London Borough of Sutton Housing Revenue Account Business Plan 2025/26 - 2054/55

January 2025

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1. Introduction

1.1 This document sets out The London Borough of Sutton's plans for managing and maintaining its housing stock of just over 6,000 rented and around 1,350 leasehold properties held in the Housing Revenue Account (HRA). Its fundamental purpose is to ensure the efficient use of the Council's housing assets, covering the 30 year period 2025/26 to 2054/55.

1.2 The Local Government and Housing Act 1989 requires the Council to prepare a 30-year Housing Revenue Account (HRA) Business Plan annually. This plan is a financial overview that tracks the income and expenditure of the Council's housing stock and related services, which are primarily for the benefit of the Council's tenants. The plan also helps the Council to make decisions about both its HRA investment and its residential development investment strategy.

Aims and Objectives

1.3 The latest iteration of the plan sets out Sutton Council's projected investment to manage and maintain its social and affordable rented homes and leasehold properties for the next 30 years to 2054/55, with its annual revised modelling produced in partnership with Sutton Housing Partnership (SHP), the Council's arms-length management organisation (ALMO) which manages the HRA stock on the Council's behalf.

1.4 Set within the national, regional and local policy context and the Council's overall Ambitious for Sutton housing priorities, the Council's aim as the landlord of the HRA stock, through SHP 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.

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

- 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
- To regenerate homes where required and develop and acquire new local
- authority owned housing subject to funding and land availability
- To invest in and improve estate grounds and the communal areas of flatted
- blocks
- To provide high quality responsive repairs and cyclical maintenance services
- To provide excellent tenancy management and leaseholder services and create attractive neighbourhoods where people feel safe and want to live
- To ensure all customers have access to services and that the diverse needs of tenants and leaseholders are fully met
- 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 in accordance with s16, Greater London Council (General Powers) Act 1974

Background

1.6 This version of the HRA Business Plan supersedes the last iteration in particular with regard to the Council's programme of HRA new build, regeneration and property acquisitions and the prevailing economic climate. It also reflects a review of the investment needed to the existing stock following a major stock condition survey carried out during 2021, the current Government target to achieve net zero carbon emissions by 2050 and Energy Performance C ratings by 2035, taking into account the current economic climate and building cost inflation.

1.7 As with previous versions of the Business Plan, this document provides the latest information on the make up and condition of the housing stock and the position regarding investment needs into the future. It also contains details of our revised 30 year financial modelling, based on current and projected resources, now covering the period 2025/2026 to 2054/2055.

Strategic and policy context

1.8 In addition to supporting the wider Ambitious for Sutton corporate priorities, the plan also has five broad strategic aims:

- *Increase the supply of affordable housing*
- *Invest in and make best use of the borough's existing housing stock*
- *Promote excellent housing management standards across all types of housing*
- *Provide housing options advice and address homelessness*
- *Provide housing support and improve the health and wellbeing of residents.*

1.9 The HRA Business Plan, and its delivery through SHP and the Council's housing development and regeneration teams, 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 from Corporate Plan 2022-2027	HRA Business Plan contribution
• Increase the number of affordable homes in the borough by building new homes, regenerating council estates and exploring innovative ways to increase the housing supply	Deliver 405 new, low-carbon council homes at various locations across the borough by 2028. Complete delivery of the Beech Tree Place regeneration, progress regeneration of Elm Grove, complete an options appraisal for the regeneration of Benhill Estate and review the feasibility of regeneration for the remaining estates within the Estate Regeneration Programme. Work with Sutton Living Limited to provide affordable private rented housing for Sutton residents.
• Ensure that all Council housing is safe, sustainable and of good quality	Through Sutton Housing Partnership, deliver a five year programme of investment; ensure all Council housing meets the latest quality and safety standards. Make council homes more energy efficient by: 'retrofitting' 60 homes with the latest energy efficiency measures; 'decarbonising' 75 Council homes via the Social Housing Decarbonisation Fund programme; and securing external funding for delivery of further decarbonisation schemes.
Strategic housing priority from Corporate Plan 2022-2027	**HRA Business Plan contribution**
• Work with partners to support people who are homeless or at risk of becoming homeless, intervening early before issues escalate	Deliver the homelessness strategy in line with agreed targets (to include taking steps to prevent people becoming homeless, supporting those who are homeless, and reducing the number of people living in temporary accommodation).

	Work with partners to provide a range of advice and support to families with preschool children who are living in emergency or temporary accommodation. Work collaboratively across the Council and with partners to explore opportunities to better use housing to meet the needs of key groups, including: children looked after (CLA), children and young people leaving care, people with learning disabilities, foster carers and key workers. Improve the standard of private rented sector accommodation by exploring the feasibility of an additional council licensing scheme for houses in multiple occupation.

1.10 SHP's asset management strategy sets out the strategic framework within which it will manage the Council's HRA assets over the coming years. The latest version of the strategy can be found at:

https://moderngov.sutton.gov.uk/documents/s81626/11a%20Final%20Board%20-%20SHP%20Asset%20Management%20Strategy%202022_23%20to%202026_27.pdf

1.11 Feeding into and informing the HRA Business Plan, SHP's asset management strategy 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.

2. The Council's Housing Stock

Stock Make Up

2.1 As at 1 April 2024, the Council's housing stock held in the HRA comprised 6,028 rented homes (including ex-council buybacks), 11 shared ownership properties (the equivalent of six rented units) and 1,350 flats and maisonettes sold on long leases.

Also, within various estates are 122 houses sold freehold where the owner pays a service charge to the Council (commonly referred to as 's16 freeholders').

2.2 The rented portfolio includes 508 independent living units for older people (previously referred to as sheltered housing) clustered within 13 schemes. Also held within the HRA are around 850 garages and parking spaces, and a number of commercial units.

2.3 The Council's rented stock has reduced considerably since the inception of the Right to Buy (RTB) in the early 1980s when it owned around 9,000 homes. There has been a small net increase in recent years as a result of the programme of buying back ex-council homes, with the council stock now comprising approximately 7% of the borough's housing.

2.4 In April 2021 central government precluded the application of Right-to-Buy receipts where units were used for temporary accommodation, and as a result the Council ceased acquiring or buying back ex-council homes. To date 223 such homes have been acquired, of which 216 are currently used for temporary accommodation. If market conditions become more favourable in the future then it is the long term intention to sell these properties to Sutton Living Limited (SLL) to make the homes permanent affordable homes. Of the remaining seven properties, 5 are Elm Grove properties which are being regenerated plus two equity share properties which have been purchased and added to the general housing stock.

2.5 From August 2024 the rules on use and combination of funding to deliver affordable residential development have now evolved further, however the Council has already planned for the use of the relevant receipts over the first 5 years of this plan.

2.6 Council housing is spread widely across the borough, with a number of larger estates and concentrations of stock, as follows:

- Around 2,500 interwar cottages and low rise flats at St Helier and surrounding wards 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 393 deck-access designed, 70s-built flats and maisonettes and a number of houses.

2.7 The following table gives a breakdown of the stock of HRA rented and shared ownership dwellings by type, size and age as at 1 April 2024.

Table 2.1: Breakdown of the HRA Housing Stock by Type, Size and Age as of 01st April 2024

	Pre 1945	1945-64	1965-74	1975-84	Post 1985	All ages
Houses (traditionally built)						
Terraced -1 bed					19	19
Terraced -2 bed	973	6	12	8	55	1054
Terraced -3 bed	1025	58	46	34	33	1196
Terraced -4+ bed	14	11	1	1		27
Semi-detached -2 bed	49	1		1	1	52
Semi-detached -3 bed	149	43	2	4	7	205
Semi-detached -4+ bed	5	2				7
Detached -3 bed	3					3
Detached -4 bed	1					1
Houses (non-traditionally built)						
3 bed	3	58	1			62
All Houses	**2222**	**179**	**62**	**48**	**115**	**2626**
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	5	61			78

Low rise -1 bed	441	53	110	179	149	932
Low rise -2 bed	65	81	15	23	15	199
Low rise -3 bed	14	8				22
Low rise -4 bed	1					1
Med Rise Bedsit / studio	7	16	41	3		67
Med Rise -1 bed	9	136	329	107	69	650
Med Rise -2 bed	113	343	128	24	62	670
Med Rise -3 bed	19	146	222	22	17	426
Med Rise -4+ bed	5	3	4			12
High Rise Bedsit/ studio		5		18		23
High rise -1 bed		26	27			53
High rise -2 bed		157	17	7		181
All Flats and Maisonettes	**686**	**979**	**954**	**383**	**312**	3314
All dwellings	**2925**	**1185**	**1026**	**456**	**436**	**6032**

2.8 Flats and maisonettes comprise 55% of the stock, with houses and bungalows making up the remaining 45%, with almost half of the stock built before 1945, and only 14% built since 1974. Within the total 503 (8.35%) are independent living (sheltered) dwellings, across 13 schemes.

2.9 Sutton's HRA stock contains 1,983 'family-sized' units (3+ bedrooms) representing 33% of the total, however, only 49 dwellings have four or more bedrooms, amounting to just 0.8% of the stock.

Stock Condition

2.10 The last major stock condition survey was carried out in 2021 by Faithorn Farrell Timms (FFT). The sample comprised 77% of individual homes and 100% of estate external and communal areas. In addition to the standard property components, the survey also provided an updated assessment of the energy performance of properties via the Government's Reduced data Standard Assessment Procedure (RdSAP) methodology equating to the Energy Performance Certificate (EPC) banding.

2.11 SHP's asset management strategy balances a number of priorities, seeking to maintain 100% compliance with the Decent Homes Standard and also ensuring the requirements of the Building Safety Act 2022 regulations and the Fire Safety (England) Regulations 2022 are met, ensuring 100% of properties achieve EPC 'C' or above by 2035, aligned with the Council's ambitious target of an average 'B' rating by 2030 in accordance with the London Housing Retrofit Action Plan.

2.12 Communal investment includes repairs to mechanical and electrical ('M&E') plant and equipment, repairs and upgrades to communal areas, and in light of the Grenfell Tower fire and subsequent new legislation and regulation, the programme focuses on Fire Safety and Building Safety measures in flatted blocks, and resourcing Health and Safety compliance related works is being given the highest priority. There is also a strong emphasis on 'Damp and Mould' in light of the well publicised impact of this on tenants and the requirements of Government and the Regulator following Social Housing (Regulation) Act 2023 with the elements that reference damp and mould commonly referred to as "Awaabs Law", and with additional resources targeted at this issue through a specific funded programme.

2.13 Appendix B identifies an investment need of £62.6 million over the next 10 years to bring all homes up to the minimum EPC C standard, (c£26,000 for each of the c2,400 homes currently below EPC C). In addition to the Government's EPC target, the Council must also meet the further Government target that all homes should be net zero carbon by 2050. The "minimum EPC C" level investment is expected to significantly progress delivery of the net zero target. However, there is a likelihood that additional investment will be needed to deliver net zero. At this stage accurately estimating such a sum is problematic and the current focus is on delivery of the EPC C target over the next 10 years. (A nominal sum of £2.5 million every 5 years has been included in Appendix B for Net Zero investment from Years 11-30).

Sustainability of the stock

2.14 **Appendix A** identifies those estates or dwellings that have been identified as requiring significantly above average investment over the next 10 years, (i.e. at least 50% above the average for all stock). These estates or properties have lacked funding in recent years and may be next on the "investment cycle", or estates may comprise significantly larger than average properties, driving the unit investment cost up.

2.15 Sustainability analysis underpins SHP's Asset Management Strategy and the Council's regeneration programme. For example, in the case of Shanklin Village (see **Appendix A**) funding has been included in the major works programme (**see chapter 5**) to tackle the defective walkways, which is the principal reason for the estate's significantly above average investment need.

Future Investment Requirement

2.16 Set out in **Table 2.2** is a summary of the latest estimate of the need for capital investment in the housing stock, by work's type, taking into account works anticipated to be completed in the first 5 years of the plan. Full details of the investment requirement, by building element and including a breakdown for Years 1 - 5, is set out in **Appendix B**, based on the assumption that all existing homes are maintained into the future.

2.17 **Appendix B** excludes provision for any estate re-modelling, conversions of properties or the creation of new homes or communal facilities within estates, with opportunities flagged in SHP Asset Management Strategy iterations and may then be considered by the Council in the light of available funding.

2.18 Cyclical Maintenance investment at £500k per annum has been introduced to "bridge the gap" between repairs expenditure and major works investment and will be aimed at extending the life of primarily external property components such as brickwork and gutters via a cyclical maintenance programme. It is also expected these works will improve the appearance of homes and estates in general.

Table 2.2: Summary of Stock Investment Needs 2025/26 to 2054/55 (Years 1 - 30)

	Years 1 - 5	**Years 6 - 10**	**Years 11 - 15**	**Years 16 - 20**	**Years 21 - 25**	**Years 26 - 30**	**Years 1 - 30**
	2025/26 - 2029/30 **£**	**2030/31 - 2034/35** **£**	**2035/36 - 2039/40** **£**	**2040/41 - 2044/45** **£**	**2045/46 - 2049/50** **£**	**2050/51 - 2054/55** **£**	**2025/26 - 2054/55** **£**
Building Safety - and Compliance	20,498,541	42,831,682	12,938,411	20,214,057	23,882,215	10,324,786	130,689,692
Decent Homes & Major Works Investment	28,578,647	48,849,313	31,274,257	60,457,552	28,765,957	42,956,197	240,881,924
Contingent Major Repairs	6,611,228	2,430,881	2,359,850	2,359,850	2,359,850	£2,268,410	18,390,069
Improvements	32,086,728	32,086,728	3,262,840	3,262,840	3,262,840	3,262,840	77,224,815
Estate Works and Related Assets	10,121,379	7,993,555	3,555,820	5,497,571	3,082,580	7,594,542	37,845,446
Exceptional Extensive Works and Surveys	11,158,974	457,200	2,286,000	2,286,000	2,286,000	1,828,800	20,302,974
Aids and Adaptations	3,048,000	3,048,000	3,048,000	3,048,000	3,048,000	3,048,000	18,288,000
Mechanical and Electrical Works	1,808,020	3,220,113	777,202	1,613,482	1,470,378	796,077	9,685,271
Cyclical Maintenance	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	15,000,000
Total works identified	106,411,517	143,417,471	62,002,379	101,239,352	70,657,820	74,579,651	568,308,191

Project management fee (10%)	11,641,152	14,341,747	6,200,238	10,123,935	7,065,782	7,457,965	56,830,819
Total incl enabling works at 20% and mgt fees at 10%	**128,052,669**	**157,759,219**	**68,202,617**	**111,363,287**	**77,723,602**	**82,037,616**	**625,139,010**
Inflation Allowance (4% from year 2)	**9,802,941**	**50,160,581**	**41,160,083**	**105,895,113**	**106,758,398**	**154,871,084**	**468,648,200**
Overall Programme Cost	**137,855,610**	**207,919,800**	**109,362,700**	**217,258,400**	**184,482,000**	**236,908,700**	**1,093,787,210**

2.19 As can be seen, the overall investment requirement over 30 years, including enabling works and project management fees, now amounts to £625.1m. The two largest requirements are:

- Decent Homes and Major works Investment - £241m plus 10% fees, (38.55% of the total 30 year required spend)
- Building Safety & Compliance - £131m plus 10% fees, (20.96% of the total 30 year required spend)

These spend requirements are reflective of the HRA's strategic asset management priorities with Building Safety and Decent Homes being the top two priorities respectively.

2.20 In terms of projected stock number changes, for the modelling of future resources (discussed in **chapter 3**) an estimate of the number of RTB sales has been used. At this stage, no assumptions are made regarding any stock losses from potential future regeneration programmes.

Stock energy efficiency

2.21 The previous Government set targets that all social housing should be at the minimum Energy Performance Certificate (EPC) C rating by 2035. Appendix C identifies that the HRA housing stock has c2,400 homes below this rating with c2,100 at the "D" rating.

2.22 Over the next 10 years, included in the "Improvements" provision, Appendix B identifies a net spend requirement of £62.6m (plus 10% fees) to deliver this target. This equates to approximately c£26,000 per home with an assumption that this is supplemented by £10,000 Central Government energy efficiency grant per home. The level of grant is a risk to the business plan as this could reduce in future years or may not be offered.

2.23 The delivery of the minimum EPC C standard is expected to go some way to delivering the Council's "net zero" targets. In addition to the aforementioned EPC C expenditure requirements, Appendix B includes a nominal £500,000 pa (plus 10% fees) from 2035-55 to deliver a "net zero" housing stock. The rationale for this approach is based upon focusing on the more immediate minimum EPC C target, whilst still acknowledging that the delivery of "net zero" is a long term strategic priority, requiring the development of a funding strategy.

2.24 The average energy efficiency rating of the stock under the Government's Reduced data Standard Assessment Procedure (RdSAP) methodology is 67.92 out of 100, while a breakdown of the stock by energy rating, using the Energy Performance Certificate (EPC) A to G classification system, is set out in Appendix C. This shows that nearly 40% of homes are rated D or below, and Sutton still has 251 homes rated E, F or G.

2.25 However, it must be understood that the majority of stock is not close to being zero carbon. To achieve this or even close to zero carbon across the whole stock in order to meet the Government's target and the Council's climate emergency objectives would require considerable additional investment in both energy efficiency and replacement of non-fossil fuel heating systems. This is reflected by an amount of c£26,000 per dwelling for properties below EPC C rating included in **Appendix B** spread across the Business Plan period from Years 1-10.

2.26 The exception to this are our new build properties which are being built to net zero energy efficient ratings. The recent handover of PassivHaus properties during 2024/25 have a Standard Assessment Procedure (SAP) rating of between 99 and 103. In total, 38 of the new build properties handed over have an EPC rating of 92 or above making them 'A' rated. 116 further properties handed over are 'B' rated.

Housing Supply and Demand

2.27 Sutton's Local Housing Needs Assessment identified a borough requirement for 1,396 new affordable homes per annum over the coming 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 2,851) and continuing high numbers of households in temporary accommodation (running at around 1,085 at the time of publication).

2.28 The Right-to-Buy and other disposals over time have reduced affordable rented HRA stock from in excess of 9,000 in the early 1980s to just over 6,000 today. Sutton's population was 165,000 in 1981, but is now in excess of 210,000 (2021 census - 209,636), with population growth of 10.2% from 2011 to 2021 alone (a 19,500 population increase in that most recent decade).

2.29 This reduction in affordable stock has resulted in a gradual decrease in permanent affordable lettings becoming available each year, with the addition of some nominations to social housing association units. The HRA stock has now been added to by over 160 new build homes and over 200 ex-council stock buy-backs to date. With the reduction of the Right to Buy discount being offered from 21 November 2024, the number of sales under this scheme are likely to decrease significantly. This can be seen in **Appendix D.**

3 Resources

3.1 Since the introduction of HRA self-financing in 2012 the Council has been able to retain for use locally all of its rental income and is also now free to undertake HRA borrowing within prudential limits. As well as rental income and borrowing, resources for council housing in Sutton now include Right-to-Buy (RTB) receipts and various external funding sources, including for de-carbonisation.

Revenue Resources

HRA self-financing

3.2 Ending the national HRA subsidy system, in March 2012, enabled stock-owning local authorities to retain all their rental income locally going forward. Councils like Sutton, deemed to be in negative subsidy under the former regime (with a rental income considered to exceed their investment needs, had to pay the 'balance' into a national pot) were required to make a one off payment to the Government to 'buy themselves out' of the system. Sutton's allocated self-financing debt settlement or 'buy out' payment was calculated at £141.1m, and the Council took out a single 30-year loan from the Public Works Loans Board (PWLB), with a reduced interest rate of 3.5% per annum.

3.3 In the last year of the old national subsidy system Sutton was contributing over £10m p.a. to the central Government Exchequer, and although the self-financing loan resulted in interest and debt management expenses, this was significantly outweighed by extra rental income retained.

3.4 In terms of the loan principal, Previous iterations of the Business Plan have included loan provision within the financial modelling to fully pay the £141.1m debt off by the due date of 2042 by setting sums aside annually. However, four years ago it was agreed that the debt could be paid back over a longer period through partially refinancing the loan when it becomes due. This approach had the benefit of freeing up resources in the early years of the Plan, and set aside sums to earn interest for the HRA. In the previous iteration, set aside provision was made to allow 50% of the loan to be repaid by the due date

Borrowing

3.5 In September 2018, the Government lifted its long-standing cap on HRA borrowing completely to allow stock-owning authorities unlimited HRA borrowing subject to Prudential Code for Capital Finance in local Authorities . However, any further HRA borrowing will not be 'supported', which means the revenue costs of the borrowing need to be found from within the authority's HRA. To date, borrowing within the HRA has only been taken out to fund new housing supply and not for investment in the existing stock.

Rental income

3.6 After four consecutive years of 1% rent reductions, the Government announced that from 2020/21 rents would be allowed to rise by up to CPI + 1% for a period of at least five years. However, the four year reduction period had a significant impact on the funding available within the HRA, not just during those years but across the whole 30 year period since it is unlikely that social rents will rise sufficiently in future years to compensate for the accumulated loss, despite the rent increase of 7.7% during 2024/25, as interest rates settle down following recent global economic shocks.

3.7 For 2023/24 the preceding year, in light of the very high level of inflation (CPI reached 10.1% in September 2022) and concerns around the effects of the cost of living crisis on low income households, the Government imposed a cap of 7% on rent increases. In the October 2024 Budget the Rent Settlement for 2025/26 was set at 2.7%, CPI (the September 2024 rate of 1.7%) plus 1%. The Government is consulting on setting the duration of the current Rent Settlement at CPI plus 1% for 5 years or for potentially 10 years. The modelling assumes a further rent increase of 3% (CPI +1%) for 5 years from 2026/27 to 2030/31, then CPI only from 2031/32 and beyond.

3.8 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 its expected life and then averaged across all dwellings to derive an annual amount per property. In light of the 2021 stock condition survey and the increase in unit costs, depreciation in the previous iteration was increased to £8.5m in 2023/24, £9.0m in 2024/2025 and £9.3m in 2025/2026. This repairs reserve sum works out at approximately £1,529 per rented dwelling.

Right to Buy Receipts

3.9 The previous Government restricted the amount of receipts that could be applied to acquisitions, introducing a new restriction, with receipts arising since 1 April 2021 no longer being eligible to fund acquired properties that were to be used for temporary accommodation. This, together with the Department for Work and Pensions (DWP) limiting housing benefit subsidy to 90% of 2011 Local Housing Allowance (LHA) rates, called into question the future viability of the HRA acquisition programme, and led to the Council taking a decision in 2022 to transfer its portfolio of ex-council stock Right-to-Buy buy-backs to Sutton Living Ltd. (SLL) at a time when the prevailing market conditions are favourable.

3.10 The new Government has since further relaxed the conditions applying to the Right-to-Buy receipts (30 July 2024), as follows:

councils can use their receipts from Right to Buy sales for two years (removing the caps on the percentage of replacements delivered as acquisitions and the percentage cost of a replacement home that can be funded using these receipts, and giving councils the ability to combine Right-to-Buy receipts with Section 106 contributions, with these flexibilities in place for an initial 2 years until August 2026 and subject to review).

3.11 In October 2024 the new Government announced more changes to the RTB scheme, notably the size of the discount available to tenants effective from November 2024. The discount for Sutton eligible residents was reduced to a capped maximum of £16,000 for new applications received after 21st November 2024. The Government is consulting with Local Authorities on further changes to the RTB scheme.

3.12 The proposed transfer of the acquisition portfolio to SLL has now been paused. A reinterpretation of benefit subsidy regulations means that there is no longer a requirement for a contribution from the HRA for subsidy loss and therefore there is no significant financial benefit from transferring the portfolio to SLL on a lease arrangement. If market conditions become more favourable then a sale of the portfolio generating a capital lease will be reconsidered again. The decision to pause the acquisitions programme ensures that the Council does not lose any funds that would otherwise be spent on vital services, making the best use of public money.

3.13 Consequently there is no financial advantage by entering into an operating lease with SLL for the portfolio of 216 properties. However, the original aspiration and intention of providing permanent well managed homes remains, giving long term stability to the residents living in these properties. Creating a portfolio of permanent homes integrated into local communities remains a priority for these homes. If market conditions prevail then the council will revert to the original aim of selling the portfolio to SLL, with council controls in place to ensure permanent homes are created at affordable rents levels. In the interim households will remain in the properties on a licence as temporary accommodation managed within the wider council stock by SHP.

3.14 The numbers of RTB sales since 2012/13 are set out in the table below. As can be seen, annual sales peaked at 75 in 2014/15 but have gradually dropped since then. Due to the reduced amount of Right to Buy discount coming into effect and an influx of applications made before the deadline, an assumption of 11 sales has been made for Year 2024/25 year end and a further 15 sales for Year 1 2025/26. From 2026/27 onwards an assumption of 1 sale per annum is assumed for modelling.

3.15 A third round of the Local Authority Housing Fund (LAHF 3) allocation was granted to the Council, notably has been one of the highest nationally with a grant of £11.3 million. This will mean the purchase of a further 57 homes locally over the next two financial years.

Table 3.1: Right to Buy Sales 2012/13 to 2024/25

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
35	65	75	59	51	37	27	28	31	34	41	17	11

3.16 The 511 sales over the 13 years to 2024/25 have given rise to a net receipt of £50m. As mentioned above, this is the portion of the gross receipt which the local authority is allowed to use for investment in new homes.

3.17 Set out at **Appendix D** is the latest projection of RTB sales and net receipt income available for investment over the Business Plan period, based on the current pipeline of applications and assumptions regarding the likely trends over the longer-term. It shows that £66.3m of net receipts are estimated to accrue by the end of the Business Plan period, this figure including amounts that arose prior to 2025/26 (Year 1). For comparative purposes, the last business plan update forecasted £227m in net receipts before the change in Right to Buy discount allowances.

3.18 **Appendix D** also includes the amounts of RTB net receipts actually spent and projected to be spent on HRA new build, HRA-funded acquisitions and other expenditure.

3.19 The final column in **Appendix D** shows, on a cumulative basis, the net receipts that are either spent or remain available to be spent.

3.20 As can be seen from Year 2 2026/27, the assumption of 1 RTB sale per year has been assumed as we are yet to see the impact of the reduction of RTB discount from £136k to £16k effective from 21 November 2024. This significant reduction will heavily reduce the number of sales going forward and it is safe to assume a low return.

Other Funding Sources

GLA grant for new supply

3.21 In 2018 the Council secured £6.5m of grant funding from the GLA to be used alongside its other resources to fund a second phase of HRA new build. The award required the homes to be let at a mixture of London Affordable Rent and social rent, with the stipulation that a minimum of 81 units be developed. With further negotiation the grant was increased to £8.7m delivering a total of 71 units, 62 of which have now been delivered.

3.22 The Council’s successful bid for over £26m of GLA funding for the Elm Grove redevelopment in 2023, included monies to be applied to replacement units, which has made a significant difference to the resourcing position in the HRA.

3.23 It should be noted that GLA grant could be used alongside additional HRA borrowing to fund a scheme. However, although that grant could previously be mixed with RTB net receipts within a scheme, both could not be used to fund an individual property, thus borrowing needed to be applied to each property that was part funded by grant.

External funding for energy efficiency works

3.24 SHP had previously secured £1m from the former Department for Business, Energy and Industrial Strategy to carry out whole-house retrofit works, (using the Energiesprong standard) to 23 homes with the intention that the works would upgrade these homes to an EPC A rating, with the investment cost being typically in excess of £100,000 per home.

3.25 However, and in addition, £490k of grant funding was secured via the Government’s Social Housing Decarbonisation Funding (SHDF - Wave 1) scheme, to carry out works to 49 homes, improving their EPC rating from D to C. The investment cost of roughly £45,000 per home this also covered a significant level of roofing remedial works for which existing HRA budget provision was available to cover to deliver a more comprehensive scheme.

3.26 On behalf of the Council, SHP worked with the Royal Borough of Kingston Upon Thames and Raven Housing Trust to submit a collaborative bid for further funding from the Government’s Social Housing Decarbonisation Fund (SHDF - Wave 2.1). The retrofit programme is discussed further in **chapter 5**.

4 Financial Modelling

Base Model

4.1 The Council, working with SHP, has updated its latest 30-year 'Base' financial model, with Year 1 set at 2025/26. The Base Model is predicated on the updated rent increase assumptions as discussed in **chapter 3**. It also models expenditure on the existing stock in accordance with the latest identified need, as set out in **chapter 2** and **Appendix B**, and expenditure on the new build and regeneration schemes, as set out in **Appendix E** and discussed in **chapter 6**.

4.2 The Base Model is predicated on the following:

- that a debt settlement reserve is built up during the Business Plan period to repay 50% of the £141.126m self-financing loan when it matures in 2042 as well as to repay other HRA loans that mature in the next 30 years. Interest will accrue on these sums and is added into the working balance
- that HRA borrowing is applied only to new build, with interest rates of 4.3% assumed in relation to this future borrowing
- that the borrowing taken out to fund new build schemes is paid back over 50 years, i.e. outside the period of the Business Plan
- that the amounts set to cover the cost of depreciation of assets from Year 1 are calculated using a 'component accounting approach', which takes account of element lifetimes and building costs
- that the Major Repairs Reserve (MRR), derived from the amounts set aside to cover depreciation, is applied to investment in the existing stock along with leaseholder contributions and revenue contributions to capital outlay (RCCO) when the latter are both available and required
- that annual general CPI inflation rates are assumed at 2% in 2025/26, and 2% thereafter
- that inflationary uplifts to major works costs are applied at a rate of 4% in 2025/26, and 4% thereafter
- that rents will increase by 2.7% for 2025/26, by 3% for the next 5 years from 2026/27 to 2030/31, then by 2% from 2031/32 and each year to follow until the end of the business plan
- that allowances for bad debt are assumed at 1% in 2025/26, reducing to 0.9% from 2026/27 onwards
- that the costs of management (SHP's management fee and Council HRA costs) are reduced by 10% in total (5% per year) from 2025/26 through to 2026/27

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

- that the new build modelled reflects the programme set out in Appendix E;
- that the Phase 2 new build homes are all let at Affordable Rent levels.

4.4 In relation to the HRA acquisition programme, the Base Model assumes no further acquisitions within the Plan period and that the properties acquired to date remain in the HRA and continue to be let as temporary accommodation, with rents charged at 90% of current Local Housing Allowance (LHA) rates.

4.5 Significantly the HRA contribution to HB subsidy loss has been withdrawn following interpretation of benefit subsidy guidelines with an upside (amount) to the HRA. The portfolio continues to be used as temporary accommodation with families on licence.

4.6 The revenue modelling also factors in appropriate management and maintenance costs for the new build and any acquired units while the capital modelling allows for renewal of building elements according to standard cycles; however, these are not reflected in the figures within **Appendix B**.

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

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

I. Total annual income amounts to £48.814m in Year 1, and rises gradually over the period to £98.954m in Year 30.

II. SHP's costs or management fee (excluding contributions to major works) is set at £19.051m in Year 1 and rises to £35.674m in Year 30. The Council's HRA management costs amount to £2.940m in Year 1 and increase to £5.301m by Year 30.

III. Depreciation increases from £9.296m in Year 1 to £17.986m in Year 30. The depreciation figures (column 6) transfer across to the Major Repairs Reserve in the capital summary (see below).

IV. Debt management costs and interest on new debt, reach £3.067m by Year 6 and remain at that level throughout the rest of the Business Plan period.

V. Debt management costs and interest payments on existing debt (including the self-financing debt) average at around £11.2m p.a. up to and including Year 17; they then fall to around £9.1m from Year 18 of the Business Plan period when 50% of the self-financing debt is paid off. The amounts thereafter are to support the remaining historic debt, which is set to be paid off when maturity dates are reached.

VI. As well as 50% of the self-financing settlement debt, in the Base Model all other HRA loans that mature in the next 30 years are paid off. This equates to £119.92m of debt repayment in that period leaving an outstanding loan balance of £260.598m at Year 30. This is estimated to represent just under 30% of the value of the stock at year 30, based on existing use value rises of an average 2% per year from April 2024. This compares to the 1 April 2022 total HRA debt representing 53% of the existing use asset value of HRA dwellings (i.e. an improved position).

VII. Revenue Contributions to Capital Outlay (RCCO) are applied in both the early and the later years but only when it's both available and required.

VIII. The working balance of £11.886m carried forward into Year 1 reflects the accumulated amounts set aside for debt repayment from previous years.

IX. A minimum required HRA balance is applied throughout the Business Plan period and shown in the penultimate column. This has been set at 5% of the annual revenue budget but also seeks to achieve a balance that ensures the HRA generates sufficient surplus in each year of the plan to cover annual interest costs, with extra capacity to contribute to a reserve to be used to repay debt when the payments become due.

X. The final column shows the funding available after the minimum working balance is taken into account, referred to as the Debt Settlement Balance; this is money available to repay arising debt.

4.9 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 the modelling (but not in Table 2.2/**Appendix B**) in later years to take into account the future investment needs of the new build stock and new homes from the Beech Tree Place, Elm Grove and B&Q redevelopments.

II. Column 2 shows the costs of the new build programme (from 2025/26 onwards).

III. Borrowing is applied to new build, facilitated by the lifting of the HRA borrowing cap (column 4). As in previous iterations of the Business Plan, no borrowing is applied to investment in the existing stock.

IV. GLA grant also partially funds the new build programme and is shown in column 5.

V. Energy Efficiency Grant - shown in column 6. This is a new column added to the Capital Summary report which identifies how much government grant is being assumed each year for energy efficiency retrofit works.

VI. The existing stock investment requirement is inclusive of the cost of works to leasehold units, with these costs offset by leaseholder contributions shown in column 7.

VII. Receipts from new build shared ownership sales, arising in Years 1 to 3 are shown in column 8.

VIII. RTB net receipts are also applied to the new build programme and are shown in column 9.

IX. The Major Repairs Reserve (MRR) shown in column 10 reflects the depreciation figures set out in the revenue summary, and includes a carry forward of £14.976m from the previous year.

X. Column 11 shows the RCCO available to support the capital expenditure as and when it can be afforded.

XI. The difference between the total investment requirement and the total financing available is reflected in the 'In Year Surplus/(Shortfall)' column, and subsequently in the 'Cumulative Surplus/(Shortfall)' column. The latter shows a breakeven position in Year 1, and a shortfall position of just £0.085m in Year 2 which then builds up over the remaining years, reaching a £272.125m cumulative shortfall by Year 30.

4.10 The Base Model position represents a significant improvement in the overall HRA financial position since the last iteration of the Business Plan, with the cumulative capital shortfall at Year 30 having reduced by more than half (was £588m and now £272m). This brings the overall savings required on Appendix I down to £6.5m from £8.6m.

4.11 The reduction in SHP's management fee over Years 1 and 2 reflects the level of savings being sought across all other council services and is also aimed at switching some resources from revenue into capital investment in light of the much greater stock investment requirement identified. It means that SHP will need to continue to find medium term efficiency savings, and may have to reduce service levels in some areas. The approach to this will be reviewed and set out in the next iteration of SHP's annual delivery plan.

4.12 The capital programme - without affordability/deliverability considerations taken into account (**Appendix I**) - essentially balances for the next 2 years whereas the last business plan was only balanced for the first year.

4.13 Resources for capital investment in the existing stock nevertheless still fall a long way short of the full requirement, as set out in **Appendix I**. In the first five years, the funding available (from a combination of MRR, RCCO and leaseholder contributions) amounts to £121.567m, against an identified investment requirement of £128.053m over the period. This shortfall of £6,685m will mean prioritising building safety, compliance and health and safety related works, potentially re-phasing some programmes and making difficult choices regarding what other works such as improvements to estates should be undertaken.

Sensitivity Modelling

4.14 A Sensitivity Model built on the Base Model assumptions are set out in **Appendix H(i)** and **Appendix H(ii)** respectively.

4.15 **Appendix H(i)** shows the Revenue summary and **Appendix H(ii)** shows the Capital summary derived from the sensitivity.

4.16 The sensitivity analysis has been modelled to include the following scenarios:

- 5% budget savings are not achieved as expected for the 2026/27 financial year
- fire remedial works for Chaucer House require an additional £10m investment

4.17 If the 5% budget savings are not achieved for 2026/27 then the Revenue summary shows that both the SHP and Council costs (columns 2 and 3) increase from 2026/27 (Year 2) onwards, totalling £822.499m and £121.577m respectively over the life of the plan. When compared to the Base Model these represent cost increases of £23.327m and £2.656m across the 30 years. The increased costs impact the working balance and shows that the minimum balance required (5% of annual income) shown in column 16 is not achievable from Year 2 and then throughout the remainder of the plan, if the planned RCCO is maintained at the annual levels assumed. The RCCO (column 9) of £26.075m for Year 30 has been removed from the model to offset the impact of the reduced savings from Year 2 onwards. The total RCCO across the plan has been reduced from £367.328m to £341.253m. This reduction in RCCO will directly impact the Capital finances and outcomes as it is a contribution from revenue to capital expenditure.

4.18 The impact of the RCCO reduction to the Capital summary can be seen in column 11, in turn reducing the total financing available (column 12) by the same amount to £935.885m. This directly affects capital works to the existing stock and means tougher decisions will need to be made about workstreams and their priorities. If the fire remedial works for Chaucer House require an additional £10m investment, the impact will be felt immediately in Year 1 where the existing stock investment requirement (column 1) has increased by £10m meaning that there is now an in year shortfall of £10m (column 13) compared to a breakeven position for Year 1 in the Base Model. The combined effect of the reduced RCCO and the increased costs at Chaucer House is an increase of the cumulative shortfall (column 14) of £36.075m, from £272.125m to £308.200m.

5 Stock Investment

5.1 Considerable investment has been made in the Council's housing stock in recent years, with 98.7% of stock at Decent Homes standard currently, and 1.3% (78 homes) non-Decent. The 78 homes will be Decent by the end of Year 1. Nevertheless, as discussed in **chapter 2**, the stock remains in continual need of capital investment to both maintain and improve on the Decent Homes Standard (and to meet the anticipated new standard when adopted), and also to undertake health and safety works, in particular in relation to Building Safety, Fire Safety and Damp and Mould. In addition, the Council needs to address the climate emergency agenda and 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.

Current Investment

5.2 The overall HRA capital programme outturns for the three years 2021/22 to 2023/24 is set out in the following table.

Table 5.1: HRA Capital Programme Outturns 2021/22 to 2023/24

	2021/22 outturn (£000s)	2022/23 outturn (£000s)	2023/24 outturn (£000s)
Expenditure			
Major works programme	11,231	7,708	12,445
Adaptations for disabled tenants	507	699	575
Redevelopment of Richmond Green (residual costs)	105	0	0
Estate regeneration	3,087	3,271	7,033
New build	6,057	9,255	19,780
Property acquisitions	17,519	848	398
Total Expenditure	**38,506**	**21,782**	**39,656**
Resources			
Major Repairs Reserve (MRR)	9,704	7,744	12,300
Revenue contributions to capital outlay (RCCO)	156	0	0
Borrowing	21,689	7,999	15,810
RTB net receipts	142	54	6,836
Leaseholder contributions	260	220	284
s106 receipts	105	2	0
GLA Grant	6,450	5,763	4,426
Social Housing Decarbonisation Fund award	0	0	0
Total Resources	**38,506**	**21,782**	**39,656**

<u>Table 5.1: HRA Capital Programme Outturns 2021/22 to 2023/24</u>

5.3 The major works programme over the last three financial years has balanced as seen in table 5.1. For Year 1 of the Major Works Programme (2025/26) the planned spend amounts to £18.66m and includes £1.3m on fire safety works, £2.9m to tackle damp and mould remediation and £2.88m on energy efficiency works. The projected spend is £13.37m below the available budget in Year 1 of the programme with the remaining available budget then phased over the next four years of the programme as reflected in Appendix I, the Outline Major Works Programme Years 1 - 5.

Future Investment

5.4 The Base Model, where all required investment to the stock is included within the expenditure, results in a financially unviable position from Year 3 onwards. There is a small shortfall in Year 2 of £0.085m which is a significant improvement on the Year 2 funding gap in the last version of the Business Plan of £7.337m.

5.5 All previous versions of the Business Plan have yielded similar outcomes due to changing pressures on HRA budgets over time. At present the pressures in the housing sector to deliver energy efficiency targets by retrofitting properties, increasing costs to deliver, investment into fire remedial works and other requirements result in the deficit which is being managed through our strategies.

5.6 In order to address this viability challenge, investment requirements in the existing stock were reviewed, with the aim, firstly, to ensure that all essential health and safety related and other legally required works, including all required fire safety works, are carried out. This reflects the approach to prioritisation in the SHP asset management strategy.

5.7 **Appendix I** shows that the significant areas of spend in Year 1 are for Damp and Mould works. £2.9m is spent during Year 1 and this decreases over the following four years to £300k in Year 2, then £150k for the three years to follow.

5.8 Fire Safety Works, Fire Suppression works and Electrical works require significant investment during Years 1 and 2 of the programme with a combined total over the two years of £6,117,195.

5.9 The walkways at Shanklin Village require one-off major investment during Year 1 of £3,023,360 with no investment for the years to follow.

5.10 The major repairs programme increases from Year 2 with the lowest annual investment during Year 1 of the programme (£3,985,507m in Year 1, compared to £5,173,117m in Year 2).

5.11 The cladding and fire remediation works at Chaucer House and Balaam House have been earmarked for Year 2 of the programme with £6,002,014 set aside for cladding cavity barrier remediation. The full extent and cost of works for Chaucer House will be known during Quarter 1 of Year 1 after further survey work. There is a risk that this will identify a greater scope of work required beyond cavity barrier remediation, (potentially up to full replacement of the cladding external wall system). If this happens then the cost of remediation works could increase significantly, (c£15m, i.e. an additional £9m on the £6m provision included in Appendix I) which would require making tough decisions on non-compliance related works within the early part of the 30-year programme, phasing non essential works to later in the programme and over a longer duration, as well as identifying significant savings within the HRA budget. An increase in Chaucer House has been included in the sensitivity modelling in **Appendix H**.

A number of risks associated with the works required on Chaucer House require effective management as per below. The level of risk increases if the additional works / costs materialise as per the above point.

- Resident safety and engagement - Chaucer House provides safe homes for 96 households, notwithstanding a significant level of works have to be undertaken to ensure it remains safe. Providing appropriate assurance to residents on the safety of their homes is paramount. The level and type of works to the block will impact on the level of assurance required by residents.
- Required savings - if the additional costs materialise then savings will have to be found in other capital programme investment lines. Savings of £6.486m have already been identified to balance the 5 year programme in Appendix I with the available HRA capital budget. The requirement for additional savings is likely to mean that core investment in main property components, (e.g. windows, kitchens, bathrooms, energy efficiency works) will have to be reviewed.
- Financial sustainability of the block - variances in the financial performance of different parts of the housing stock is usual with some stock making financial surpluses and other deficits. If full cladding replacement is required at c£15m it is expected that this would lead to the block making a significant deficit even over the long-term HRA Business Plan 30 year period.
- Regulatory - as a building over 18 metres, Chaucer House requires a Building Safety Case to be developed and reviewed by the Building Safety Regulator, (BSR). Central to the Building Safety Case are the aforementioned cladding works. The scope, design and eventual completion of these works will have to be submitted and signed off via a BSR “gateway” process.

5.12 The Council’s next stock condition survey is due during Year 2 and will cost £457k. The survey will be carried out every five years. The 23% of stock that was cloned in the last stock condition survey due to not accessing these properties will be prioritised during the start of the programme to ensure 100% of stock condition is identified at the earliest opportunity.

5.13 **Appendix B** shows that Building Safety and Compliance works peak during Years 6-10 with £42m investment required during this period.

5.14 The cost to meet EPC C ratings by 2035 is £39,013,012. Once the target is met the investment required falls to zero.

5.15 On the basis of the funding available under the Base Model, the proposed outline five year programme of works is set out in **Appendix I** and summarised in Tables 5.2 and 5.3 below. The latter show the numbers of homes benefitting from each key building element repair/replacement. As can be seen, the programme totals £110,515,455 and when project management fees are added the total rises to £121,567,000. This falls short of the assessed Years 1 - 5 investment requirement in **Appendix B** of £128,052,669 by £6,485,669m or 5.06%.

Table 5.2: Outline Major Works Programme 2025/26 to 2029/30 - Summary

	2025/26 £	**2026/27 £**	**2027/28 £**	**2028/29 £**	**2029/30 £**	**Total £**
Building safety and compliance	5,970,865	6,963,857	2,353,576	2,322,677	2,887,564	**20,498,541**
Major repairs	2,100,000	7,045,082	5,928,611	6,018,203	7,486,751	**28,578,647**
Contingent major repairs	3,528,481	938,358	761,441	773,180	609,768	**6,611,228**
Improvements	2,884,218	7,300,627	7,300,627	7,300,627	7,300,627	**32,086,728**
Estate works and related assets	0	0	1,595,342	1,636,847	1,221,924	**4,454,113**
Exceptional extensive works and surveys	3,173,360	6,916,414	457,200	381,000	231,000	**11,158,974**
Aids and Adaptations	500,000	500,000	500,000	500,000	500,000	**2,500,000**
Mechanical and electrical works	0	0	319,204	911,005	897,015	**2,127,224**
All works	**18,656,924**	**30,164,339**	**19,716,002**	**20,343,541**	**21,634,649**	**110,515,455**
Totals adjusted for fees	**20,522,617**	**33,180,773**	**21,687,682**	**22,377,895**	**23,798,114**	**121,567,000**

NB: Figures in the above table do not include associated costs of management. Totals may not add up exactly due to rounding.

Table 5.3: Outline Investment Programme 2025/26 to 2029/30 – Key Building Elements

*Assumes all properties have both windows and doors replaced. However, this will not always be the case so the total number of actual homes receiving work is likely to be higher than the number presented.

Component	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £	Total
Bathrooms/WCs	450,000	1,227,829	1,248,225	681,711	0	**3,607,765**
Kitchens	450,000	2,065,132	1,333,612	0	0	**3,848,745**
Heating & Hot Water	900,000	1,457,335	774,497	967,892	899,770	**4,999,494**
Electrics	1,100,000	2,292,259	227,609	341,071	282,473	**4,243,412**
Windows and Doors*	450,000	948,463	1,274,000	637,375	0	**3,309,838**

5.16 Table 5.4 (below) gives a breakdown of the average costs for the key building elements, while Table 5.5 indicates the life cycles of some of the elements used for asset management purposes, based on the decent homes methodology. It should be noted that although a building element may reach the end of its life cycle, when it is actually 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, since 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 5.4: Key Building Element Unit Cost Budgets

	Budget Rates (25/26 prices)
Bathrooms/WCs	4,656
Electric Rewire	3,616
Front doors	1,943
Heating Boilers	3,438
Kitchens	6,543
Windows (assumed 6 per home)	4,572

Table 5.5: Decent Homes Life Cycles of Key Building Elements

	Life cycle (years)
Bathrooms/WCs	30
Boiler	15
Electrics / Rewires	30

Front doors	30
Kitchens	20
Roof coverings	20 - 60
Windows	30

Asset Management Strategy

5.17 SHP's asset management strategy for the Council's housing stock was updated in 2022 and takes into account the 2021 stock condition survey and a range of emerging issues.

5.18 SHP's key approaches to asset management in summary are:

- To maintain the stock to the decent homes standard and meet any future changes to the standard
- To develop planned major works programmes in coordination with management data from the day to day or responsive repairs service
- To adopt a 'just in time' approach to take into account actual 'real world' component failure rates rather than simply renewing building components according to their industry standard lifetimes
- To adopt innovative measures to address stock decarbonisation including whole house retrofits and to pursue all options for increasing resources
- To ensure all properties meet the highest standard of fire safety
- To address issues of damp and mould
- Subject to the wishes of residents and funding being available, to provide home security measures such a door entryphone systems where none exist
- Where the costs of maintaining properties exceed their value, to recommend options for disposal or alternative usage
- When properties become empty or void and are considered unviable from an investment point of view, to undertake option appraisals in relation to their future use
- To undertake a rolling review of independent living schemes (sheltered housing) to assess the viability of remodelling, or potential redevelopment, in order to make them better fit for purpose
- Continue to explore options for further estate re-modelling
- To review the future usage of battery garage sites including for redevelopment

6 New Local Authority Housing Supply

New Build and Conversions

6.1 The Council's corporate plan has as one of its key objectives the delivery of affordable housing to support the borough's housing needs and prevent homelessness, including through a programme of local authority new build. To best achieve its aims Sutton took a decision to adopt a 'twin track' approach, delivering new homes within the HRA and separately within its General Fund through its wholly-owned development company, Sutton Living Ltd. (SLL).

6.2 This plan is focused solely on delivering new homes within the HRA and included as **Appendix E** is a summary of the HRA new-build programme.

6.3 Having successfully delivered 93 new affordable homes through Phase 1, the Council is now working on Phase 2 of delivering 71 new homes, of which 51 are eligible to receive up to £5.1m of GLA grant subsidy at £100,000 per unit with the remaining 20 eligible to receive £3.6m of GLA grant subsidy at £180,000 per unit.

6.4 Phase 2 is divided into three sub-phases: Phase 2a - garage sites; Phase 2b - purchase of a now completed 23 home development at Alexandra Gardens in Wallington developed by SLL but with the homes transferred to the HRA; and Phase 2c - sites at Beddington Lane, Beddington and Woodcote Road, Wallington yielding 20 units built to the PassivHaus standard.

6.5 The completion of Phase 2a comprised five garage sites producing 28 new homes:

- Assembly Walk, Carshalton - 10 no. mainly two bedroom flats
- Bisham Close, Carshalton - 4 no. two bedroom houses
- Radcliffe Gardens, Carshalton Beeches - 4 no. two bedroom houses
- Wellesley Court, Stonecot Hill - 6 no. two bedroom flats
- Wrythe Lane, Carshalton (Rosehill) - 4 no. two bedroom houses.

6.6 Following the decision of the Council's Strategy and Resources Committee in February 2022, and the further decision in November 2024, the Council is also set to gain 217 new homes as part of the redevelopment of the B&Q site in Sutton under a s106 agreement with the developer, Berkeley Homes. However, this is a medium term project with the new homes not expected to come on stream until 2029/30. For the purposes of the modelling, it is assumed that 217 new homes will be coming into the HRA.

6.7 Alongside its new build programme, the Council has completed the conversion of the former Eagle Chambers commercial unit at Rosehill into temporary accommodation for rough sleepers, resulting in six new self-contained one-bedroom flats.

Regeneration

6.8 As well as investing to maintain its existing housing stock the Council has identified a number of estates for potential regeneration, which will result in a net increase in the number of affordable homes. Two of the estates which are the most advanced - Beech Tree Place and Elm Grove, both located in Sutton town centre - have been included in the Business Plan modelling.

6.9 **Appendix E** shows the programming of the Beech Tree Place redevelopment, which started on site in September 2022, with a total of 92 new affordable homes, comprising 15 modern older person units, 42 affordable rented homes and 35 shared ownership units.

6.10 Also modelled is the proposed redevelopment of Elm Grove in Sutton town centre. The existing 73 homes on the estate (including 57 let at a social rent) will be replaced by a new development of 282 homes, of which 141 will be new affordable homes. The new supply of new affordable housing will comprise 57 replacement affordable homes and 84 additional new affordable homes let at social rent levels, together with 8 shared ownership properties. In addition, the scheme will provide 141 new homes for private sale, with 7 of these to be sold to returning homeowners on a shared equity basis. These unit numbers are subject to change during the design process.

6.11 The Council has selected Lovell Partnership as its Development Partner to deliver Elm Grove. Over the coming months the outline plans will be developed in greater detail, providing a more accurate provision of the number of homes to be delivered.

6.12 The forthcoming new supply programme, of both new build and estate regeneration, broken down by financial year, is summarised in the table below.

Table 6.1: Outline HRA New Supply Programme (from 2025/26)

Year	Scheme	Cost (£000s)	Affordable Units
2024/25	New build Phase 2	5,736	11
	B&Q site redevelopment	105	0
	Beech Tree Place	11,773	0
	Elm Grove	6,454	0
2025/26	New build Phase 2	2,641	9
	B&Q site redevelopment	8,786	0
	Beech Tree Place	18,928	0

	Elm Grove	13,866	0
2026/27	New build Phase 2	90	0
	B&Q site redevelopment	15,128	0
	Beech Tree Place	3022	0
	Elm Grove	22,165	0
2027/28	B&Q site redevelopment	18,277	0
	Beech Tree Place	1,383	92
	Elm Grove	17,689	141
2028/29	B&Q site redevelopment	13,551	132
2029/30	B&Q site redevelopment	4,772	85

Property Acquisitions

6.13 In June 2017, the Council commenced a programme of property acquisitions aimed primarily at providing an alternative source of housing for homeless families that would otherwise need to be placed in expensive nightly paid temporary accommodation such as hotels or bed and breakfast, often out of the borough. Another important objective was to ensure the longer term viability of the HRA, which might otherwise be at risk from progressively diminishing stock numbers.

6.14 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 former, the acquired units would be ex-council homes that had been sold under RTB, which would become HRA units and therefore form part of the HRA business plan modelling.

6.15 However, as discussed in previous chapters, due to a new Government restriction on the use of RTB net receipts, which precludes their being used to fund units used for temporary accommodation, and given the loss of housing benefit subsidy on rents charged at only 90% of current LHA rates, a decision was taken to end the ex-council stock acquisition programme. As part of the February 2022 budget report to the Strategy and Resources Committee, it was agreed to sell the buyback portfolio of homes to Sutton Living Ltd. for use as permanent homes within the General Fund and to generate a capital receipt to the HRA.

6.16 Not only would this generate a capital receipt but would allow SLL to provide permanent homes at LHA rent levels and allow the Council to discharge a homeless duty to all 216 households, thus creating permanent homes and communities.

6.17 The sale was due to take place in February 2023 but it was agreed in October 2022 to pause this in view of the current market volatility, which would have affected the financial viability of the transfer and pause the sale pending a drop in interest rates.

6.18 In July 2024 HEB agreed an alternative strategy to enter into an operating lease with SLL for a period of seven years, as interest rates remained high and sale to SLL remained unviable. A lease would allow SLL to offer permanent homes at higher rents and remove the HRA subsidy that was in place to cover subsidy loss, thus creating savings to the Council.

6.19 However, following a sector wide re-interpretation of benefit subsidy (August 2024) rules it became clear that HRA self-contained accommodation can attract 100% benefit subsidy and therefore there is no financial benefit in entering into a short-term, seven year operating lease with SLL for this portfolio as was the intention. This new interpretation of benefit subsidy rules was then subsequently confirmed by auditors as part of the council's Housing Benefit subsidy audit on behalf of the Department for Work and Pensions (DWP).

6.20 The main financial advantage of the lease to SLL was to remove the benefit subsidy. Under the new benefit regulations the subsidy was removed and therefore the lease transfer to SLL no longer made financial sense.

6.21 The 216 homes will remain in the HRA as temporary accommodation managed by SHP. SLL will continue to review the opportunity to purchase if market conditions improve and interest rates fall and will come back to the Committee for the decision should this become viable.

7 Strategic Options for the Future

7.1 Existing stock condition data demonstrates that the large majority of the Council's dwellings are viable into the future, subject to appropriate investment. However, where significant numbers of properties have unit investment costs at least 50% greater than the average unit cost, consideration will be given to the future management of these through SHP's Asset Management Strategy.

7.2 The Base Model includes the full investment requirement of the existing stock, significantly increased due to higher build-cost and materials' inflation, along with the costs of delivering 'Net Zero' in line with the Council's stated strategic commitments for de-carbonisation.

7.3 The Base Model includes the purchase of a further 31 homes at 'B&Q' and the redevelopment of Beech Tree Place and Elm Grove, yielding significant numbers of additional affordable homes, despite tight economic constraints.

7.4 The Base Model shows, after inflation is built in, a continued capital shortfall amounting to £452.4m by Year 30.

7.5 However, funds for investment in the existing stock still fall significantly short of the total investment requirement, in both the short-, medium- and the longer-term, requiring difficult choices to be made. Meeting the requirements of the Fire Safety Regulations 2023 and the Building Safety Act 2022 will be prioritised over more cosmetic elements, which may impact upon resident satisfaction and the general appearance of the managed stock and estates, most markedly during Years 1 to 5 programme of works in order to enable future appropriate compliance investment, with a risk that Tenant Satisfaction Measures may be adversely affected by the necessary works to safeguard residents' safety.

7.6 Working to bring the HRA back into balance over the medium- to longer-term will inevitably require further reductions in expenditure and an innovative and watchful approach to increasing resources, ensuring funding opportunities are maximised and the Affordable Housing Investment Strategy (AHIS) is successfully introduced to yield additional investment in stock. This is a national issue and will require Government consideration, support and investment.

7.7 Cost reduction options may require: (i) reducing non-essential investment in the existing stock, (ii) reviewing the stock portfolio and opportunities for any disposals; (iii) further reducing day-to-day management costs, and (iv) re-phasing debt payments if this is likely to yield any significant reduction in debt costs.

7.8 Opportunities to enhance HRA resources are still limited, with no cross-subsidy from the rest of the General Fund for this ring-fenced account within that General Fund being permitted.

7.9 Rents will remain strictly controlled by the Central Government and the Regulator of Social Housing with inflation likely to be generally lower than the recent spike experienced due to events beyond the Council's borders, although there may be some limited scope to increase certain service charges.

7.10 Developing new homes, depending upon the business model adopted, may result in a net financial gain over the longer-term, along with increasing the assets within the Council's ownership which can provide both the most cost effective affordable housing in the borough and a net financial gain for the Council.

8 Monitoring and Review

8.1 The HRA Business Plan sets the broad strategic context for the delivery of, primarily, capital investment in Sutton Council's housing stock, in both the medium and long term, as well as new affordable housing supply.

8.2 Delivery 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 in line with its own annual delivery plan/s.

8.3 The Council and SHP work closely together in the production of this plan, in line with the management agreement between the two parties, which includes monitoring of performance standards, targets and programmes of work to enable effective service delivery.

8.4 The Council intends to continue 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 supply and regeneration schemes.

8.5 In-year monitoring of financial performance is via finance performance reports, jointly prepared by the Council and SHP, submitted to the Strategy and Resources (S&R) Committee alongside General Fund finance performance. In addition to monitoring the financial performance of the HRA compared to approved budgets, S&R also has delegated authority to authorise additional budget requirements above £250,000 for capital and £500,000 for revenue expenditure.