HRA Business Plan

2019/20 to 2048/49

Sutton

Contents

F (i)	Base Model Revenue Summary
F (ii)	Base Model Capital Summary
G	Modelling Assumptions
H (i)	Additional New Build Model Revenue Summary
H (ii)	Additional New Build Model Capital Summary
I	Outline Major Works Programme 2019/20 to 2023/24

1. Introduction

1.1 This document sets out Sutton Council's plans for managing and maintaining over the coming years its housing stock of almost 6,000 rented and around 1,440 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 last iteration published in September 2018, in particular with regard to the Council's programme of HRA new build and property acquisitions that will be funded through the HRA. It also reflects a further review of the investment needed to the existing stock following completion of the decent homes programme including additional fire safety measures to be provided in the wake of the Grenfell Tower fire and a comprehensive programme of stock surveys completed in December 2018. Crucially it takes into account the lifting of the HRA borrowing cap announced last year.

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 As with previous iterations of the HRA Business Plan, this document provides up-to-date information on the make up 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, now covering the period 2019/20 to 2048/49.

1.5 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:

[Web link to be included in final published draft]

Strategic and Policy Context

National Context

1.6 Despite the freedoms granted under HRA self-financing back in 2012, the Government has retained control over social housing rents and imposed a 1% p.a. reduction over four years, commencing in 2016/17. Notwithstanding the subsequent announcement that social rents would increase by CPI + 1% for at least five years from 2020/21 the impact of the reduction period has had significant implications for the HRA Business Plan and the housing management service offered to residents.

1.7 In April 2012 the Government introduced its "reinvigorated" Right to Buy (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 had a significant impact, with the Council seeing a very substantial increase in

RTB completions over the last six years, albeit that sales have been dropping off in recent years.

1.8 The Social Housing Green Paper, published in August 2018, proposed a number of changes in relation to the landlord-tenant relationship, giving greater power to residents, improving the mechanisms for resolving complaints and strengthening the role of the Regulator. It also seeks to expand social housing supply, including local authority-owned accommodation and raises the possibility that the decent homes standard may be reviewed.

1.9 As referred to above, the lifting of the HRA borrowing cap has changed the financial landscape for stock-owing authorities, releasing significant potential capacity for housing investment, including in new homes, albeit that there is no Government revenue support for borrowing being offered. This is discussed further in chapter 3. Another development has been the publication of a consultation on the use of RTB receipts, with the potential for greater flexibilities in how and by when these resources can be deployed.

Regional context

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

1.11 Last autumn the Mayor invited London boroughs to bid for grant to support his programme for producing social rented homes, offering up to £100k of subsidy per unit. Sutton successfully secured £6.5m to fund a programme of 81 units. This is discussed further in chapter 5.

Local context

1.12 At the local level, the Council's latest housing strategy, published in 2015, takes into account wider corporate objectives; 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

1.13 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 independent living and other housing management services and also from its wider work with other social housing providers around health promotion, tackling domestic abuse etc.

1.14 SHP has recently reviewed its asset management strategy setting out the strategic framework within which it will manage the Council's HRA assets over the coming years. The latest version can be found at: **[To insert web link in final published draft]**. 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 maintain all dwellings at the decent homes standard as a minimum 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 annual delivery plans.

2 The Council's Housing Stock

Stock Make Up

2.1 As at 1 April 2019, the Council's housing stock held in the HRA is projected to comprise 5,958 rented homes, 12 shared ownership properties (the equivalent of 6.75 rented units) and 1,444 flats and maisonettes sold on long leases. Also, within various estates are 84 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 increase slightly during the next five years where RTB sales and other disposals are set against new build homes and acquired units. However, this doesn't take into account the potential impact of proposed estate regeneration set out in the Council's recently adopted Local 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 stock of HRA rented dwellings by type, size and age projected as at 1 April 2019.

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	1,017	6	12	8	26	1,069
Terraced -3 bed	1,049	62	47	34	25	1,217
Terraced -4+ bed	14	11	1	1		27
Semi-detached -2 bed	50	1		1		52
Semi-detached -3 bed	154	44	2	4	6	210
Semi-detached -4+ bed	5	2				7
Detached -3 bed	3					3
Detached -4 bed	1					1
Houses (non-traditionally built)						
3 bed	5	60	1			66
All Houses	2,298	186	63	48	75	2,670
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	437	58	108	180	148	930
Low rise -2 bed	63	79	14	21	12	189
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	334	108	34	615
Med Rise -2 bed	110	360	128	23	23	644
Med Rise -3 bed	19	140	193	21		373
Med Rise -4+ bed	5	4	4			13
High Rise Bedsit/ studio		5		18		23
High rise -1 bed		25	22			47
High rise -2 bed		156	18	7		181
All Flats and Maisonettes	675	1,004	923	381	217	3,200
All dwellings	2,990	1,217	996	454	301	5,958

2.5 Flats and maisonettes comprise 54% of the stock, with houses and bungalows making up the remaining 46%. 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 (8.5%) are sheltered dwellings, grouped within 13 schemes.

2.6 In terms of dwelling size, Sutton's HRA stock contains 1,955 '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 In 2018, as part of a refresh of SHP's asset management strategy following completion of decent homes works, a programme of independent stock surveys has been carried out comprising 20% of internal areas and 100% external areas. This was completed in December.

2.8 Now that 100% decency has been achieved, SHP's asset management strategy will, in addition to maintaining full decency, seek to ensure that in future an appropriate portion of the annual investment programme is focused on communal services and areas of estates not covered by the decent homes standard. It also establishes a new 'just in time' approach to investment in order to make the most efficient use of resources.

2.9 The works outside of individual homes 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. Most importantly, in light of the fire at Grenfell Tower, the programme will have a renewed focus on fire safety measures in flatted blocks, and increased resources for fire safety and other health and safety compliance related works have been given the highest priority.

Sustainability

2.10 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.

2.11 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.

2.12 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 two properties are showing as 'Red', these being the vacant property 110 London

Road, Hackbridge (Culvers Lodge) which is being considered for major refurbishment and partial redevelopment and a house on the St Helier estate in a very poor condition.

2.13 There are 153 properties that are currently designated as ‘Amber’, these being mainly the Unity homes on the Clockhouse estate plus 50 units at Rosehill Court. 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 depreciation calculation for the stock (see below). Also, the list excludes homes that form part of ongoing or agreed regeneration or redevelopment schemes.

Future investment requirement

2.14 Set out in the Table 2.2 is a summary of 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 2019/20. 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.

2.15 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. Such opportunities are 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 2019/20 to 2048/49 (Years 1 - 30)

Element	Years						
	2019/209 – 2023/24 (1 to 5) (£)	**202425 – 2028/29 (6 to 10) (£)**	**2029/30 – 2033/34 (11 to 15) (£)**	**203435– 2038/39 (16 to 20) (£)**	**2039/40 – 2043/44 (21 to 25) (£)**	**2044/45– 2048/49 (26 to 30) (£)**	**2019/20 – 2048/49 (1 to 30) (£)**
Major Repairs	20,345,791	21,561,249	23,191,803	23,340,666	20,728,941	30,793,815	139,962,264
Contingent Major Repairs	771,000	771,000	1,080,400	1,014,100	1,102,500	1,102,500	5,841,500
Improvements	9,066,876	4,999,876	3,500,000	2,750,000	2,750,000	2,750,000	25,816,751
Estate Works and Related Assets	1,779,700	1,505,941	2,197,476	1,727,118	7,381,378	4,118,607	18,710,220
Exceptional Extensive Works	7,580,000	500,000	0	0	0	0	8,080,000
Adaptations	2,000,000	2,000,000	1,601,560	1,950,000	1,950,000	1,950,000	11,451,560
Total	**41,543,367**	**31,338,066**	**31,571,239**	**30,781,884**	**33,912,819**	**40,714,922**	**209,862,296**
Adjusted Totals*	**49,788,000**	**44,054,000**	**51,450,700**	**59,680,700**	**77,520,700**	**101,373,800**	**385,867,900**

*These adjusted totals include fees and preliminaries (averaging at 8.75%), allow for building cost inflation (at a rate of 4.0% for 2019/20, 3.5% for 2020/21 to 2022/23 and then 3.0% for 2023/24 p.a. and thereafter), allow for projected stock number changes and for leaseholder contributions. They also exclude associated costs of management**.**

2.16 As can be seen, the overall investment requirement over 30 years now amounts to £209.9m. 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 £385.9m. However, it should be noted that this excludes associated costs of management.

2.17 The average 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.

2.18 Based on the latest building cost indices provided by the Royal Institute of Chartered Surveyors, and taking account of long term trends, building cost inflation has been revised upwards to 4.0 % for 2019/20, reducing to 3.0% by 2023/24.

2.19 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 and projected property acquisitions has been used. At this stage, no assumptions are made regarding any stock losses from futue potential regeneration programmes (see chapter 4).

2.20 The average energy efficiency rating of the stock under the Standard Assessment Procedure (SAP) is projected to be 76.4 out of 100 at the beginning of 2019/20. This respesents a significant improvement on the position two years' ago (71.6) as a result of properties benefitting from energy efficiency works such as loft insulation along with data validation from the recent independent survey of the stock.

2.21 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 B, C or D, with just 12 properties having a lower rating.

Housing Supply and Demand

2.22 Sutton's latest Strategic Housing Market Assessment, published in 2016, 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 (currently around 1,500) and continuing high numbers of homeless households in temporary accommodation (now running at around 620).

2.23 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 around 1,500 today. This reduction has resulted in a gradual decrease in permanent 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. Notwithstanding this the HRA stock has been added to by a significant number of acquired ex-council homes (over 70 to date) albeit that these units are used solely temporary accommodation (see chapter 5).

2.24 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 and Financial Modelling

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 and certain external funding sources. Each of these, are briefly discussed in turn. The remainder of this chapter then focuses on financial modelling, taking into account projected resources and investment requirements.

Revenue Resources

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. Sutton’s allocated self-financing debt settlement payment was set at £141.1m, and to enable this payment to be made 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 at that time of 3.5% p.a. for the purpose.

3.3 The taking out of the self-financing loan resulted in interest and debt management expenses of around £5.7m 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 1 and end in Year 24 (2042/43) 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 was 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 had been created since 2012.

3.8 In its 2017 budget the Government announced that in order to boost national housing supply it would make a further £1bn of HRA borrowing available to local housing authorities over the next three years. This was then superceded by the Prime Minister's announcement, in late 2018, that the HRA borrowing cap would be lifted completely thus allowing authorities unlimited HRA borrowing subject to Prudential Borrowing rules. However, any further HRA borrowing will not be supported, which means the revenue costs will need to be found from within the authority's HRA. This is discussed further in chapter 5.

Rental income

3.9 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 changed its policy in 2015 and imposed a rent reduction of 1% p.a. for a period of four years, which commenced in 2016/17. More recently the Government announced that following the end of the reduction period rents would be allowed to rise by CPI + 1% for a period of at least five years. The reduction 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 in future years to compensate for the reductions.

3.10 Having applied the dwelling rent reduction of 1% but taking into account other income sources it is projected that the total HRA income in 2019/20 will amount to £36.6m. The Base Model (see below) prudently assumes that rents annually will go up by CPI only following the five year period of CPI + 1% increases.

3.11 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. The current cost of replacing each major building component is annualised over the expected life of the component and then averaged across all dwellings to derive an annual amount per property. At £7.161m in Year 1 the sum set aside works out at £1,136 per rented dwelling per annum.

Right to Buy Receipts

3.12 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. However, it should be noted that this, along with other limitations, was the subject of a government review last year which may in due course result in some relaxations.

3.13 The numbers of RTB sales over the last six years are set out in the table below. As can be seen, sales peaked in 2014/15 and have been gradually dropping since, with the 2018/19 sales projected at just 23.

Table 3.1: RTB Sales 2012/13 to 2017/18

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
35	65	75	59	51	37	322

3.14 The 322 sales over the six years to 2017/18 have given rise to a net receipt of almost £24m available for investment in new homes. The net receipt is calculated in accordance with the Government's 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 HM Treasury share, and the allowance for buy backs where applicable. Some £2m of the £24m was deployed in 2015/16 to support the regeneration of the Orlit homes in Carshalton, while £70,000 was provided to local housing association, Sutton Housing Society, leaving approximately £22m for HRA investment.

3.15 Set out at Appendix D is the latest projection of RTB receipt income 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 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 under current rules.

3.16 As can be seen, almost £82m of net receipts are estimated to accrue by the end of the Business Plan period, this figure including amounts that arose prior to 2019/20 (Year 1 of the Plan). 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 £246.5m.

3.17 Appendix D also includes the amounts of RTB net receipts actually spent and projected to be spent on the current HRA new build programme and on HRA-funded acquisitions, based on assumed numbers of ex-council homes that will become available for buy back over the next 30 years. The final column shows, on a cumulative basis, the RTB net receipts that remain available to be applied. From Year 11 onwards the figures become negative as all of the projected net receipts are applied to the acquisition programme. Up to Year 7, net receipts are available to be used on new build schemes, although the amounts decrease year on year.

Other Funding Sources

Local Growth Fund

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 the current (Phase 1) HRA new build programme, which is discussed in chapter 5.

GLA grant and additional HRA borrowing

3.19 As mentioned above, the Council recently secured £6.5m of grant funding from the GLA, to be used alongside its other resources, in order to fund a further phase of HRA new build at social rents, with the stipulation that a minimum of 81 units are developed.

3.20 It should be noted that GLA grant can be used alongside additional HRA borrowing to fund a scheme. But although the grant can be mixed with RTB net receipts within a scheme both cannot be used to fund an individual property, thus borrowing will need to be applied to each property. However, as mentioned earlier, the Government is considering allowing greater flexibilities in this area.

3.21 The funding of a programme of 81 new build social rented homes is incorporated into the base Model (see below). However, the Business Plan also looks at a further scenario (the "Additional New Build Model") whereby the funding of a further 120 units is modelled.

Funding for energy efficiency works

3.22 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. This match funding, amounting to £360k, will allow SHP to undertake whole house retrofit refurbishments to six properties, with the intention of achieving net zero carbon efficiency. This project will act as a pilot to test the viability of the model prior to a wider programme of refurbishments being run. This is discussed further in chapter 4.

Base Model

3.23 The Council, working with SHP, has produced a new 30 year 'Base' financial model, where Year 1 becomes 2018/19. 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 1 to Year 24 (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 HRA borrowing is applied only to new build and that an interest rate of 2.8% - 3.8% 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 in relation to the Phase 1 programme);

- that the HRA new build 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), the latter where it is both needed and available;
- that an annual inflation rate of 2.0% over the whole 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;
- that a 4.0% p.a. uplift to major works costs is applied between 2019/20 and 2020/21, 3.5% is applied for 2021/22 and 2022/23 after which 3.0% p.a. building cost inflation is assumed (see chapter 2);
- that social rents will reduce by 1% p.a. next year, after which they will rise by CPI + 1% over the following five years and then remain at 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 £353k (1%) for 2019/20 and with rates varying between 1.0 and 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.

3.24 In relation to new build, the following assumptions are made:

- that new build is limited to the existing (Phase 1) programme of 93 HRA homes provided at the three sites - Fellowes Road, Ludlow Lodge and Richmond Green plus a Phase 2 programme comprising 81 dwellings (sites to be confirmed);
- that the Phase 1 new build homes are all let at Affordable Rent levels (approximately 65% of market), with the programme fully completed by the summer of 2019;
- that 65 of the Phase 2 new build homes are let at the Mayor's London Affordable Rent, with the remainder likely to let at around 65% of market rents;
- that the averaged assumed rent levels for both the Phase 1 and Phase 2 new homes are as set out in Appendix E;
- that none of the new build units are subsequently sold under the Right to Buy.

3.25 In relation to the HRA acquisition programme (see chapter 5), the Base Model assumes that during Years 1 to 10 RTB net receipts fund 30% of the total cost, with the remaining 70% funded through HRA borrowing, which is now available as a result of the lifting of the cap. From Year 11 onwards, however, the programme is funded from a combination of net RTB receipts and RCCO given the revenue available.

3.26 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.

3.27 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.

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

I. Total annual income amounts to £36.606m in Year 1, and rises gradually over the period to £82.032m in Year 30.

II. SHP's management costs drop from £14.048m in Year 1 to £13.318m in Year 3 in line with its planned savings, and then rise gradually to £21.822m in Year 30; the Council's management costs increase with inflation from £2.449m to £3.807m over the period while tenant heating, hot water costs and other charges are much lower than in previous years due to SHP no longer collecting water charges from tenants on behalf of the water companies.

III. Depreciation increases from £7.161m in Year 1 to £19.447m in Year 30. The significant increase is driven by the stream of new build and acquired homes coming into the HRA portfolio. The depreciation figures transfer across to the MRR in the capital summary (see below).

IV. Debt management costs and interest payments on historic debt (including the self-financing debt) are approximately £5.7m p.a. up to and including Year 23, they then fall substantially in the remaining years of the Business Plan period after the self-financing debt is paid off. The costs from Year 24 are to support the remaining historic debt which has been re-financed. The costs of borrowing to support the new build and acquisition programmes are shown separately as "New Debt".

V. Amounts of RCCO are applied to investment in the existing stock over years 1 – 5 after which revenue support is no longer needed. No further RCCO is applied to the new build programme (it had been in previous years) but substantial and increasing sums are applied to acquisitions from Year 11 onwards.

VI. Amounts are set aside to repay the self-financing debt in full when due in Year 23. The amount in Year 1 includes set aside from the previous year. From Year 24 amounts are then set aside to repay the borrowing taken out for new build and acquisitions.

VII. A minimum HRA balance is maintained throughout the Business Plan period.

VIII. Finally, an 'investment reserve' begins to build up from Year 4, reaching £93.6m by Year 30.

3.30 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. However, additional amounts are included in later years to take into account 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 allowance.

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 2019/20 onwards).

III. Borrowing is applied to new build, and now also acquisitions (up to Year 10) given the lifting of the HRA borrowing cap. As previously, no borrowing is applied to investment in the existing stock.

IV. The existing stock investment requirement is inclusive of the cost of works to leasehold units, with these costs offset by leaseholder contributions (column 8).

V. As can be seen from columns 9 and 10, RTB net receipts are applied to both new build and acquisitions, funding up to 30% of the total cost.

VI. The MRR column reflects the depreciation figures set out in the revenue summary (see above).

VII. The summary confirms that RCCO is only now used to fund works to the existing stock (over Years 1 – 5) and the acquisition programme (from Year 11).

VIII. 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 small shortfall (£605k) in Year 4, which is made good in the following year. After Year 4 there are surpluses each year, accumulating to £16.029m by Year 30. This is in effect a build up of funding within the MMR, which will be deployed in the years beyond the Business Plan period.

Additional New Build Model

3.31 As mentioned above, a second model has been produced to show the impact of running a further phase of new build comprising a notional additional 120 homes. Taken together with the Phase 2 programme this equates to approximately 200 homes, which was the amount of additional new build modelled in the last iteration of the Business Plan. The outcomes from this modelling are set out in Appendices H (i) and H (ii), showing respectively the revenue and capital summaries. The key assumptions regarding this modelling are set out in Appendix G.

3.32 The 120 Phase 3 units within the Additional New Build Model are funded entirely through HRA borrowing. The total assumed build cost of £42m is based on an average of £350k per unit, this to include potential costs of land acquisition. Rents are assumed to be set at £166 pw on average, with a small level of service charges applied. A borrowing interest rate of 2.8% p.a. is assumed, with a loan for a period of 50 years taken out in Year 2022/23.

3.33 The revenue summary at Appendix H (i) shows, in column 1, slightly higher levels of income compared to the Base Model as a result of the additional new build units.

3.34 Depreciation (column 8) increases slightly over the 30 years to allow for maintenance the new build units over the period. Over the period there is a substantial increase in the debt management and interest costs (column 9) due to the extra costs of the additional new build loan.

3.35 The capital summary at Appendix H (ii) shows, firstly, a small increase in the existing stock investment requirement compared to the Base Model since amounts to cover required maintenance of the additional new build units are factored in. The total cost of the additional new build programme is shown in column 3 while the funding for this is shown in column 5 (Borrowing – New Build). The MRR amounts (column 12) are also increased compared to the Base Model as they now include the depreciation costs in relation to the additional new build units.

3.36 In terms of the Year 30 investment reserve within the revenue summary and the cumulative surplus on the capital summary, introducing the additional new build programme decreases the former from £96.3m to £80.3m, while the latter increases from £16.0m to £26.2m due to an increasing build up of MRR reflecting the additional stock numbers.

3.37 One final point of note is that the self-financing loan remains fully paid down when due in Year 23 from amounts set aside. From Year 24 onwards significantly higher amounts are set aside reflecting the additional borrowing for the Phase 3 new build.

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 continual need of capital investment to both maintain and improve on the decent homes standard and to undertake works of a health and safety nature, in particular in relation to fire safety in light of the Grenfell Tower fire and its aftermath. We also need to 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, which had to be given a lower priority during the period when individual dwelling decency was being addressed.

Current Investment

4.2 The HRA capital programme projected outturn for 2018/19, together with the outturn for the previous two years is set out in the following table.

Table 4.1: HRA Capital Programme Outturn 2016/17 to 2018/19

	2016/17 outturn (£000s)	2017/18 outturn (£000s)	2018/19 projected outturn (£000s)
Major repairs programme (incl. decent homes works)*	12,941	6,165	7,381
Sheltered housing improvements	7	0	0
Adaptations for disabled tenants (additional)	595	362	460
Regeneration – Richmond Green	782	1,914	3,958
New Build	7,191	8,543	7,641
Building Lives Academy	19	0	0
Property Acquisitions	0	5,417	17,375
Total Expenditure	21,535	22,401	**36,815**
Major Repairs Reserve (MRR)	8,446	3,989	5,514
Revenue Contributions to Capital Outlay (RCCO)	5,828	3,792	4,945
Borrowing	4,254	7,724	17,246
RTB receipts	2,763	4,358	7,551
Leaseholder contributions	245	2,396	827
s106 receipts	0	0	672
Other Contributions	0	142	60
Total Resources	21,535	22,401	**36,815**

4.3 The above table shows that almost £70m has been invested in the stock over the last three years, the large majority of this either on major repairs and improvements to existing dwellings or on new build/acquisitions. However, it can be seen that expenditure on major repairs has dropped considerably over the three years, largely reflecting the completion of the decent homes programme.

4.4 The proposed major works programme for 2019/20 shown in Appendix I (see below) amounts to £10.642m. The programme will result in 184 homes having new windows or doors installed, 62 new kitchens and 61 new bathrooms provided, heating improvements for 503 properties and 143 properties being re-wired or otherwise improved electrically. In addition, some £420k is earmarked to fund adaptations.

4.5 The programme makes provision for fire safety works, including replacement fire doors, with nearly £2.5m committed in 2019/20 and a total spend of £6.6m over Years 1 to 5.

Future Investment and Funding Position

4.6 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 current and approved new build and acquisition programmes. A variation to the Base Model has also been worked up to illustrate the impact of a potential further new build programme.

4.7 A significant element of the investment requirement during the next five years is major repairs, the costs of which totals £41.5m (before fees and inflation etc are factored in). The other major area of spend is improvements, with £9m of spend identified over the first five years.

Outline Programming Scenario

4.8 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 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. This forms a key element of SHP's review of its 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 2019/20 to 2023/24 (Years 1 - 5)

	Yr 1 £m	Yr 2 £m	Yr 3 £m	Yr 4 £m	Yr 5 £m	Total £m
Planned major repairs	5.092	3.980	3.128	4.576	6.572	23.352
Contingent major repairs	0.162	0.170	0.174	0.178	0.183	0.868
Improvements	2.674	1.305	1.834	1.499	1.588	8.900
Estate works and related assets	0.244	0.547	0.345	0.689	0.890	2.715
Exceptional extensive works	2.792	0.965	0.989	1.013	0	5.758
Aids and adaptations	0.421	0.441	0.452	0.463	0.474	2.251
All	10.642	7.973	7.048	9.367	11.696	46.727

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 safety 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	61	63	58	225	129	536
Kitchens	62	24	17	161	143	407
Heating	503	503	503	503	503	2,515
Electrics	143	150	154	158	162	767
Front doors etc	152	247	64	232	419	1,114
Windows etc	32	29	18	65	86	230
Roofs/canopies/balconies	85	116	125	155	665	1,146

4.9 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. Importantly, following completion of the decent homes programme, SHP has adopted a 'just in time' approach to replacing building elements, which should help to reduce expenditure.

Table 4.4: Key Building Element Unit Costs

	Average cost per unit / dwelling (£)
Bathrooms/WCs	3000
Electrics	2200
Front doors	1000
Heating systems (incl boiler)	2000
Kitchens	3000
Windows (incl patio/French doors)	4000

Table 4.5: Assumed Life cycles of Key Building Elements

	Life cycle (years)
Bathrooms/WCs	40
Boiler	15
Electrics	30
Front doors	40
Heating systems	40
Kitchens	20
Roof coverings	70
Windows (incl patio/French doors)	40

4.10 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. The amounts, over the period, also equate approximately to the investment requirement, as set out in Appendix B. As mentioned in the previous chapter, the sources of funding for investment in the existing stock comprises the MRR, available RCCO and leaseholder contributions. No borrowing or RTB net receipts are applied to the existing stock.

Asset Management Policy

4.11 SHP has recently updated its asset management strategy, which can be found at: **[To insert web link in final published draft]** The strategy includes a number of principles or policy in relation to the asset management of the stock. The key ones are summarised below.

Stock decency

4.12 Having achieved 100% decency, subject to a small number of allowable exceptions, a key principle objective of the strategy (and the HRA Business Plan) is to maintain the property portfolio at the decent homes standard as a minimum, but also to widen the scope of investment to include estate grounds and a more sustainable and improved living environment for residents. Should there be any future revision of the standard, as has been proposed by the Government, the priority will be to achieve and adhere to it.

Planned and responsive repairs integration

4.13 Planned major works programmes will in future be developed in coordination with management data from the day to day or responsive repairs service. SHP will accordingly be undertaking regular cross data analyses to ensure that major works programmes are not only mitigating both component remaining life failures and combating potential decency failures, but also efficiently resolving responsive repairs in a more holistic fashion.

'Just in time' approach to building element renewal

4.14 The traditional approach to renewing building components according to their industry standard lifetimes has now been re-appraised to take into account actual 'real world' component failure rates. To support this approach, SHP commissioned, during 2018/19, an extensive internal and external condition survey of the stock, which assessed the remaining life of the building elements to provide a solid foundation for the assessment of future investment requirements. This will be updated on an annual basis, with 20% of the stock surveyed each year. Also, before works are commissioned, inspections will be carried out to obtain a real time view of condition and the need for component replacement/repair or otherwise.

Energy efficiency and fuel poverty

4.15 There has been steady improvement in the energy efficiency of the property portfolio over past years, with an average SAP rating of 76 having now being achieved. However, there are a number of properties that have complex requirements that must be addressed in order to allow this improvement to continue. SHP are aiming for a minimum SAP target of 69 across the entire stock, to be reached by 2023, which they consider represents an achieveable improvement target. The ALMO will also undertake a customer and asset analyses to allow it to understand more about residents in fuel poverty and how energy efficiency improvements to their homes can not only improve thermal comfort but alleviate the consequences of fuel poverty.

Fire safety

4.16 There are approximately 320 housing sites which require a fire risk assessment, and SHP has assessed all communal areas to these buildings. SHP also runs an annual programme to update all the assessments and undertakes remedial actions as they arise. The programme is closely monitored by the London Fire Brigade, and SHP holds regular strategic and operational meetings, involving the Brigade, to ensure that communication channels are maintained. Higher-risk buildings are reassessed each year and lower risk buildings every three years.

Properties off of the gas main

4.17 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.

4.18 Some residents living in these homes have asked if gas heating could be provided when packages of works 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.

4.19 Overall additional costs are difficult to establish as each building will have differing supply pipe requirements, and in some cases it may not be possible to install gas for technical or structural reasons. 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.

4.20 Based on partial take up, a provision of £700k 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 £29m 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 £600k would be required on an annual basis to carry out routine gas servicing and maintenance assuming that gas is installed in all properties.

Door entry systems

4.21 Security is a high priority for residents, and there is demand to have door entry systems where none exist. In many cases, where there is no door entry system there is no door at all to common areas, which are therefore open to the elements. To address this, SHP will canvass the views of residents, and gain an understanding from other agencies about crime or antisocial behaviour, in order to inform decision making. Subject to funding being available, SHP will provide new installations on a scheme by scheme basis.

Specific stock issues

4.22 Whilst the majority of the Council's housing provides good homes for residents there are occasions where the costs of maintaining the property outstrips the value of retaining it. In these instances an evaluation of a number of both economic and social factors will be undertaken by SHP to assess the viability of the property over the period of 30 years. Where the costs of maintaining the property exceed its value and the associated rental income then consideration will be given to disposal, with a view to recycling the capital receipt to provide new housing.

Garages

4.23 The majority of our garages are now beginning to require extensive repairs and maintenance. In most cases these garages are of a 'battery' form and constructed of reinforced concrete panels that are coming to the end of their serviceable lifespan. In greater and greater numbers repairs are either not possible or are so extensive as to make it non-viable to undertake them. In addition, the majority of these garages are too small to accommodate modern cars and therefore, as opposed to being used for their intended purpose, are often just used for storage.

4.24 Given growing pressures on parking within the borough SHP will be commencing a programme to demolish all battery garage sites over a period, subject to being able to negotiate the re-acquisition of individual garages where they have been sold. Where appropriate, the sites vacated may be considered for development. Otherwise the land vacated will be created as off-street parking for the residents of the estates, or otherwise landscaped.

Miscellaneous parcels of land

4.25 SHP manages large swathes of amenity land on behalf of the Council. However, from time to time they are approached by residents wishing to acquire patches of land, usually as garden extensions or for off-street parking. In these cases SHP will undertake an assessment of the cost of maintenance, the location and amenity value of the land, and will make recommendations to the Council as to whether the sale of the area of land should be considered.

Voids

4.26 There may be occasions when a property or group of properties become empty or void and for various reasons are assessed as 'high risk' (i.e. classified as 'red') under the sustainability modelling criteria. Where these arise, option appraisals will be undertaken by SHP in relation to their future use. Where considered appropriate, they will be recommended to the Council for redevelopment or disposal.

Independent housing for older people

4.27 The portfolio of independent housing for older people (formerly known as sheltered housing) presents issues around the suitability of the accomodation for the purpose that it is being used. In conjunction with the Council SHP will undertake a review of the layouts of these buildings in order that they can assess the ability and viability of remodelling to fit their designated purpose and make them fit for 21st century living.

Clockhouse 'Unitys'

4.28 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 have been 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. Given their condition, these properties are all classed as 'Amber' under the sustainability modelling process.

4.29 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 has been undertaken, and a trial of the Energiesprong methodology, to improve energy efficiency, is being piloted. Alongside this, a number of potential redevelopment opportunities have been identified. In synergy with anticipated redevelopment a wider roll out of the Energiesprong method will be employed to resolve the long standing issue of any non-traditional stock that remains.

Rosehill Court

4.30 The condition of this block of flats at Rosehill, St Helier has been further looked at in recent months and a number of concerns raised regarding the potential extent of works that now need to be undertaken. To that end a sum of over £1m has been included in the outline five year major repairs programme to address the issues. However, in the longer term it may be that redevelopment of the site, potentially with other land in the vicinity, may prove a better option and will be examined over the coming months.

Estate re-modelling

4.31 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. SHP will continue to explore and develop ideas for further estate re-modelling in conjunction with the Council's wider regeneration agenda.

Regeneration

The Lavender Partnership

4.32 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 was transferred to the housing association sector. Our more recent major project has been centred on the former Durand Close estate in Carshalton, in which the 295 unattractive system-built maisonettes is being replaced with a mix of new social and private housing.

4.33 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.

4.34 The Partnership is due to complete the remaining sites in 2020, incorporating the sites of 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, were also included in the programme.

4.35 To date 569 new homes have been completed at the Durand Close site (now "The Lavenders") and 13 other sites, with a further 106 on site or in the pipeline. Of the total, 72% of the new homes will be affordable rent or shared ownership.

Potential future schemes

4.36 The Council's aspirations for the future of the borough and its residents are set out in its adopted Local Plan – *Sutton 2031*. As part of this vision the Council also approved a Town Centre Master Plan in 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.

4.37 Two of the estates are listed as site allocations for redevelopment in the Local Plan (Beech Tree Place and Elm Grove). A further five estates have been identified as potential renewal areas and, subject to viability and detailed resident engagement and in most cases a ballot, may be brought forward through an Area Action Plan.

4.38 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 is rolling out a programme of engagement with residents on those estates, centred around the formation of Residents' Steering Groups with whom the Council will work in partnership to produce option appraisals and Community and Estate Charters, the latter two respectively describing the Steering Group's vision for the estate and the Council's offer.

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 able to build new homes again. Based on an 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 a summary of the current (Phase 1) programme of HRA new build together with an outline of the approved Phase 2, comprising 81 units, of which 65 will receive £6.5m of GLA grant subsidy (£100,000 per unit). The sites for the Phase 2 new homes are yet to be finalised.

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

Table 5.1: Outline HRA New Build Programme (Phases 1 and 2)

Year	Scheme						Total spend (£000s)	Total no. units
	Richmond Green		Ludlow Lodge		Fellowes Road			
	Spend (£000s)	No. units	Spend (£000s)	No. units	Spend (£000s)	No. units		
Phase 1								
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	1,914		5,706		2,270		9,890	
2018/19	4,558		6,423		1,288	15	12,308	15
2019/20	193	21	375	57	132		700	78
Totals	**7,737**		**17,482**		**5,282**		**30,501**	**93**
Phase 2								
2018/19							583	
2019/20							1,786	
2020/21							21,282	
2021/22							1,359	81
Total							**25,010**	**81**

5.4 As can be seen, the Phase 1 programme comprises three sites or schemes, which were approved by the Council for HRA new build development some years ago. 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 Fellowes Road sites.

5.5 In total, the Phase 1 programme is set to produce 93 new homes, all of which will be let as Affordable Rent dwellings, with rents set at around 65% of market. The units at Fellowes Road completed in October 2018 while the units at the remaining two sites are set to come on stream in the summer of 2019.

5.6 For illustrative purposes an Additional New Build Model has been produced, based on a notional Phase 3 programme comprising a further 120 new units, at a total capital cost of £42m. It is assumed, for now, that the whole scheme is funded through HRA borrowing, allowing the available net RTB receipts to be deployed on the acquisitions programme.

5.7 Importantly, the modelling demonstrates that such a programme would be financially viable for the HRA. The self-financing loan would still be paid off when due from amounts set aside, and the further £42m of borrowing, which is assumed to be taken out over 50 years, would be paid off when due, albeit that this falls outside of the Business Plan period. However, there would be a reduction in the investment reserve at Year 30 (£80.3m compared to £93.6m under the Base Model) given the costs associated with the additional borrowing.

Acquisitions

5.8 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, often out of borough. Another important objective is to ensure the longer term viability of the HRA, which would otherwise be at risk from ongoing diminishing stock numbers.

5.9 The proposal was that properties be acquired through two funding stream combinations: (i) HRA revenue and RTB net receipts and (ii) General Fund borrowing and RTB net receipts. In the case of the latter, properties could also be purchased on the open market, and all General Funded purchased properties would need to be held outside of the HRA. In the case of the former, the acquired units would principally be ex-council homes that had been sold under RTB.

5.10 Units purchased with HRA revenue, become HRA units and form part of the HRA business plan modelling. The modelling over the next 30 years allows for some £360m to invested in HRA-funded acquisitions, the funding being a combination of borrowing, revenue (RCCO) and RTB net receipts, the latter funding up to 30% of the total cost.

5.11 Currently the average total cost of an acquisition is around £300,000, and to date all of the acquisitions have been purchases of ex-council stock, mainly flats. During the first year of operation (2017/18) 19 properties were acquired. This year (2018/19) there are likely to be around 60 acquisitions. The modelling assumes that the number of acquisitions reduces to around 20 p.a. from Year 4 onwards, and that across the Business Plan period they are funded from a combination of HRA borrowing and RTB net receipts up to Year 10 and then from RCCO and net RTB receipts from Year 11 onwards.

5.12 The acquisition programme will be kept under review, balanced against the investment needs of the existing stock and the potential to support further new build. This may include consideration of using General Fund borrowing, which could free up HRA resources for other investment. An update on progress will be reported as part of the next iteration of the HRA Business Plan.

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. The future of these homes will be addressed within SHP's revised asset management strategy.

6.2 In terms of investing in 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 just a small shortfall in Year 4 which is made up in the following year. Thereafter resources are more than sufficient to meet all identified investment needs.

6.3 As mentioned in the previous chapter, there is now in place a proposed programme of local authority new build within the HRA, the first phase of which has been set to yield 93 new homes by the summer of 2019, with a second phase set to deliver a further 81 units by 2021/22. Similarly the HRA is funding a significant programme of acquisitions of ex-council stock, principally to provide a more cost effective alternative to expensive forms of temporary accommodation but also to secure the viability of the HRA into the longer term.

6.4 Under the Base Model the self financing debt is fully funded to allow the debt to be repaid in full when due in Year 23. Also, an 'investment reserve' builds up from Year 7, reaching £93.6m by Year 30. In the absence of any other call on this revenue, this is a resource available for any legitimate HRA purpose, which could include further improvements to the stock, additional new build or, potentially, an increase in the HRA funded acquisition programme.

6.5 The Additional New Build Model provides an illustration of the impact on the HRA Business Plan of a notional further programme of local authority new build - 120 units at a capital cost of £42m, funded entirely through HRA borrowing, taken out over a 50 year loan period.

6.6 Importantly, the modelling demonstrates that such a programme would be financially viable, the essential impact being a lower investment reserve at Year 30. Nevertheless this remains substantial at £80.3m giving further investment options in later years.

6.7 In conclusion, it can be seen that the HRA is in a healthy state, offering the possibility of further investment in the existing stock or new homes. Although a Phase 3 new build programme was modelled on an assumed 120 units, this could be increased, not only through the further deployment of revenue to support borrowing in later years, but the funding of acquisitions could be switched to General Fund borrowing, immediately freeing up further HRA revenue for borrowing and net RTB receipts.

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 discussed 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. 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, 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, an updated understanding of our stock investment requirement and decisions in relation to investment in new build and property acquisitions.

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