



## AGENDA ITEM: 8

### SUMMARY

Report for:	<b>Housing and Community Overview and Scrutiny Committee</b>
Date of meeting:	<b>28th January 2015</b>
PART:	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	Housing Asset Management Strategy - Update
Contact:	Councillor Margaret Griffiths, Portfolio Holder for Housing Responsible Officer – Mark Gaynor, Corporate Director (Housing & Regeneration). Author - Fiona Williamson, Group Manager Property & Place
Purpose of report:	To provide an update upon the development of the Housing Asset Management Strategy.
Recommendations	For members of the Overview and Scrutiny Committee to provide observations and comments on the approach and proposed content of the Housing Asset Management Strategy.
Corporate objectives:	<p>To ensure the management and maintenance of the housing portfolio is undertaken in accordance with best practice and is appropriate for the type, age and use of the stock.</p> <p>To consider national and local factors that could influence the optimal use of the housing stock in terms of value for money, the most economical use of resources and are reflective of the demand.</p> <p>To promote tenant involvement in deciding the priorities within the Asset Management Strategy.</p> <p>To provide assets of a consistent standard, allowing for differences in type of construction or archetype.</p> <p>To enable the delivery of new affordable homes, where individual sites are identified.</p>
Implications:	<p><u>Financial</u></p> <p>The Council have joined the Chartered Institute of Housing's Excellence in Asset Management programme and the costs have been spread over two financial years and have been</p>

<p>'Value For Money Implications'</p>	<p>allowed for within the 2014-15 and 2015-16 Housing Revenue Account (HRA) budgets.</p> <p><u>Value for Money</u></p> <p>The assessment to determine the optimal use of any of the assets will ensure that value for money is one of the criteria applied when considering a change of designation, remodelling or disposal.</p>
<p>Risk Implications</p>	<p>The Asset Management Strategy is essential as it will supplement the Business Plan and provide the framework for decision making to ensure the housing stock is viable and fit for purpose both now and in the future.</p> <p>The risks associated with not developing an Asset Management Strategy are that investment is not targeted appropriately and the long term financial viability of the business model is undermined.</p>
<p>Equalities Implications</p>	
<p>Health And Safety Implications</p>	<p>Health and Safety will be one of the key themes of the Asset Management Strategy and individual Health &amp; Safety plans will be developed for each project as required.</p>
<p>Consultees:</p>	<p>Councillor Margaret Griffiths, Portfolio Holder Housing Tenant representatives.  Elliott Brookes, Assistant Director Housing Landlord Osborne Property Service, Will Hughes, Business Excellence Director and Alan Perrett, Account Manager  Andrew Vincent, Group Manager Tenants and Leaseholders</p>
<p>Background papers:</p>	<p>HRA Business Plan  Cabinet 29 March 2011, Housing Services the way forward  HCOSC 16<sup>th</sup> Oct 2013, Proposed changes to Government Rent Policy and impact on the HRA Business Plan</p>
<p>Historical background <i>(please give a brief background to this report to enable it to be considered in the right context).</i></p>	<p>Historically the Housing Service developed 5 Year business plans, using stock condition information to determine the areas for investment. Under the former subsidy system, investment was targeted at Decent Homes work and work to prevent depreciation of the asset.</p> <p>Since the introduction of Self Financing there is greater scope for investment in redevelopment, new build programmes and upgrading of the existing stock.</p> <p>The development of an Asset Management Strategy is essential to outline the priorities for the management and maintenance of a fit for purpose, social housing portfolio.</p> <p>In considering the report it is important to understand the wider context in terms of the Borough's Housing Strategy, Government Rent Policy, Right to Buy and Social Size Criteria, all of which influence the options that are available for inclusion in the Asset Management Strategy.</p>
<p>Glossary of</p>	<p>HRA - Housing Revenue Account</p>

acronyms and any other abbreviations used in this report:	<p>CIH - Chartered Institute of Housing</p> <p>TAM - Total Asset Management</p> <p>NPV – Net Present Value</p> <p>EPC – Energy Performance Certificate</p> <p>Solar PV – Solar Photo Voltaic</p> <p>FiT – Feed in Tariff</p> <p>HCA – Homes and Communities Agency</p> <p>TLC - Tenants and Leaseholders Committee</p> <p>HMEC - Housing Maintenance and Environment Committee</p> <p>IAM – Institute of Asset Management</p> <p>NHF National Housing Federation</p>
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## 1.0 Introduction

- 1.1 The Council are participating in the Chartered Institute of Housing “Working Together to redefine asset management” project, which provides an opportunity for a small group of sixteen social housing organisations and three Service Providers, to use best practice, industry knowledge and experience to collectively define and develop a new model for asset management that can be tailored to align with individual organisations corporate priorities.
- 1.2 The project is facilitated and supported by CIH consultancy, who was originally appointed to assist in the modelling and construction of the HRA Business Plan, and provided specialist advice on the asset management elements of the plan and on overall implementation.
- 1.3 The CIH project aims to re-define the way social landlords approach asset management, working up a model that is ‘fit for purpose’ and combines both the financial appraisal of assets on an individual or collective basis and the strategic objectives, which can vary from each organisation. The benefit to the Council in participating in the project is to develop a model and Asset Management Strategy that reflects current developments, is tailored to aligned with Corporate objectives, reflects the local demographics and demand for housing in the Borough and incorporates tenant priorities.
- 1.4 The CIH project covers the following six key areas:
1. Aspiration, inspiration and the business case
  2. The strategic framework for asset management
  3. Implementing the new asset management model
  4. Unlocking the potential of the housing stock
  5. Assessing the performance of the housing stock
  6. Developing option appraisal

- 1.5 The project is focused upon the key drivers for Asset Management which are summarised below:

#### **Demand and Supply**

- Demographic changes, including an ageing population
- Fluctuations in demand for particular locations and property types (impact of welfare reform)
- Growing emphasis on choice and increasing customer expectations

#### **Stock Condition and Sustainability**

- An aging stock profile and 'fit for purpose' issues with some property types
- The pressure to deliver higher, locally determined standard 'The Dacorum Standard'
- Neighbourhood and economic sustainability

#### **Funding Financing and VfM**

- The imperative for assets and asset planning to support the Business Plan
- The need to optimise value and use of the asset
- The need for proactive solutions to improve stock portfolios and their performance

- 1.6 The Institute of Asset Management has recently supported some research into areas which often present challenges to the development and implementation of an effective Asset Management Strategy and the summary findings of a recent survey indicated the following:

- The need to secure senior executive buy in for new investment
- Lack of knowledge of detailed asset planning techniques
- The necessity of gathering and analysing more data
- Regulatory pressures across sectors

These four areas will be regularly reviewed and addressed to ensure that these areas are addressed.

In addition reference has been made to the ISO55000 standard and the NHF "Best Practice in Asset Management" and its calculation tools to help inform the development of the strategy.

## **2.0 Involvement of the Service Providers**

- 2.1 The Total Asset Management Contract was awarded to Osborne Property Services in March 2014, following a robust procurement process that used competitive dialogue to gain a comprehensive understanding of how each of the bidders would support the Council in the development and delivery of the service and an Asset Management Strategy.
- 2.2 Osborne demonstrated a good understanding of the benefits of collaborative working to ensure that both organisations embed the importance of data collection and the objectives of the Asset Management Strategy in the approach that the workforce take towards the delivery the repairs and improvement programmes. Unless this is successfully achieved the Asset Management Strategy can influence management decisions, but there is an underlying risk that a number of repairs or improvement

works are carried out in assets that are no longer fit for purpose and which require remodelling, major upgrading, re-designation or disposal.

- 2.3 The delivery of the planned programmes, collection of survey information and data on type and volume of repairs, which Osborne will collate, will enable better outcomes for the Council, Osborne and tenants and leaseholders. The additional data on both historic repairs, current programmes and the remaining life expectancy of components will be used to populate the Asset Management System, PIMSS.
- 2.4 The Total Asset Management approach also considers wider environmental factors, such as estate improvements and community initiatives, which add value to the wider community as well as the tenants and leaseholders.
- 2.5 A strategic alliance has been established between Osborne and the Gas Servicing and Installation Service Provider, Sun Realm who are co-located in the Osborne offices. The collaborative approach enables programmes to be coordinated, so that disruption to tenants is minimised if a boiler and kitchen replacement can be undertaken simultaneously. Additionally the data on the programming and management of the domestic boiler replacement programmes is included within the asset investment model.
- 2.6 Appendix A – Power Point Presentation to summarise the collaborative approach

### **3.0 The Business Plan**

- 3.1 The 30 year Business Plan has been developed to provide the direction for the delivery of services to tenants and leaseholders and the level of investment in the homes and related assets required to ensure they are at a decent standard agreed with tenants and which meets the long term physical requirements of the stock. The plan includes:
  - The service standards required
  - The investment required over a 30 year period
  - Anticipation of likely changes in demand and requirements
  - A clear understanding of the costs involved
  - An approach to Treasury Management that facilitates both the needs of the Business Plan and servicing debt obligations
  - A clear assessment of the income required to deliver the plan, including rent policy, other charges and their collection, and of best use of assets.
  - A clear strategy of controlling and managing costs
- 3.2 All of the above interact with each other and will provide an opportunity or limitation to be taken or mitigated as appropriate, will require alignment to existing policy and, critically, the ability to model the impact of a wide range of scenarios to help advise the best course of action.

### **4.0 Preparatory work**

- 4.1 Involvement of stakeholders, senior management, other teams including corporate estates team, residents and the Service Providers, Sun Realm and Osborne.
- 4.2 Improving the quantity and quality of the stock data by investment in the PIMSS asset management software, which is capable of some data modelling and scenario planning to provide information on the projected future investment requirements and to assist with regulatory compliance. The system has been populated with the 60% stock condition data that was provided from the Savills stock surveys in 2007 and 2011, and is updated with all replacement programmes, EPC's, empty homes investment and

survey data collected by Osborne. The data can be exported from PIMSS to other software tools such as the Asset Options Model described in paragraph 5.1.

- 4.3 Asbestos management surveys were also undertaken to the 60% surveys, providing data on the location and condition of asbestos containing materials, which can be used to populate the database and reduce the expenditure on ad-hoc testing.
- 4.4 A database and performance officer was appointed to manage the asset management system and ensure good data quality, so that any information that is input into the Asset Option Modelling tool is accurate and relevant. The quality, volume and accuracy of data is an important factor in determining the Net Present Value of any property as evidence shows that the planned maintenance costs or programmes have the biggest impact on the NPV calculation over any other factor.
- 4.5 A workshop has been held with members from all three teams within housing, Tenants and Leaseholders, Property and Place and Strategic Housing, contained in Appendix B and in addition the STAR survey was used to obtain tenant opinions on their priorities for investment. There will be further consultation undertaken with the TLC and HMEC to review the Asset Options criteria, once the final draft has been produced.
- 4.6 A review of existing policies and strategies is ongoing, to ensure there is no conflict or contradictions in the approach to the Asset Management Strategy.

## **5.0 Asset Management Options Models**

- 5.1 There are a number of models available to derive an assessment of the viability of the stock, most of which focus upon the financial viability of individual units or schemes. In order to produce a financial assessment of the value of the stock at a property or grouped level, the following key data is required:
  - Rental income
  - Ancillary income – Solar PV FiT, roof leases
  - Service Charges income
  - Empty Homes loss
  - Housing management costs
  - Write offs
  - Maintenance costs
  - Service costs
  - Repairs costs
  - Gas repairs and service
  - Empty homes refurbishment costs
  - Planned maintenance investment
  - Grant investment
- 5.2 In addition it is necessary to determine the Net present value (NPV). The NPV is an approach to evaluating investments that assesses the difference between all the revenue the investment can be expected to achieve over its whole life and all the costs involved, taking inflation into consideration. It can be challenging to calculate NPV because assumptions are required for inflation and there are different methods of determining discount rates, so the model should be capable of modelling at different rates.
- 5.3 Aside from the purely financial assessment social housing providers have a number of common aims to increase social value and ensure the potential of the housing stock is maximised. In order to evaluate these against the financial outputs, social housing

providers have been considering how other considerations could influence the decisions to retain, redevelop or dispose of stock. Various assessments are being considered on how to equate these to a monetary value. An example of this is one model that provides the value as the income foregone by not charging affordable or market rents.

- 5.4 All of these factors and considerations will have to align with other Housing Policies so it is envisaged that the Council will work with the CIH or other provider to ensure that the criteria used to inform the Asset Options Modelling tool provides an assessment of both the financial and social factors which are germane to the Council's stock.
- 5.5 Furthermore, it is important that any Asset Options Modelling tool provides a tool and an approach that helps inform the strategic management decisions and also will help guide frontline staff in making better long-term decisions about the assets.

## **6.0 Risk Management**

- 6.1 It is essential that any Asset Management Strategy outlines how the Council will deal with the risks associated with managing tenanted properties. The HCA is taking a firm line with landlords that put tenants at risk. There have been a number of recent cases where the HCA is acting on health and safety concerns.  
The main risks seem to be:
- Gas safety
  - Fire safety
  - Failure to comply with Housing Act notices.
- 6.2 The Council will develop a risk register to ensure that statutory compliance and health and safety risks are identified and managed.