thus calculated as follows:

| | | |
|---|---|---|
| | Stock valuation | £173.870m |
| less | SCFR at 31 March 2012 | £32.744m |
| | **Opening debt settlement** | **£141.126m** |

### Borrowing

3.7 Under self-financing a local authority's total HRA borrowing into the future is limited to its stock valuation - in Sutton's case our borrowing is limited to a ceiling of approximately £173.9m. In reality, however, the Council's actual HRA debt (as opposed to its SCFR) was £17.9m as at the end of 2011/12, which when added to the debt allocation of £141.1m gives total borrowing of £159.0m. The difference between this and £173.9m meant that under the self-financing settlement the Council had the capacity or 'headroom' to borrow up to a further £14.9m. Although some existing debt has matured since the time of the settlement, from a Treasury Management point of view it was deemed more cost effective to refinance this debt rather than pay it off, and so no additional borrowing headroom has been created since 2012.

### Revenue

3.8 Under the Coalition Government social rents were set to increase by CPI plus 1% p.a. for 10 years from 2015/16. However, the Government has since changed its policy and imposed a rent reduction of 1% p.a. for a period of four years, which commenced in 2016/17. This is having a significant impact on the funding available within the HRA, not just during the four years but across the whole 30 year period since it is unlikely that council rents will be allowed to go up sufficiently at the end of the four year period to compensate for the reductions.

3.9 Having applied the dwelling rent reduction of 1% but taking into account other income sources it is projected that the total HRA income in 2017/18 will amount to £38.295m. The Base Model (see below) assumes that rents will be frozen in Year 4 but then go up by the Consumer Price Index (CPI) each year thereafter.

3.10 Under HRA accounting, a depreciation cost (the amount required to maintain the stock) is calculated on a formulaic basis and an equivalent amount of income is set aside into a Major Repairs Reserve (MRR) to cover this. At £5.9m in Year 1 the sum set aside works out at approximately £1,000 per rented property per annum.

## Right to Buy Receipts

3.11 Under the Government's "reinvigorated" RTB policy, introduced in March 2012, where an authority entered into an agreement with Government to retain the additional or 'net' receipts for investment locally (as Sutton did), the receipts must be spent within three years of their arising, otherwise they have to be returned to the Exchequer with a high level of interest payable. A further stipulation is that additional RTB receipts can be used to fund no more than 30% of the cost of new housing including land acquisition costs where applicable.

3.12 The numbers of RTB sales over the last five years are set out in the table below.

**Table 3.1: RTB Sales 2012/13 to 2016/17**

| 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|---|---|---|---|---|---|
| 35 | 65 | 75 | 59 | 51 | 285 |

3.13 The 285 sales over the last five years have given rise to a net receipt of £19.1m available for investment in new homes. The net receipt is calculated in accordance with the CLG methodology whereby the gross receipt is reduced by a prescribed administrative allowance per property sold, attributable debt, the share retained by the local authority usable for any capital purpose, the Treasury share, and the allowance for buy backs where applicable. Some £2m of the £19.1m was deployed to support the remaining regeneration of the Orlit homes in Carshalton, while £70,000 was provided to a local housing association leaving approximately £17m for HRA new investment.

3.14 Set out at Appendix D is the latest projection of RTB receipt income that could be available for investment over the Business Plan period, based on the current pipeline of applications and assumptions regarding the likely trend in sales over the longer term. The projected numbers have reduced significantly over both the short and longer term since the last estimate was made in line with lower actual sales than had previously been anticipated. The projection also indicates when, on a quarter by quarter basis, the net receipt income has to be spent in order to avoid it needing to be paid back to Government.

3.15 As can be seen, 72m of net receipts are estimated to accrue by the end of the Business Plan period, this figure including amounts that arose prior to 2017/18 (Year 1). The quarterly and annualised required expenditure figures in Appendix D show what the total capital investment needs to be in order that the reinvestable or net receipts are spent within the three year time period, assuming that receipts always fund the maximum possible 30% of total development costs. Over the 30 year period this amounts to £221.3m.

3.16 This latest version of Appendix D now includes the amounts of RTB net receipts actually spent and projected to be spent on the HRA new build and acquisition programmes. The final column shows, on a cumulative basis, the RTB net recipts that remain available to be applied. In accordance with the previous decision of the Housing, Economy and Business Committee, these will be used firstly on further property acquisitions funded with General Fund borrowing (which will not be HRA assets). However, where resources permit, net receipts may be applied to a modular construction programme (see chapter 5).

## Decent Homes Backlog Funding

3.17 As shown in the table below, between 2011/12 and 2015/16 investment in the Council's housing stock has benefitted from nearly £70m of Government funding. Unfortunately this funding stream has now ceased.

**Table 3.2: LB Sutton decent homes backlog funding awards**

| 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | Total |
|---|---|---|---|---|---|
| £10m | £14m | £14m | £24.42m | £7.2m | **£69.62m** |

## Other Funding Sources

3.18 In 2014 the Council successfully secured £4.050m of funding in the form of borrowing approval under the Government's Local Growth Fund initiative. This was subsequently supplemented by a further award of £1.257m. These funds are for deployment on HRA new build, which is discussed in chapter 5.

3.19 SHP has worked with the Council in order to ensure a successful application for funding from the GLA for whole house energy efficiency works focussed on addressing fuel poverty. This sits alongside and complements the current programme of investment to reduce the carbon footprint and improve the energy efficiency of the worst performing properties.

## Base Model

3.20 The Council, working with SHP, has produced a revised 30 year 'Base' financial model, where Year 1 remains 2017/18. The Base Model is predicated on the following:

- the self-financing stock valuation of £173.870m;
- the opening debt settlement of £141.126m;
- that sums are set aside from Year 9 to Year 25 (the year when repayment is due) to fully repay the self-financing loan. Interest will accrue on these sums and is added into the working balance;
- that the full amount of available HRA borrowing is applied to new build and that an interest rate of 3.85% is assumed in relation to this borrowing (NB: the modelling also assumes that £2.8m is used to fund the transfer of land from the General Fund to the HRA);
- that the headroom borrowing is paid back after 30 years (outside the time line of the Business Plan);
- that the Major Repairs Reserve (MRR) is applied to investment in the existing stock along with leaseholder contributions and additional revenue contributions to capital outlay (RCCO) where these are both needed and available;
- that an annual inflation rate of 2.5% in 2017/18, 2.1% in 2018/19 and then 2.0% over the remainder of the 30 year period will be applied to revenue costs, given that HRA income and significant HRA costs are now more closely linked to CPI, but that a 3.5% p.a. uplift will apply to building costs (see chapter 2);
- that social rents will reduce by 1% p.a. over the next three years, be frozen in Year 4 and then rise in accordance with CPI each year thereafter;
- that sufficient allowances are made for bad debt in light of the effects of changes to the welfare benefit systems that could impact negatively on rent collection – with £305k for 2017/18, rising to £351k by 2018/19 and with a 0.9% rate each year from 2020/21 onwards;
- that the amounts set to cover the cost of depreciation of assets from Year 1 are calculated according to the Government's HRA self-financing determination taking account of element lifetimes and building costs;
- that the costs of management (SHP's management fee and Council HRA costs) and the amount set for capital investment are linked to the remaining resources available.

3.21 In relation to new build, the following assumptions are made, these based on the latest proposed programme, which is discussed in chapter 5:

- that a programme of 93 HRA new build homes will be provided at the three sites of which 11 will be sold on the the Council's housing development company, Sutton Living, leaving 82 units within the HRA;
- that the new build programme will comprise a mix of capped and discounted Affordable Rent and shared ownership units, with all completions assumed to take place in 2018/19 and the rented units all being let from 1 January 2019;
- that the large majority of building costs for these units will occur over the period to 2018/19, with accordingly the required amounts of borrowing taken out over these years;
- that the assumed (averaged) rent levels for these new homes are as set out in Appendix E;
- that none of the units are subsequently sold under the Right to Buy.

3.22 In relation to the HRA acquisition programme (see chapter 5), the Base Model assumes that RTB net receipts fund 30% of the total cost, with revenue contributions (RCCO) funding 70%. Allowing for the RCCO required for existing stock investment the maximum of that which remains is applied to the acquisition programme, this to in turn maximise the use of receipts.

3.23 The revenue modelling also factors in appropriate management and maintenance costs for the new build and acquired units while the capital modelling allows for renewal of building elements according to standard cycles.

3.24 Summary output sheets from the Base Model, for both revenue and capital, are set out in Appendices F (i) and F (ii) respectively. A schedule of all the assumptions within the Base Model is set out at Appendix G.

3.25 From the revenue summary, the following can be seen:

I. Total annual income (all rents and other charges including those for heating and hot water and rent from the new build and acquired units) drops from £38.319m in Year 1 to £36.003m in Year 2 partly due to the 1% rent reduction but mainly due to the removal of water charge income. From Year 4 total income then rises gradually over the 30 year period to £60.588m.

II. SHP's management costs drop from £14.714m in 2017/18 to £13.229m in Year 5 (2021/22) in line with its planned savings and then rise gradually to £21.714m in Year 30; the Council's management costs increase with inflation from £2.300m to £3.683m over the period while tenant heating, hot water costs and other charges drop significantly after Year 1 when SHP ceases to collect water charges from tenants, and then rise gradually after Year 2.

III. Depreciation increases from £5,893m in Year 1 to £10,536 in Year 30. The depreciation figures transfer across to the MRR in the capital summary (see below) less amounts to cover non-residential assets.

IV. Debt management costs and interest payments on the debt vary between £6.1m and £6.5m up until Year 25 then fall substantially in the remaining years of the Business Plan period after the self-financing debt is paid off. The costs after Year 25 are to support the remaining historic debt which has been re-financed and the borrowing which supports the new build programme.

V. RCCO is applied to investment in the existing stock up until Year 10 and is then not required again until Year 15. A small amount of RCCO is applied to the new build programme in Year 2 while substantial sums are applied to acquisitions up to Year 15, reaching a peak in Year 6. However, between Years 16 and 25 no RCCO is applied as all revenue available is needed for stock investment and the set aside. RCCO becomes available again for acquisitions in Year 26.

VI. Finally, a significant ‘investment reserve’ begins to build up from Year 21, reaching £67m by Year 30. Essentially this is a result of the additional rental income generated by the acquisition programme.

3.26 From the capital summary, the following can be seen:

I. The existing stock investment requirement, shown in column 1, reflects the amounts as set out in Table 2.2/Appendix B. Additional amounts are included in later years to reflect the future investment needs of the new build stock while the future investment needs of the stock to be acquired (mainly flats) is factored into the purchase costs and the depreciation alowance.

II. Column no. 2 shows the funding required to cover the cost of acquisitions while column 3 shows the costs of the new build programme (but only those from 2017/18 onwards).

III. Borrowing is only applied to new build, not to the existing stock or acquisitions. Similarly the cost of new build is offset by income from shared ownership sales (column 6).

IV. The existing stock investment requirement is inclusive of the cost of works to leasehold units, with these costs offset by leaseholder contributions (column 7). Previous iterations of the HRA Business Plan had netted the costs off and did not show the leaseholder contributions. It should be noted that the much higher level in Year 1 refects contributions that have accrued over some years and which have been brought forward.

V. The other funding (column 8) is applied only to the new build programme.

VI. As can be seen from columns 9 to 11, RTB net receipts are applied to both acquisitions and new build, in the case of the former funding 30% of the total cost.

VII. The MRR column reflects the depreciation figures set out in the revenue summary but with deductions to cover non-residential assets (see above).

VIII. As discussed above, RCCO is used to fund works to the existing stock and the acquisition programme, although a small amount is applied to new build in Year 2.

IX. The difference between the total investment requirement and the total funding available is reflected in the ‘In Year Surplus/(Shortfall)’ column, and subsequently in the ‘Cumulative Surplus/(Shortfall)’ column. The latter shows a shortfall from Year 1 up until Year 6, after which it goes into a small surplus eventually settling at zero from Year 15.

## Sensitivity Modelling

3.27 A scenario or sensitivity test has been run in relation to a combination of two factors: (i) projected additional stock losses, from 2018/19, as a result of the Government’s high value assets sales policy, and (ii) and building cost inflation assumed at 4.5% instead of 3.5%. Revenue and capital summaries of the modelling are respectively set out in Appendices H (i) and H (ii).

3.28 In the absence of any more concrete proposals from Government, and for simplicity, it is assumed that one third of vacant dwellings arising during Years 2 to 11 (excluding sheltered and temporary homes) are sold off to pay for the extension of the Right-to-Buy to housing association tenants. This assumption is based on the latest advice and understanding from the CLG.

3.29 The modelling takes into account both the loss of income and the reduction in spend to maintain the units. Again, due to the uncertainty, the effect of this policy has been limited to just 10 years. On this assumption, based on the latest trend in void rates, it is anticipated that 105 properties would need to be sold in 2018/19, this number gradually reducing each year thereafter as the stock size reduces.

3.30 As can be seen from the revenue summary, the total income at Year 30 reduces from £60.588m to £51.962m. However, some costs reduce, notably depreciation, but the major difference from the Base Model is that the ‘investment reserve’ becomes negative, i.e. the HRA goes into deficit, from Year 2, the deficit increasing to over £93m by Year 25. Clearly such a position is unsustainable.

3.31 The capital summary shows that the total investment requirement increases overall as a result of the assumed higher level of building cost inflation, albeit that the increase is offset to some degree by the stock losses. The MRR also reduces due to the stock losses. The net effect of this is that there is an immediate shortfall in resources for investment which builds up to over £90 by Year 30. Again, this position is unsustainable.

3.32 As stated above, however, it is generally acknowledged that the Base Model’s 3.5% p.a. is the most realistic assumption that can currently be made around building cost inflation over the next 30 years. Further, in relation to the potential need to sell off higher value assets and the resultant loss of funding available for investment in the stock that this would mean, at this point in time it is unknown whether such a policy will be pursued, and if it were to be, exactly what the requirement on the Authority would be. Should the policy be implemented in some form or other, then it will be necessary to re-appraise the Business Plan to determine how best the HRA’s future viability could be secured.

# 4 Stock Investment

4.1 As illustrated in chapter 2, notwithstanding the considerable progress made in recent years, the Council's housing stock remains in need of further capital investment to both fully meet the decent homes standard, undertake works of a health and safety nature and address the wider aspirations and expectations of residents in terms of environmental improvements and other works to dwellings and the communal parts of flatted blocks and estates not included in the decency definition. The extent of this investment need has arisen largely as a result of the Council owning an ageing stock that has not been replenished, coupled with historic under-investment up until quite recently.

## Current Investment

4.2 The HRA capital programme outturn for 2016/17, together with the outturn for the previous two years is set out in the following table.

**Table 4.1: HRA Capital Programme Outturn 2014/15 to 2016/17**

| | 2014/15 outturn (£000s) | 2015/16 outturn (£000s) | 2016/17 outturn (£000s) |
|---|---|---|---|
| **Expenditure** | | | |
| Major repairs programme (incl. decent homes works)* | 28,788 | 26,365 | 12,941 |
| Sheltered housing improvements | 246 | 32 | 7 |
| Adaptations for disabled tenants (additional) | 420 | 633 | 595 |
| Regeneration – Richmond Green | 60 | 189 | 782 |
| New Build | 27 | 379 | 6,141 |
| Building Lives Academy | 61 | 13 | 19 |
| Overcrowding initiative (conversions and de-conversions) | 29 | 0 | 0 |
| **Total Expenditure** | **29,661** | **27,610** | **20,485** |
| **Resourcing** | | | |
| Major Repairs Reserve (MRR) | 1,917 | 5,715 | 8,446 |
| Decent Homes Backlog Funding* | 25,711 | 12,582 | 0 |
| Revenue Contributions to Capital Outlay (RCCO) | 1,723 | 8,524 | 5,828 |
| Borrowing / use of capital receipts | 88 | 568 | 5,966 |
| Leaseholder contributions | 222 | 221 | 245 |
| **Total Resources** | **29,661** | **27,610** | **20,485** |

*These figures includes expenditure carried forward from previous years

4.3 The above table shows that around £70m has been invested in the stock over the last three years, the large majority of this on major repairs and improvements to dwellings. However, there was a significant drop in resources in 2016/17 when decent homes backlog funding ended, and this much lower level of capital funding is set to continue into the future.

4.4 The approved major works programme for 2017/18 shown in Appendix I (see below) amounts to £9.793m. The programme originally approved by the Council's Strategy and Resources Committee in February 2017 was £11.977m but it was subsequently agreed by the Housing, Economy and Business Committee that some resources should be switched to the acquisition programme this year.

4.5 The programme will nevertheless result in over 100 homes having new windows installed, over 150 new kitchens and 79 new bathrooms provided, heating improvements for 215 properties and over 300 properties being re-wired or otherwise improved electrically. In addition, some £430k is earmarked to fund aids and adaptations.

4.6 The programme in its current form makes provision for additional fire safety works where these have already been the subject of public commitment (eg installation of sprinklers at Balaam Hse) or where works are known to be required as a result of surveys or other activity. Some provision has been made to allow for increasing costs arising from an increasingly rigourous interpretation of regulations in future although these costs can only be estimated. Provision for this has been made by delaying some non safety related improvements such as a proportion of new gas central heating installations and energy efficiency works to later years.

## Future Investment and Funding Position

4.7 As discussed in the previous chapter, a new Base Model has been developed taking into account the latest assessment of resources, stock investment needs and the funding of the new acquisition programme. A variation or sensitivity model has also been worked up and consideration has been given to the approach to be adopted in order to achieve an appropriate balance in terms of resourcing revenue services and capital investment. The overall investment need position will, however, be reviewed again prior to the next iteration of the Business Plan.

4.8 A significant element of the investment requirement during the next five years is catch-up repairs, the costs of which totals £8.5m (before fees and inflation etc are factored in). In the detailed analysis of this at Appendix B the costs of these works are shown spread across Years 1 to 4 or years 1 to 5. Strictly speaking, catch up repairs, by their definition, are already overdue and therefore should show as needing to be carried out in Year 1.

## Outline Programming Scenario

4.9 On the basis of the funding position under the Base Model, the Council and SHP have been examining how best the anticipated resources available for capital investment in the existing stock might be deployed over the coming five years, with the aim, firstly, of ensuring that all essential health and safety related and other legally required works, including all required fire safety works, are carried out and, secondly, that decent homes related works are prioritised in Year 1 to ensure that 100% decency is achieved by year end. This forms a key element of SHP's latest asset management strategy, with the initial result of this set out in Appendix I and summarised in Tables 4.2 and 4.3 below, the latter showing the numbers of homes benefitting from each key building element repair/replacement.

**Table 4.2: Outline Investment Programme 2017/18 to 2021/22 (Years 1 - 5)**

| | Yr 1 £m | Yr 2 £m | Yr 3 £m | Yr 4 £m | Yr 5 £m | Total £m |
|---|---|---|---|---|---|---|
| Catch up repairs/ future major works | 5,866,823 | 6,710,415 | 6,262,874 | 6,698,318 | 3,832,824 | 29,371,255 |
| Improvements | 2,852,876 | 2,647,898 | 2,562,336 | 1,259,497 | 1,865,860 | 11,179,467 |
| Estate works | 0 | 0 | 0 | 0 | 0 | 0 |
| Contingent major repairs | 268,358 | 276,806 | 285,520 | 294,509 | 182,268 | 1,307,460 |
| Exceptional extensive works | 375,701 | 110,722 | 1,036,892 | 589,017 | 488,269 | 2,600,601 |
| Aids and adaptations | 429,372 | 442,890 | 456,832 | 471,214 | 486,208 | 2,286,356 |
| **All** | **9,793,131** | **10,188,731** | **10,604,454** | **9,312,554** | **6,846,269** | **46,475,139** |

NB: Figures in the above table include adjustments for inflation, fees and preliminaries but exclude the costs of works to leasehold dwellings and the associated costs of management. Totals may not add up exactly due to rounding. Fire safey works are included in Improvements.

**Table 4.3: Outline Investment Programme – Key Building Elements**

| | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 | Total |
|---|---|---|---|---|---|---|
| Bathrooms/WCs | 79 | 58 | 87 | 91 | 65 | **380** |
| Kitchens | 102 | 73 | 108 | 118 | 76 | **477** |
| Heating | 215 | 346 | 289 | 276 | 231 | **1,357** |
| Electrics | 305 | 223 | 230 | 238 | 90 | **1,086** |
| Front doors etc | 368 | 390 | 406 | 755 | 42 | **1,961** |
| Windows etc | 145 | 108 | 134 | 299 | 123 | **809** |
| Roofs/canopies/balconies | 201 | 248 | 209 | 223 | 116 | **997** |

4.10 Table 4.4 (below) gives a breakdown of the average costs for the key building elements, while Table 4.5 indicates the life cycles of some of the elements used for asset management purposes. It should be noted that although a building element may reach the end of its life cycle, when it is replaced will depend upon its condition. Some elements may need replacing before the end of the cycle while others may have a longer effective life.

**Table 4.4: Key Building Element Unit Costs**

| | Average cost per unit / dwelling (£) |
|---|---|
| Bathrooms/WCs | 2,800 |
| Electrics | 1,500 |
| Front doors | 1,000 |
| Heating systems (incl boiler) | 4,000 |
| Kitchens | 5,000 |
| Windows (incl patio/French doors) | 4,000 |

**Table 4.5: Assumed Life cycles of Key Building Elements**

| | Life cycle (years) |
|---|---|
| Bathrooms/WCs | 40 |
| Boiler | 15 |
| Electrics | 33 |
| Front doors | 40 |
| Heating systems | 40 |
| Kitchens | 20 |
| Roof coverings | 75 |
| Windows (incl patio/French doors) | 40 |

4.11 The total cost of the modelled programme shown in Appendix I broadly matches the resources assumed to be available within the Base Model over Years 1 - 5. As mentioned above, the sources of funding for investment in the existing stock comprises the MRR, available RCCO and leaseholder contributions.

4.12 In terms of meeting the decent homes standard, Table 4.6 below shows that full decency is achieved by the end of 2017/18 and that it is maintained thereafter. This is on the basis of the resources available and the proposed programme of work under the Base Model.

**Table 4.6: Projected Changes in the Levels of Stock Non-Decency**

| | 2016/17 | Year 1 2017/18 | Year 2 2018/19 | Year 3 2019/20 | Year 4 2020/21 | Year 5 2021/22 |
|---|---|---|---|---|---|---|
| No. non-decent at beginning of the year | | 373 | 0 | 0 | 0 | 0 |
| No. becoming non-decent during the year | | 72 | 268 | 450 | 1143 | 234 |
| No. made decent during the year | | 445 | 268 | 450 | 1143 | 234 |
| No. non-decent at the end of the year | 373 | 0 | 0 | 0 | 0 | 0 |
| No. sold or demolished during the year | | 36 | 30 | 25 | 20 | 20 |
| Total stock at year end | 5886 | 5850 | 5820 | 5795 | 5775 | 5755 |
| **Proportion of stock non-decent at year end** | **6.35%** | **0%** | **0%** | **0%** | **0%** | **0%** |

4.13 It is apparent that there is a significant peak in properties becoming non decent in Year 4 (2020/21). This is primarily due to the number of boiler replacements and roofs that, based on current lifecycle and previous survey data, are expected to become non decent in this year. However, experience has indicated that following the recent programme of decent homes investment, a number of building components are not falling into disrepair at previously expected rates. In the next two years of programme modelling and delivery SHP will focus on ensuring that non decent properties or those that will become non decent in the coming years are re-surveyed and tackled in the first instance where necessary. This will allow SHP to ensure that fewer properties becoming non decent and thus reducing investment need in 2020/21.

4.14 Should resources not be available at the level assumed in the Base Model, it would become necessary to reduce planned investment. Areas to be considered could include:

- Central heating improvement
- Common door entry system improvement
- Energy efficiency works and insulation
- Environmental improvements

4.15 Taken together the deletion of these improvement programmes could save in the region of £15.5m in construction costs over 30 years and the limitation of planned maintenance to estate hard surfacing and fencing to a minimum health and safety standard could save in the region of a further £5m.

## Other issues

### Properties off of the gas main

4.16 There remain around 300 properties that do not have a gas supply readily available for heating and hot water and where heating and hot water is electrically provided, normally by storage heaters. By their nature these systems are often more expensive to run and less energy efficient. To date, electrically operated heating and hot water systems have been treated exactly as any other decent homes failure, and renewed only if old and in poor condition.

4.17 Some residents living in these homes have asked if gas heating could be provided as part of the package of decent homes works when these are undertaken to their homes. If gas supply pipework is present but unconnected, it is relatively easy and inexpensive to convert the home to gas heating and hot water. However, if pipework isn't present, a new supply needs to be taken from the main network, from the source closest to the house or block, which may be some distance away. This is relatively expensive and time consuming given the notice periods required by utility providers and will affect on-going works programmes.

4.18 Overall additional costs are difficult to establish as each building will have differing supply pipe requirements. Indeed in some cases it may not be possible to install gas for technical or structural reasons (or, in extreme cases, of cost effectiveness) and residents' expectations will need to be managed accordingly. Also, once gas is installed there will be a capital cost for the provision of a central heating boiler and ancillary systems as well as the consequent increase in programmed renewal costs and servicing arrangements which are carried out annually rather than every five or 10 years in the case of electrical components.

4.19 Based on partial take up, a provision of £2.3m over the next five years has been made for the installation of new gas supply and heating upgrades to electrically heated properties, with a further £25m being required over the 30 year Business Plan period to cover the cost of elemental renewals in domestic systems. In addition, a prudential assumption of around £800,000 would be required on an annual basis to carry out routine gas servicing and maintenance assuming that gas is installed in all properties. It has previously been planned that a programme of bringing these homes onto the gas main would be undertaken once the remaining decent homes related works have been completed, and these costs have been factored in to this latest Business Plan from 2018/19.

### Door entry systems

4.20 There have also been calls from residents of some flatted blocks to have door entry systems installed where none already exist. In many cases where there is no door entry system there is no door at all to common areas. Such security arrangements have been normal practice in both new build and retrofit to similar traditional rented blocks elsewhere for a number of years. Accordingly previous versions of the HRA Business Plan have proposed that, as with properties off of the gas main, the costs and timing of new system installations will be factored in to future works programmes at the appropriate time.

4.21 The Base Model explicitly allows for improvements and installations from Years 1 – 5, and thereafter for ongoing maintenance to existing systems. SHP's Asset Management Strategy states that the ALMO will canvass the views of residents and work with other agencies to develop an understanding of crime or anti-social behaviour to inform decision making regarding future new installations as part of the proposed estate planning process. Funding beyond that already earmarked could be prioritised from within the provision for communal future major works.

### Clockhouse 'Unitys'

4.22 The pre-cast reinforced concrete Unity system-built homes in the Clockhouse area were last subject to detailed review in 2001. Although at the time a decision was taken to dispose of some other system built homes designated under the Defective Dwellings Act, these properties were retained, and some works were undertaken in recent years, such as window replacement, in order to extend their life. Decisions will be required in the near future regarding further planned repair works and improvements to the thermal efficiency of these homes. To determine the best option for the future of these dwellings in terms of refurbishment vs redevelopment, an appraisal of the stock condition, tenure and occupancy position on the estate is expected to report in early Autumn 2017. The outcome will be reviewed and any proposed way forward included in a future iteration of the Business Plan.

### 'Uneconomic voids'

4.23 There may be occasions when a property or group of properties become empty or void and for various reasons could be assessed as 'high risk' (i.e. classified as 'Red') under the sustainability modelling criteria. Where these arise options appraisals will be undertaken in relation to their future use. Where considered appropriate they then might be put forward for redevelopment or disposal as part of the wider approach to asset management, but options will be assessed in the light of both the new programme to re-acquire stock in order to strengthen the HRA and any evolving clarity regarding the governments approach to high value voids and stock disposal.

### Estate re-modelling

4.24 SHP's asset management strategy acknowledges that the number of homes on certain estates could be increased through imaginative design solutions, re-modelling existing buildings or through 'infill' developments. Such initiatives could not only add to the social rented stock but could also help to improve the environment and positively contribute to the life of the community. An earlier review of under-used garage sites has already yielded a number of potential plots which are being considered for redevelopment. Going forward SHP will continue to explore and develop ideas for further estate re-modelling.

### Miscellaneous parcels of land

4.25 The HRA portfolio also contains a number of miscellaneous parcels of land, frequently under-used, and found particularly on the St Helier estate. These have often been the subject of enquiries from people living in the area seeking to extend their gardens or build extensions to their homes. However, SHP has suggested in its asset management stategy that there should be a presumption against disposal of these assets since it could prevent or limit future options for alternative public use. The ALMO will undertake a review of these areas as part of its estate planning process, which will take into account the wishes of the local community.

## Regeneration

### The Lavender Partnership

4.26 The Council has a long track record of housing regeneration, with the wholesale redevelopment of the 2,000 home Roundshaw estate in Wallington over recent decades, the ownership of which has since been transferred to the housing association sector. Our current major project is centred on the former Durand Close estate in Carshalton, in which the 295 unit estate of unattractive system-built maisonettes is being replaced with a mix of new social and private housing.

4.27 The Lavender Housing Partnership, comprising the Council, Clarion (formerly Affinity Sutton), Rydon Construction Ltd, Pollard Thomas Edwards architects and the local residents association, has already completed a number of associated sites mainly in The Wrythe and St Helier areas but including sites in Sydney Road, Sutton, Ruskin Road Carshalton and Harcourt Avenue, Wallington. The Partnership is due to complete the remaining sites in 2018/19, incorporating the Orlit system-built houses located in the Carshalton area. The flats at Corbet Close in Carshalton, now demolished and which are of an identical built form to the former Durand Close, are also included in the programme.

4.28 To date 518 new homes have been completed at the Durand Close site (now “The Lavenders”) and 13 other sites, with a further 157 in the pipeline. Of the total 64% of the new homes are to be affordable rent or shared ownership.

### Potential future schemes

4.29 The Council’s aspirations for the future of the borough and its residents are set out in its draft Local Plan – *Sutton 2031*. As part of this vision the Council has also approved a Town Centre Master Plan 2016 which identifies over 40 potential development sites in Sutton town centre including council owned assets. The seven housing estates included give us an opportunity, working with residents, to achieve some exciting and ambitious transformations as well as our wider place-making aspirations over the next 10 - 15 years.

4.30 Two of the estates are listed as potential site allocations for redevelopment in the Local Plan (Beech Tree Place and Elm Grove). A number of other estates have been identified as potential renewal areas and, subject to full and detailed consultation with residents, may be brought forward through an Area Action Plan.

4.31 The Council is committed to early and ongoing engagement with its communities and other local stakeholders. This is clearly set out in the Master Plan, which states that "the Council will explore with its tenants and leaseholders the options available for change" and adds that redevelopment will only be considered if community engagement and viability assessments demonstrate a case for development." Working with SHP the Council has already started to roll out a programme of engagement with residents on those estates.

# 5. Local Authority New Build and Acquisitions

## New Build

5.1 For the first time in decades, with the introduction of HRA self-financing and the Government's reinvigorated Right to Buy policy, the Council is in a position where it can build new homes again. Based on external consultancy analysis undertaken in 2014 the Council took a decision in July of that year to adopt a 'twin track' approach, delivering new homes within the HRA and separately within its General Fund through the setting up of a wholly-owned development company – Sutton Living. The HRA Business Plan, however, is focused solely on the former.

5.2 Set out in Appendix E is an outline of the proposed programme of HRA new build over the next few years. This is based on the use of the available borrowing and the award of £5.307m of borrowing headroom under the Local Growth Fund from the GLA. It also maximizes the use of estimated net or reinvestable RTB receipts that arise over the period together with certain other funding sources such as s106 monies.

5.3 For convenience the programme is summarised in the table below.

**Table 5.1: Outline HRA New Build Programme**

| Year | Scheme | | | | | | Total spend | Total no. units |
|---|---|---|---|---|---|---|---|---|
| | Richmond Green | | Ludlow Lodge | | Century House | | | |
| | Spend (£000s) | No. units | Spend (£000s) | No. units | Spend (£000s) | No. units | | |
| 2013/14 | 42 | - | 0 | - | 0 | - | 42 | - |
| 2014/15 | 60 | - | 10 | - | 9 | - | 79 | - |
| 2015/16 | 188 | - | 296 | - | 83 | - | 567 | - |
| 2016/17 | 782 | - | 4,633 | - | 1,500 | - | 6,915 | - |
| 2017/18 | 2,286 | - | 4,169 | - | 1,239 | - | 7,694 | - |
| 2018/19 | 3,561 | 21 | 6,457 | 46 | 1,946 | 15 | 11,964 | **82** |
| 2019/20 | 653 | - | 1,191 | - | 354 | - | 2,198 | - |
| **Totals** | **7,572** | | **16,756** | | **5,131** | | **29,459** | |

5.4 As can be seen, the outline programme comprises three sites or schemes, which have already been approved by the Council for HRA new build development. Two of these are General Fund sites; the other, Richmond Green, is an HRA-owned site. The budget for the programme takes into account the cost of transferring land from the General Fund to the HRA (£2.8m) in respect of the Ludlow Lodge and Century House sites.

5.5 In total the programme is currently set to produce 93 new homes; however, in order to make the schemes viable it is currently proposed that 11 of the Ludlow Lodge site units be sold on to Sutton Living, leaving 82 remaining within the HRA. Of these, 71 are currently set to be Affordable Rent dwellings (a combination of Capped and Discounted rent levels) and up to 11 will be shared ownership units.

## Acquisitions

5.6 In June 2017 the Council agreed to commence a programme of property acquisitions aimed primarily at providing an alternative source of housing for families that would otherwise need to be housed in expensive nightly paid temporary accommodation such as B&B. An equally important objective is to ensure to longer term viability of the HRA, which would otherwise be at risk in light of onging diminishing stock numbers.

5.7 The proposal is that properties be acquired through two funding stream combinations: (i) General Fund borrowing and RTB net receipts and (ii) HRA revenue and RTB net receipts. In the case of the former, in the main properties would be purchased on the open market and be held outside of the HRA. In the case of the latter the acquired units would be ex-council homes that had been sold under RTB.

5.8 The units purchase with HRA revenue will become HRA units and form part of the HRA business planning modelling (see chapter 3). The Base Model assumes that over the next 30 years over £112m is invested in acquisitions, funded through RTB net receipts and revenue contributions or RCCO. Resources are to an extent front loaded, the benefit of which is to maximise rental income over the Business Plan period. Over the first five years, total funding of around £30m is applied to the programme, which on an assumed average total acquisition cost per unit of £315k could yield approximately 96 acquisitions (averaging 19 p.a). This will be kept under review, balanced against the investment needs of the existing stock, and an upate on progress reported to Members in January 2018.

5.9 Funding is projected to drop to zero by Year 16 as all available revenue from that point is needed for existing stock investment and paying back the self-financing debt. However, funding becomes available again for acquisitions from Year 26 once the debt is paid down.

5.10 As shown in Appendix D, there are unallocted RTB net receipts that build up during the Business Plan period which are available to be applied to acquisitions in the General Fund supported through General Fund borrowing. It may be possible later on for the HRA to purchase these units from the General Fund should resources permit. It should also be noted that the Council is also proposing to commence a programme of modular construction to provide a further source of temporary accommodation units. The available RTB receipts may therefore also be deployed on this programme.

# 6. Strategic Options for the Future

6.1 In terms of the condition of the existing stock, the latest modelling shows almost all of the Council's homes to be viable into the future. Only a small number of homes have been classified as either 'Red' or 'Amber' due mainly to relatively high level of required investment per unit.

6.2 In terms of the existing stock, under the Base Model there are sufficient resources to deal fully with all investment needs in each year of the 30 year period with the exception of Years 1 to 6 where there a relatively small shortfall during those years. However, there are sufficient resources to fully make good this shortfall by Year 7. Thereafter resources are sufficient to meet all identified investment needs.

6.3 The sensitivity modelling undertaken, which assumes an indicative level of 'high value assets' sales and a higher building cost inflation shows a very different picture to that of the Base Model. Here the HRA effectively becomes unviable from Year 1, with a revenue deficit of £93m building up by Year 25 and a capital shortfall of £90m at the end of the Busieness Plan period.

6.4 However, at this point in time it is considered that the Base Model's assumed level of building cost inflation is the most realistic. Further, there are no details coming out of Government as to what level of stock sales may be required in future years. This will therefore need to be picked up, if still required, in future iterations of the Business Plan.

6.5 As mentioned in the previous chapter, there is now in place a proposed programme of local authority new build within the HRA, which has been set to yield 93 new homes by 2018/19. This is, however, under review in light of higher than originally anticipated build costs arising from the tender process, and 11 units have already been earmarked for disposal to Sutton Living to ensure the programme's viability. Nevertheless, any loss of new build units to the HRA will be more than offset by the proposed acquisition programme, which has the effect of greatly improving the viability of the HRA as well as providing an alternative to expensive temporary accommodation.

6.6 Finally, work will continue on looking in more detail at the various HRA-owned sites initially identified as being options for the building of additional homes, with this linking in to the corporate approach to reviewing the Council's building and land assets.

# 7. Monitoring and Review

7.1 The HRA Business Plan sets the broad strategic context primarily for the delivery of investment in Sutton Council's housing stock in both the medium and long term. As dscussed in chapter 1, actual service delivery, in terms of housing management services to tenants and leaseholders and the day-to-day repair and routine maintenance of the stock, is carried out on the Council's behalf by SHP and is reflected in the ALMO's delivery plans.

7.2 The Council and SHP work together in this process, with the latter having been closely involved in the detailed production of this Business Plan update. Fundamental to the relationship between the two organisations is the management agreement and, within that, the agreed monitoring arrangements. These set out, through the annual delivery planning process, performance standards and targets and programmes of works against which the Council monitors the services delivered by SHP.

7.3 In light of this relationship the delivery of this Business Plan, and in particular the programmes of capital investment, will be monitored closely through the existing performance management arrangements, these involving resident representatives, senior officers of the Council and SHP as well as the ALMO board and Council Members via the Capital Monitoring Board.

7.4 The Council intends to produce revised versions of its HRA Business Plan on an annual basis, with in-year revisions if necessary, which will include an updated 30-year model with Year 1 moved on each new financial year. These will be able to take into account any changes to Government policy, the latest revenue and capital funding positions and an updated understanding of our stock investment requirement.

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