

Getting a Grip on Asset Management



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**A presentation for Housemark
Stock retaining authorities' conference**

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Adrian Waite

- ◆ Managing Director of AWICS Ltd
 - Provides management consultancy and training services principally to social housing organisations
- ◆ Chair of Impact Housing Association
- ◆ Former local authority officer to Strategic Director level
- ◆ Member of CIPFA, CIH and ILM

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What I will cover

In the Light of the borrowing cap and tough conditions for acquiring social housing grant, I will look at:

- ◆ What does the Government expect on Asset Management from Local Authorities?
- ◆ Asset Management Plans and the impact on them of the borrowing limit and depreciation accounting
- ◆ Achieving the Decent Homes Standard with reduced or insufficient capital resources
- ◆ Achieving New Build and the potential of delivery vehicles and joint ventures
- ◆ Developing sustainable investment programmes.
- ◆ Asset Performance – Sustaining demand, investment and disposals.
- ◆ Performance Management – Understanding and measuring Return on Investment



What is Asset Management?

“Taking a comprehensive approach to managing a housing association’s physical assets with the aim of achieving particular objectives, usually to make best use of the housing stock and achieve value for money. It covers the construction, operation, maintenance, modification, replacement and disposal of housing and other buildings”

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National Housing Federation

Government Expectations

- ◆ Self-Financing will lead to improved Asset Management
 - Long-term plans
 - More economical procurement
- ◆ Decent Homes Standard to be achieved
- ◆ Increased new build programmes
- ◆ Homes & Communities Agency is requiring Housing Associations to have Asset Registers

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Government Expectations: Funding

Investment Needs	Funding
Assumptions in the Settlement	
Maintaining Decent Homes Standard	Upated Major Repairs Allowance £66/property plus regional cost adjustment
Aids & Adaptations	
Environment & Open Spaces	Upated Major Repairs Allowance
Not in the Settlement	
Backlog of Decent Homes work	Decent Homes Backlog Grant
Non-Dwelling Maintenance	Income generated by assets
Improvements	Income generated by business plan
Structural repairs / asbestos removal etc.	Income generated by business plan
Green initiatives	Income generated by the schemes or from the business plan

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What to include in an Asset Management Plan

- ◆ Agreed local standards
- ◆ Analysis of the assets held
- ◆ Appraisal criteria to assess the long-term future of individual assets
- ◆ Assets to be retained and the investment profile
- ◆ Assets to be disposed of, costs and returns
- ◆ Regeneration / Reprovision / New Build – costs and incomes
- ◆ Repairs & Maintenance programmes

Self-Financing and Borrowing

“Self-financing must not jeopardise the Government’s first priority, which is to bring borrowing under control. Self-financing will give council landlords direct control over a very large rental income stream. Borrowing financed from this income must be affordable within national fiscal policies as well as locally. We will therefore limit the debt that can be supported from the Housing Revenue Account in each local authority.”

“Ministers have stated during the passage of the Localism Bill that we will not subsequently reduce the aggregate borrowing cap, or the borrowing caps for individual councils... Councils will therefore be able to plan ahead on the basis of those caps.”

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Self-Financing – Planning the Transition



Valuation and Depreciation

- ◆ The self-financing settlement is based on uprated Major Repairs Allowance
- ◆ The proposal is to use Depreciation as a source of funding for major repairs
- ◆ Where depreciation is a higher figure than major repairs allowance
 - Councils may not be able to afford depreciation
 - This may demonstrate that uprated major repairs allowance is insufficient
- ◆ Technical problems in calculating depreciation
- ◆ Five Year Transitional Period

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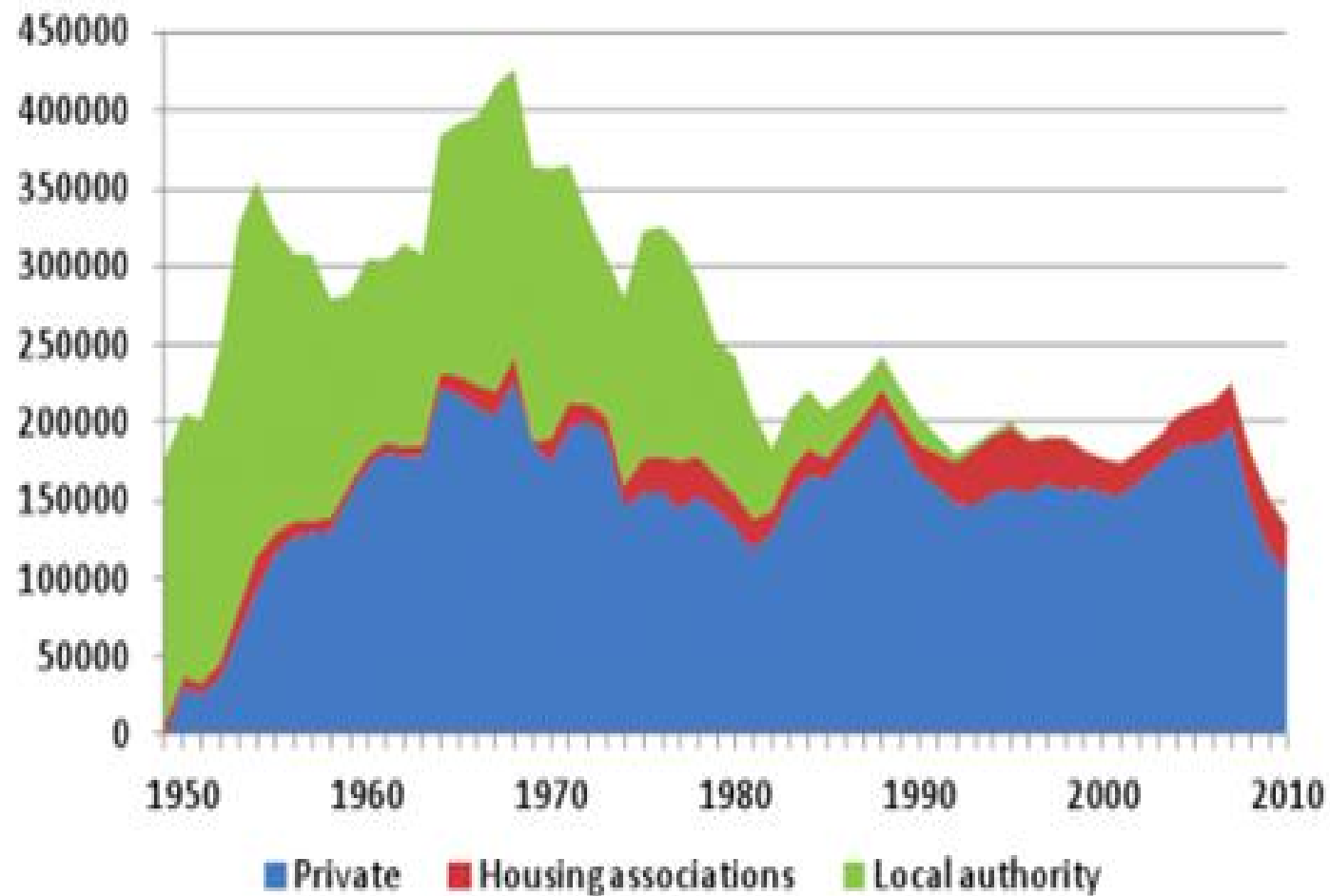
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Decent Homes Funding

- ◆ Allocations from Comprehensive Spending Review:
 - 2011/12 - £260million
 - 2012/13 - £352million
 - 2013/14 - £389million
 - 2014/15 - £594million
 - Total - £1,595million
- ◆ Plus £160million in 2015/16
- ◆ Less than the £8.9billion envisaged in 2009
- ◆ Only authorities with less than 10% of stock non-decent eligible
- ◆ No requirement to have an ALMO

Development - Trends



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Let's Get Building

- ◆ November 2012 – housing organisations call for a more liberal borrowing regime
 - £7billion could be borrowed (a third of the borrowing capacity) compared to £2.8billion with the borrowing caps
 - 60,000 homes could be built over five years rather than 15,000
 - 92p of every £1 spent on building stays in the UK, 56p is returned as tax
 - Economic growth would increase by 0.6%
 - Research shows that financial institutions would not be concerned about the additional borrowing

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Government Policy and New Build

- ◆ Social Housing Grant is available but at low rates and it is tied to 'affordable rents'
- ◆ Increase in borrowing cap of £150m in 2015/16 and £150m in 2016/17
 - To be distributed through LEPs as part of local growth deals
 - Government estimates will allow an additional 10,000 homes to be built
- ◆ LGA had asked for the cap to be raised by £7billion!

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Subsidiaries and Joint Ventures

- ◆ Barnet Borough Council set up a Development Company in September 2012
 - Borrowing from the Council and institutional investors to fund new build
- ◆ Thurrock Council set up subsidiary in May 2013
 - Company will build homes on council owned land using general fund borrowing capacity of £160million
 - Homes to be let as affordable or market and will ultimately be sold to private landlords
- ◆ Basildon Borough Council
 - Development Company to build private and council homes
- ◆ Increasing interest in joint ventures with housing associations

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Recent Developments

- ◆ HCA suggests that councils should sell their high value stock and reinvest in low value areas
 - But income from high value stock may be needed to service debt
- ◆ Councils have plans in place to build 15,630 homes
- ◆ Right to Buy Initiative not expected to succeed in delivering 'one for one' replacement

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Sustainable Investment Programmes

- ◆ Know and understand the assets
 - Dwellings, garages, shops, land, community centres, etc
 - Condition
 - Demand and turnover
 - Costs in use and long-term maintenance costs
 - Capital Values
 - Income
 - Environmental Needs and Green Initiatives
- ◆ Ensure sufficient funding for the necessary work
- ◆ Balance expenditure on revenue repairs and maintenance with capital investment

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Asset Performance

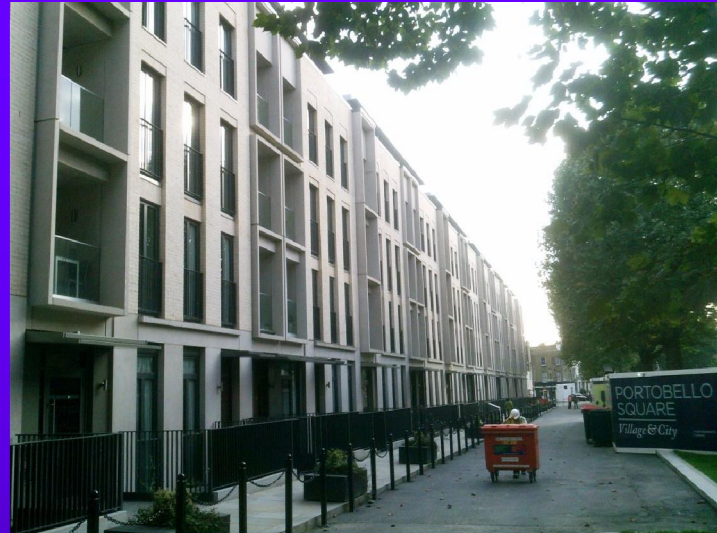
- ◆ Sustaining Demand
- ◆ Investment
 - Improvement
 - Redevelopment
- ◆ Disposals
 - High value assets
 - High cost assets
 - Low density dwellings

“The secret to survival is knowing what to throw away and knowing what to keep.”

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Performance Management

◆ Return on Investment / Sweating Assets

“Boards must maintain a robust assessment of the performance of all their assets and resources (including for example financial, social and environmental returns).

“Registered providers shall understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation’s purpose and objectives.”

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Conclusions

- ◆ Government expects councils to deliver 'more for less' in return for self-financing
 - Including new build
- ◆ Asset Management involves taking a holistic view of assets
 - Including construction, costs in use and disposal

- ◆ Briefing Papers are available on my website at

<http://www.awics.co.uk/Housing>

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The End –
Any Questions or Comments?

Adrian Waite (Independent Consultancy Services) Limited,
Room 3, Shire Hall, The Sands,
Appleby in Westmorland,
Cumbria. CA16 6XN.

Tel: 017683-52165 or 07502-142658.

E-mail: adrian.waite@awics.co.uk

Website: www.awics.co.uk

Twitter: [@AdrianWaite](https://twitter.com/AdrianWaite)



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