

Cumbernauld Mixed Tenure Blocks

Asset Management Strategy

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1. Executive Summary

In August 2016 three Group Scottish social housing entities came together through a process of transfer of engagements into Sanctuary Scotland. To ensure that this entity delivers the intended organisational and customer benefits, an Asset Management Strategy has been developed.

This Asset Management Strategy makes specific reference to further area-specific asset management strategies for challenging asset clusters. The mixed-tenure blocks in Cumbernauld are one of the clusters that require a specific asset management strategy.

Following assessment of the existing assets position, this strategy recommends four key actions:

- Disposal of 46 units in isolated limited ownership blocks;
- Review of redevelopment of stock in the Carbrain area of Cumbernauld, especially blocks on Glenacre Road;
- Implementation of a three-year investment programme of £3.2 million for Group owned properties; and
- Forward funding for up to £4.2 million for units of privately owned accommodation, seeking grant of £2.1 million and an implementation of a programme of factoring management to ensure that home owners are supported to meet obligations for remaining £2.1 million

2. Background

Sanctuary own 168 mixed tenure blocks in Cumbernauld. These were received as part of a stock transfer from North Lanarkshire Council in 2009. There are 1412 units with these blocks, of these Sanctuary own 596 of these units, with a further 816 in private ownership. A summary of mixed tenure blocks is included in **Appendix 1**.

In each of these 168 blocks, Sanctuary hold factoring responsibility, meaning they manage and maintain the common parts of land and property, including gardens, hallways and external structure.

All mixed tenure blocks in Cumbernauld require capital investment to improve their appearance and energy efficiency and ensure their long-term structural integrity. This will help to ensure Group stock continue to meet customer demands and needs as well as meeting all necessary compliance.

Due to the Right-to-Buy policy, a large number of units were purchased by Local Authority tenants before transfer, and those tenants whose original tenancy was with the Local Authority after transfer. A number of blocks have now a larger number of

private owners that Group tenants. Like all housing associations, Sanctuary Group have finite resources with which to achieve its objectives. The significant forward-funding requirement that factoring responsibility in

Where this is the case, Sanctuary will be required to complete works, and then seek repayment from the private owner. This strategy is intended to help ensure that investment in the stock is most effectively targeted.

This strategy does not make specific reference to Cumbernauld units not included within mixed tenure blocks as these will be incorporated within existing Group reinvestment policies.

3. Strategic Objectives

The strategic objectives for asset management in Cumbernauld are:

- Ensure mixed tenure Cumbernauld stock meets the EESSH by 2020;
- Ensure mixed tenure Cumbernauld stock continues to comply with relevant regulatory requirements as set out by the SHQS;
- Provide service, economic, social and environmental value for
- Continue to be market leader in the provision of high quality housing and community services in Cumbernauld;
- Listen to our customers and invest in our Cumbernauld communities;
- Maximising value and use of existing and new mixed tenure Cumbernauld stock;
- Maintaining a balanced portfolio in Cumbernauld through new build, acquisitions, sales, remodelling, tenure diversification, demolition and redevelopment; and
- Provide a range of homes of different tenures to meet housing need in Cumbernauld.

4. Key Actions

To achieve strategic objectives are achieved, a number of actions will be taken by the Assets team.

Table 1: Objectives and Actions

Objective	Action
Ensure mixed tenure Cumbernauld stock meets the EESSH by 2020;	<ol style="list-style-type: none"> 1) Review investment requirements; 2) Prepare works programme to ensure compliance
Ensure mixed tenure Cumbernauld stock continues to comply with relevant regulatory requirements as set out by the SHQS;	<ol style="list-style-type: none"> 1) Continue to review long-term investment requirements 2) Address any noted defects in properties through programme of surveys and reinvestment
Provide service, economic, social and environmental value for our customers in Cumbernauld	<ol style="list-style-type: none"> 1) Review investment requirements to ensure that they represent value for money for current and future customers; 2) Consider value for money in conjunction with Group social and charitable objectives
Continue to be market leader in the provision of high quality housing and community services in Cumbernauld;	<ol style="list-style-type: none"> 1) Ensure investment programmes continue to maintain properties to meet the needs and expectations of current and future Group customers
Listen to our customers and invest in our Cumbernauld communities;	<ol style="list-style-type: none"> 1) Use Group void data and resident feedback when considering asset options; 2) Align feedback to asset investment programmes
Maximising value and use of existing and new mixed tenure Cumbernauld stock;	<ol style="list-style-type: none"> 1) Appraise different scenarios to ensure that a range of strategic choices have been considered for challenging assets
Maintaining a balanced portfolio in Cumbernauld through new build, acquisitions, sales, remodelling, tenure diversification, demolition and redevelopment; and	<ol style="list-style-type: none"> 1) Consider redevelopment and disposal where necessary to help meet asset management requirements
Provide a range of homes of different tenures to meet housing need in Cumbernauld.	<ol style="list-style-type: none"> 1) Consider re-development and disposal in line with customer needs and requirements within Cumbernauld

5. Methodology

In order to meet the strategic objectives a four-step methodology for analysis has been used:

- Establish mixed tenure investment requirements through survey and inspection;
- Estimated Group and factor liability for investment requirements;
- Review blocks with limited Group holdings; and
- Model financial impact of stock rationalisation at a block level.

The conclusions of this analysis are presented below.

6. Analysis

6.1. Investment Requirements

Survey of mixed tenure blocks has highlighted the below investment requirement to address capital works to roofing, door entry systems and external block render.

As factor, Sanctuary would be required to forward fund the total cost of works and then recoup sums from private owners. It has been assumed that North Lanarkshire would contribute 50 per cent of the costs for private owner's works.

Table 2: Estimated investment requirements

Area	Total Cost	SSHA Share	Owner Share	North Lanarkshire Council Grant Contribution	Owners Share (Net)
Carbrain	£4,951,000	£2,462,500	£2,488,500	£1,244,250	£1,244,250
Kildrum	£1,878,500	£578,000	£1,300,500	£650,250	£650,250
Greenfaulds	£787,320	£173,953	£613,367	£306,683	£306,683
Ravenswood	£977,500	£287,500	£690,000	£345,000	£345,000
Seafar	£0	£0	£0	£0	£0
Village	£738,500	£253,000	£485,500	£242,750	£242,750
Total	£9,332,820	£3,754,953	£5,577,867	£2,788,933	£2,788,933

This survey highlights that if the Group are to complete all capital block works to stock in Cumbernauld, a major budget with significant forward funding for home ownership properties is necessary.

6.2. Limited ownership blocks

Of the 168 blocks within Cumbernauld, there are 21 blocks where the Group own only one unit and 30 blocks where the Group own only two units. This means that the Group are exposed to the financial risk of forward funding works in block where there are few current customers.

In light of the finite resources available to the Group, it is necessary to review whether partial rationalisation of stock in low-ownership blocks could be rationalised.

6.3. Rationalisation Analysis

Four rationalisation scenarios have been modelled in order to review their impact on the NPV20 and the viability of stock rationalisation.

In financial analysis of all scenarios, it has been assumed:

- That a reinvestment programme for non-structural elements would be included in parallel to this programme for Group owned stock;
- 95 per cent of private owners would engage with North Lanarkshire Council to received grant support for works costs;
- 80 per cent of private owners would pay an average of £30 per month, leading to a total repayment of 80 per cent of net private owners share within 12 years of works completion;
- Disposed units would be transferred for significantly below open market value due to need to ensure a responsible future owner (a sum of £5,000 per unit has been estimated);
- Reinvestment programme would take place over 3 years, with associated inflationary impact on costs; and
- An NPV20 has been used due to the limited life-span of non-traditionally constructed dwellings.

Group standard, void, bad debt and discount rates have been applied. See summary table below and Appendix 2 for further data regarding these scenarios.

Table 3 – Rationalisation Analysis

Option	Actions	Total SSHA disposals	HO units in blocks disposed	Total SSHA spend	Gross HO share	Disposal income	NPV20
Option 1	No disposals	0	0	(3,984,790)	(5,919,283)	£ -	£4,861,369
Option 2	Disposal of all single-unit blocks	21	126	(3,559,455)	(4,450,005)	£105,000	£5,120,528
Option 3	Disposal of all single and two unit blocks	81	291	(3,738,953)	(3,449,000)	£405,000	£4,437,419
Option 4	Disposal of all Single-unit, two unit and three unit blocks	162	470	(2,490,500)	(1,940,000)	£810,000	£5,103,288
Option 5	Disposal of all single and two unit isolated blocks	46	141	(3,273,000)	(4,155,000)	£230,000	£5,227,223

Of these Scenarios, Option 5 is recommended. This results in the highest NPV20 of all options considered. Additionally, by disposing of the 46 properties in 29 blocks, the Group would reduce its total forward funding requirement by £2.5million.

Given the level of political risk inherent in disposing of units in an area of strategic importance to the Group and the assets risk of disposal of a block which is physically linked to another Group asset, focus has been on disposal of blocks with limited Group ownership which are isolated. The Group would retain the vast majority of stock in mixed tenure blocks.

See Appendix 3 for a list of all properties proposed for disposal.

See Appendix 4 for a map indicating the location of units proposed for disposal.

6.4. Development Review

In advance of the start of the investment programme, Group Development team will review the potential for regeneration through redevelopment of blocks in the Carbrain area.

Analysis has highlighted that the proportion of Group ownership within blocks is amongst the highest in Cumbernauld in this area. It has been highlighted that blocks on Glenacre Road, Carbrain are amongst the most challenging owned by Sanctuary. See Figures 1 and 2 below for examples. See Appendix 5 for a map indicating the location of Glenacre Road blocks.

Figure 1: Glenacre Road Blocks



Figure 2: Glenacre Road Blocks



Works required in Carbrain comprise 53 per cent of the total works required in Cumbernauld if no disposals take place, and 66 per cent of the total works remaining if the disposal programme advocated is progressed.

Should blocks on Glenacre Road be redeveloped in conjunction with the implementation of Option 5 rationalisation, total investment requirements for Group owned stock would fall to £1.97million, with gross forward funding for non-group owned factored stock down to £2.5 million.

Should these block not prove viable for redevelopment, it is suggested that they would be targeted for the earliest reinvestment.

6.5. Projected Works Programme

Subject to Development appraisal for the Carbrain area, it is suggested that a works programme is implemented for the remaining properties as per Table 4.

Table 4: Projected Development Programme

Year	Areas	Properties affected	Total Budget	SSHA Share	Total Home ownership share	Total SSHA properties affected	Total Home ownership properties affected	Properties affected
1	Carbrain Phase 1	Glenacre Road	£2,925,000	£1,300,500	£1,624,500	120	150	270
2	Carbrain Phase 2	Glenhove Road Millcroft Road Sandyknowes Road	£2,026,000	£1,162,000	£864,000	131	96	227
3	Villiage and Kildrum	The Auld Road Springfield Road Kirkwall Smithyends Mossgiel Road Kyle Road Afton Road Castle Way Ellisland Road Tarbolton Road	£2,477,000	£810,500	£1,666,500	189	361	550

			£7,428,000	£3,273,000	£4,155,000	440	607

7. Appendix 1 – Mixed Tenure Block and Ownership

Table 5: Mixed Tenure Blocks – Ownership levels

