

Report to:	Sutton Shareholdings Board	Date:	5 February 2019
Report title:	Sutton Living Performance Update		
Report from:	Mary Morrissey, Chief Executive (Interim)		
Ward/Areas affected:	Borough wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon, Chair Councillor Jayne McCoy, Vice Chair and Chair of Housing, Economy and Business Committee		
Author(s)/Contact Number(s):	Simon Latham, Assistant Director, Housing, Planning and Regeneration, 020 8770 4006		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • Being Active • Living Well Independently 		
Open/Exempt:	Open with the exception of Appendix A (Risk Register) and Appendix B which are exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.		
Signed:			Date: 29 January 2019

1. Summary

- 1.1 This report presents for comment the performance update for Sutton Living Limited, including the Quarter 3 budget statement and company accounts for 2017/18.

2. Recommendations

The Sutton Shareholdings Board is recommended to:

- 2.1 Note the performance update set out in section 4 and actions proposed to deliver projects by the Company, including mitigating development risk.
- 2.2 Note the Quarter 3 budget statement and annual accounts for 2017/18.

3. Background

- 3.1 Background information has been provided in previous performance updates relating to progress on the acquisition of various sites for development by Sutton Living Limited, and operations relating to the Company.

- 3.2 The projects currently being considered for development are Council owned sites and require timely liaison between the Company and Council Directorates.

4. Performance update

Wallington Public Hall

- 4.1 This scheme is the Company's first major development, comprising a mixed tenure development of 31 units of homes for market rent and affordable housing. Following approval of the business case to develop the former Wallington Public Hall, planning approval obtained from the Council's Planning Committee on 21 March 2018, Sutton Living has sought acquisition of this site from the Council and to proceed to let a building contract
- 4.2 The current position is that there are still a few issues outstanding:
- 4.2.1 Purchase negotiations need to be concluded. The Council choose an "arms length" approach and conducted negotiations through Bevan Brittan Solicitors, and Sutton Living used Devonshires, given their experience working with wholly owned subsidiaries. Negotiations are near completion and need to be completed before a building contract is let.
 - 4.2.2 A footpath running along the boundary of the site from the retained car park to Stafford Road needs to be adopted and diverted (at least while building work are undertaken) by the Council before works can commence. This is a condition of sale to Sutton Living Limited.
 - 4.2.3 The funding agreement with the Council still needs to be completed for this project to enable finance to be drawn down to pay the contractor. An issue has been the requirement to cover the funding costs from day one of completion, a challenge for Sutton Living as it has to use its only asset Wallington Public Hall to do this, unlike Registered Providers who base their finance on their whole property portfolio. Sutton Living has been able to do this by stripping down costs to a minimum. This will have an impact for its long-term Business Plan (see 4.6 below)
 - 4.2.4 Works contract. A report appears elsewhere on the agenda with the intention to recommend a contractor to construct this development
- 4.3 In the Mayor of London's Grant funding initiative in late 2018, "Building Council Homes for Londoners", grant funding was secured for 11 affordable units at Wallington. This will assist scheme viability as well making rents more affordable. As the Company is not a Registered Provider, the intention is to sub-lease these units to the Council. The Company is exploring transferring three additional units from the Alexandra Gardens scheme to Wallington to provide a single affordable block for leasing, and to secure additional grant.

Alexandra Gardens

- 4.4 Following approval from the Council's Strategy and Resources Committee to approve the disposal of land on Alexandra Gardens Estate to Sutton Living in July 2018, a planning application has been drawn up and the Company has submitted for a scheme of 23 units, including 8 (35%) for affordable housing. It is anticipated that the application will be considered by the April Planning Committee.

Old Rectory Carshalton

- 4.5 Following the re-listing of this building as Grade 2*, Sutton Living has made a revised proposal to the Council. The Company will also advise interested parties on its proposals and ultimately it is up to the Council to agree or not agree them. While the property would make an attractive addition to Sutton Living's portfolio the scheme is marginal to the Company and must work financially for Sutton Living.

Other Matters

Sutton Living Design & Build Ltd

- 4.6 There is a separate report elsewhere on the agenda recommending the setting up of a development subsidiary in order to make the Company tax efficient in carrying out its development activities, commencing with Wallington Public Hall. A consequence of this will be the need to ensure funding is transferred from Sutton Living to its subsidiary in order to pay for the building works.

Review of the Business Plan

- 4.7 An update of the Business Plan will be produced for the next meeting of the Shareholdings Board. This will include a review of key financial performance measures. In the context of current developments, the requirement to repay full interest from year 1 has an impact on the profitability of mixed affordable and private rent schemes and Sutton Living believes that there is therefore the need to develop a more mixed portfolio, with schemes for sale, and to do this in a more collaborative way with the Council, using its land on a profit sharing basis. The Company recently invited key Council officers to visit 'Brick by Brick', Croydon Council's wholly owned subsidiary which has successfully adopted this approach.

Sutton Living Website

- 4.8 Sutton Living intends to undertake a mini-relaunch with the start on site of Wallington Public Hall. It now has a registered Company email address @suttonliving.co.uk.

Appointment of Non-executive Directors

- 4.9 The Company is currently seeking new independent Non Executive Directors, to reinforce the expertise of the Company Board. The proposed appointees will be reported to a future meeting of the Shareholdings Board.

Risk Register

- 4.10 The confidential Sutton Living Risk Register has been reviewed. The principle risk still relates to funding and its effects on viability, and the need to encourage collaborative working with the Council. This is attached as exempt Appendix A.

Annual accounts

- 4.11 At Appendix C, the summary financial statements for 2017/18 are attached. This is the first opportunity to present these to the Sutton Shareholdings Board since submission to Companies House on 28 December 2018.

5. Options Considered

- 5.1 In reviewing its options for site acquisition and development, all schemes have to comply with the agreed Business Plan assumptions, loan repayment terms, adequate provision for management and maintenance costs, voids and bad debts, otherwise schemes will not be taken forward.
- 5.2 The seeking of development finance and other grants and subsidy will be assessed on their impact on the Company's Business Model and conformity with its core objective to develop high quality homes for private rent and sale and in doing so generating surpluses for the Company, and long-term repayment of debt to the Council.

6. Impacts and Implications

Financial

- 6.1 To date the company has received total working capital loans of £990k. This funding has been used to develop and progress a number of schemes, most significantly the Wallington Public Hall site. Once the financials for a scheme are fully worked up and a decision is made to proceed the company will approach the Council for development funding or longer term funding for property acquisitions. The Council must be satisfied that the revenues from the scheme can adequately cover the interest and repayment costs of the loan for it to be agreed.
- 6.2 The company has approached the Council for development funding for the Wallington Public Hall scheme and is currently in active negotiations to secure this funding.
- 6.3 No substantial outgoings have yet been made as no land purchases have been made or

building contracts let.

- 6.4 A financial monitoring report for Q3 2018/19 has been prepared and is attached in exempt Appendix B.
- 6.5 The summary financial statements for 2017/18 submitted to Companies House are also attached at Appendix C.

Legal

- 6.3 The purpose of this report is to provide an update to the Shareholder as to the current position of various projects undertaken by the Company. The Company will need to ensure that any business transactions or actions that are carried out regarding the development of various sites are in accordance with the Company's articles of association and Shareholder agreement.

7. Appendices and Background Documents

Appendix letter	Title
A	Risk Register - Exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972
B	Budget Variance report Q3 2018/19 - Exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972
C	Summary financial statements for 2017/18

Background documents
Sutton Living Business Plan 2018/19

Audit Trail		
Version	Final	Date: 29 January 2019
Consultation with other officers		
Finance	Yes	Joseph Stockwell
Legal	Yes	Fabiola Hickson
Equality Impact Assessment required?	No	N/A

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