Briefing Paper

Asset Management in Local Authority Housing

December 2014

Introduction

Asset Management has been defined by the National Housing Federation as:

"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.

"Asset Management is about understanding and managing the performance of, and risks presented by, a landlord's assets. An Asset management strategy therefore provides a framework for landlords to manage stock pro-actively and support business plan objectives. It is used by social landlords to link knowledge of their stock, the need for housing in response to local demand and customer aspirations, and what is affordable in the business plan."

In the case of local authorities government expects that self-financing will lead to improved asset management with long-term plans and more economical procurement. There is also an expectation that the Decent Homes programme will be achieved and that there will be increased new build programmes.

The Chartered Institute of Public Finance & Accountancy has said that:

"Traditional asset management approaches, under the housing subsidy system, have only been able to focus on how to deliver a limited investment programme efficiently and in line with tenant priorities. This at least ensured that existing resources were spent to maximum benefit for tenants.

"The self-financing Housing Revenue Account… allows authorities to put in place a long-term asset management plan which is backed by a greater predictability of funding within the borrowing cap.

"The asset management plan is the foundation of the self-financing business plan. The investment needs of the stock is one of the drivers of the plan. Good quality stock condition information, either from a survey or from asset registers, is an essential starting position. This stock condition information should include non-housing stock such as garages, shops, etc. Self-financing should present an opportunity to invest in these, sometimes neglected, assets with the potential for improving the income generated."

At the same time the Homes & Communities Agency is requiring Housing Associations to hold asset registers that conform to their requirements.

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Funding Local Authority Asset Management

The self-financing settlement provided for local authority asset management to be funded as follows:

Investment Needs	Funding
Assumptions in the Settlement	
Maintaining Decent Homes Standard	Uprated Major Repairs Allowance
Aids & Adaptations	£66/property plus regional cost adjustment
Environment & Open Spaces	Uprated 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

The government has provided the following funding to local authorities for the Decent Homes programme during the current Comprehensive Spending Review period:
- 2011/12 - £260million
- 2012/13 - £352million
- 2013/14 - £389million
- 2014/15 - £594million
- Total - £1,595million

An additional £160million is to be provided in 2015/16. However, this funding is significantly less than the £8.9billion that was envisaged by the former government when self-financing was first proposed. Only authorities with more than 10% of their stock non-decent are eligible for the funding, but there is no longer any requirement to have an arms' length management organisation.

The self-financing settlement also included a 'borrowing cap' that places a limit on how much borrowing each local authority is permitted to undertake. There was no 'borrowing cap' under the previous housing subsidy system so this represents a new control over the housing finances of local authorities. The government has justified the imposition of the 'borrowing cap' (in 'Self-Financing – Planning the Transition') as follows:

"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."

The sources of funding that are available for capital investment the asset management plan therefore consist of:

- Revenue Contributions (spare resources in the housing revenue account – if available).
- Major Repairs Reserve (funded from depreciation or uprated major repairs allowance (see below).
- Capital Receipts (from Right to Buy sales or sales of other housing revenue account assets insofar as they are available given the need to pay the government a proportion of receipts and the discretion that councils have to use capital receipts to repay debt or to fund expenditure outside the housing service).
- Prudential Borrowing (to the extent that it is allowed under the 'borrowing cap').
- Backlog Grant Funding (see above).
- Other grants and contributions (if they are available).
- Leaseholder contributions (towards the leaseholder's share of capital works. These may not exceed the actual costs of the work).

These funding streams are limited and may not match the initial investment profile coming from the stock condition survey and asset management plans. The process therefore needs to be an iterative one to match investment with resources over the thirty years. Consideration needs to be given to the balance between investment, debt appetite, the debt cap, tenants' aspirations, other service demands, scheme affordability and the availability of resources.

Valuation and Depreciation

The self-financing settlement has introduced a potential problem with valuation and depreciation. The self-financing settlement provides for expenditure on major repairs that is based on the uprating of the former major repairs allowance. However, moving forward the government would like local authorities to use depreciation as the source of funding for major repairs with depreciation now becoming a real charge in the housing revenue account rather than a notional one. This means that where depreciation is a higher figure than the uprated major repairs allowance councils may have an affordability problem; and this may also indicate that the provision made in the self-financing settlement was inadequate and levels of debt imposed on some authorities are too high. There are also technical problems in calculating depreciation in the light of international financial reporting standards and component accounting. Consequently, the government has decided that there should be a five year transitional period (2012 to 2017) during which councils can continue to use the uprated major repairs allowance. However, councils should be mindful that this transitional period comes to an end in 2017.

Revenue Repairs

Revenue Repairs include responsive repairs, planned & cyclical maintenance and works to voids.

In October 2014 the 'Tenants and Residents Association of England' published research that concluded that:

"More than anything else, tenants want to live in a pleasant, wind and weather tight, fully functioning home in a safe, secure environment."

This underlines the importance of revenue repairs to Asset Management.

Following this, 'Inside Housing' and Wates Living Space carried out a survey of council and housing association landlords to find out how effective they considered their repairs and maintenance services to be. Of these, 15% rated the service as 'poor' or 'inadequate' and 45% rated the service as 'adequate' giving grounds to believe that there is room for improvement.

31% of landlords use a direct labour organisation, 38% use private contractors and 30% use a combination of internal and external providers.

Many landlords reported that using cheaper components in repairs is more costly in the long-term than using more expensive components with longer warranties.

Most repairs are still reported by telephone but there is an increase in the use of digital media.

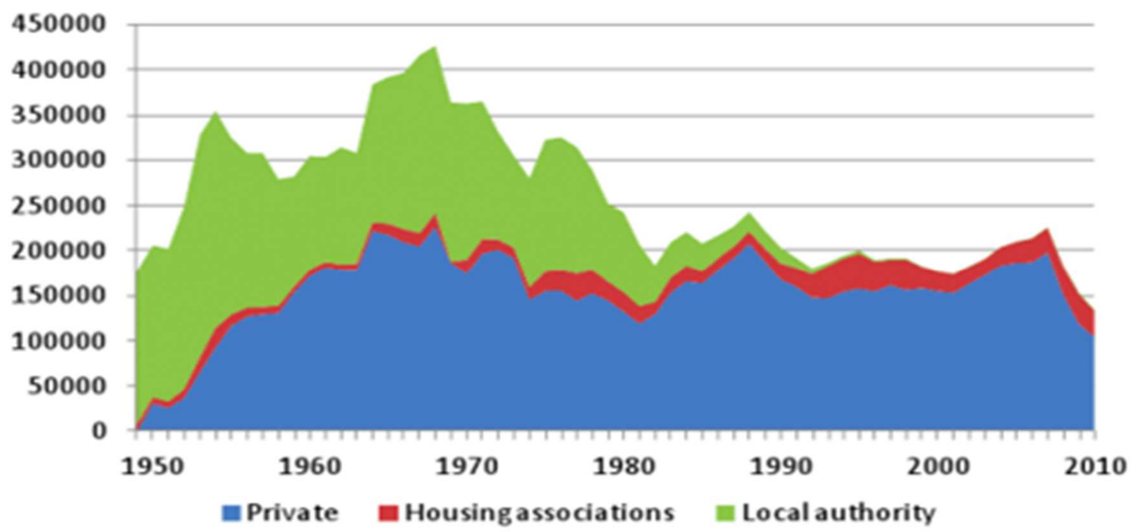
The Social Value Act has been in force since January 2013 provides that where contracts of over £173,000 are commissioned landlords must consider how the contract can improve the social, environmental and economic well-being of the areas being served. However, the survey found that this objective is only being achieved to a significant extent in a minority of cases.

The National Housing Federation considers that while there is no single formula for organising and delivering a successful repairs service there are some features that tend to be shared by the best ones as follows:

- Clear procurement and strong contract management.
- Good communication with residents.
- Information systems that provide effective repair reporting and ordering.
- Staff trained and with the support needed to deliver the service.
- Analysis of data to understand questions of quality and cost.
- Simplified processes which minimise administrative costs.
- Sustained efforts to reduce demand for repairs.
- Clear requirements to achieve continuous improvement of the service.
- Understanding of the capabilities of the contractor / service provider.

Development

The following graph shows trends in house building in the United Kingdom from 1950 to 2010 and demonstrates in particular that the significant reduction in building by local authorities since 1979 has not been matched by an equally significant increase in building by housing associations or the private sector with the result that total house building has been lower than required.



In November 2012, housing organisations called for the government to introduce a more liberal borrowing regime. They pointed out that:

- £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

However, the government response was disappointing for many as the autumn statement of 2013 only included an increase in the borrowing cap of £150million in 2015/16 and £150million in 2016/17 to be distributed through the Local Enterprise Partnerships and with 'strings attached'. The government estimated that this would allow a further 10,000 homes to be built. Social Housing Grant is also available to local authorities but it is available at low rates and can only be used to build 'affordable' housing rather than 'social' housing.

Some councils are using subsidiaries and joint ventures for development. For example:

- Barnet Borough Council set up a Development Company in September 2012 that is borrowing from the Council and institutional investors to fund new build
- Thurrock Council set up subsidiary in May 2013. The company will build homes on council owned land using general fund borrowing capacity of £160million and the homes are to be let as affordable or market and will ultimately be sold to private landlords
- Basildon Borough Council has set up a Development Company to build private and council homes

Councils currently have plans in place to build 15,630 homes. However, the 'Right to Buy Initiative' that has encouraged tenants to buy their homes by offering larger discounts is not now expected to achieve its stated objective of replacing the homes sold on a 'one for one' basis at national level.

Some landlords are using or considering offsite construction as a way of reducing construction costs. For example, Circle Housing recently completed a 51 home development at Rainham in Essex that was praised by the Secretary of State for the speed of construction and good energy efficiency. The Deputy Mayor of London has also said that the use of offsite construction could double housing supply in London. Others are concerned that while homes that are constructed offsite may be cheaper to build they may prove to be more costly in the long-term due to higher costs of maintenance.

There are four levels of offsite construction as follows:

- Level 1 – Some components of the home are assembled in a factory.
- Level 2 – Parts of the structure are assembled offsite. For example, pre-cast foundations or the building frame.
- Level 3 – Volumetric pre-assembly. Whole units are built in a factory to be assembled on site. Units are often finished internally.
- Level 4 – A complete building is built in a factory.

Manchester City Council is working with local housing associations to build 500 homes using the 'volumetric' technique of which 56 will be built by the Council for affordable rent. They expect the homes to be of a high quality with lower maintenance costs during the first fifteen years.

Enfield Borough Council has formed a subsidiary company 'Enfield Innovations' that will build 37 affordable and 57 market rent homes using the ecoTECH build system. A spokesman for the Council told 'Inside Housing' that:

"Only the test of time will ultimately show whether it will cost more or less for social landlords to maintain homes that are built in the factory… However, asset management (for) Enfield Council are reassured that all homes constructed using the system are supported by credible warranties and endorsements."

Sale of High Value Stock

The Homes & Communities Agency has suggested that councils should sell their high value stock and reinvest in low value areas. However, it has been pointed out that income from high value stock may be needed to service debt. Others have complained that this policy would result in social tenants being moved from high value to low value areas.

This theme has also been taken up by the Secretary of State for Communities & Local Government. In November 2014 he claimed that the sale of just one high-value council house could help fund more affordable house building, increase supply and reduce social housing waiting lists.

From April 2015, councils will be required to publish the most recent valuation of their social housing stock, annually to ensure it is being put to best use. The information will be published by postcode, listing how much the properties are worth, how many are occupied and how many are standing empty. The government considers that this will give people the information they need to ask questions of how their council is managing stock – and how selling more expensive properties could provide the funds for councils to build more homes and reduce waiting times. Councils will be encouraged to sell their higher-value empty properties, releasing more money for house building without affecting existing tenants' rights.

The government states that this is part of a long-term economic plan to get Britain building and is the latest in a number of measures taken since 2010 to make the best possible use of social housing. Social housing waiting lists have halved since 2010 - but the government considers that this could bring this down even further. And with the numbers of empty homes down by 160,000 since the end of 2009 to a 10-year low, the government considers that this could reduce the numbers of empty properties even further.

An example given by the Secretary of State is Southwark Borough Council that was able to sell off one of their council homes for £3million – helping to fund the building of twenty new properties across the borough. Mr Pickles argues that other councils across the country could follow suit - potentially helping thousands of families by selling their higher-value vacant homes. He said:

"Councils across the country are sitting on millions of pounds which could be put to far better use and get them building elsewhere in the area. This would allow more families to come off social housing waiting lists and get into homes. Instead of holding that money as equity in expensive empty properties, the councils should sell up those vacant buildings and reinvest the money to get the country building."

Asset Management Strategies and Plans

The National housing Federation has suggested that an Asset Management Strategy should include the following content:

1. Introduction

This should cover the context for the strategy:
- The background to the strategy and its purpose.
- The link to corporate objectives.
- Any regulatory issues – compliance with standards etc.
- A statement about resident and stakeholder involvement in the strategy.
- Links to business plan.
- Risk assessment and management.
- Details of the strategy review and renewal process – governance requirements, monitoring and controls.

2. Information on specific issues

Demand and sustainability issues:
- Regional housing strategies and local housing markets.
- Levels of demand, including voids and turnover.
- Demand for different products including 'affordable rent' products taking into account housing benefit limits and affordability to local households.
- Resident satisfaction.
- Sustainability and neighbourhood standards.
- Community cohesion and diversity issues.
- Housing development strategy and its impact on asset management.

Specific stock condition information: An overview section followed by:
- Stock condition survey details.
- Any local standards.
- A thirty year cost profile.
- Analysis of progress towards the Decent Homes Standard.

- Information on the energy efficiency and environmental strategy, health & safety, aids & adaptations
- Summary of priorities for five year investment plan.
- Summary of procurement strategy.
- Responsive and cyclical repairs strategy.
- Details on any challenging stock holdings.

Economic analysis: An overview section followed by:
- Impact of 'affordable rents'.
- Impact of capital and revenue expenditure.
- Details of any low or high value properties.
- Performance of different property types or products.
- Analysis combining the financial and neighbourhood sustainability factors.
- Policies for improving performance.
- A candidate list for option appraisal for poorly performing assets (you may wish to define how option appraisal is undertaken).
- Details of other non-housing assets (e.g. garages, shops, etc.)

An Asset Management Plan should include:
- 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

Sustainable Investment Programmes

Traditionally, asset management has focused on maintaining the standard of the stock. A study by the Chartered Institute of Housing in 2011 found that:

"This has meant that asset management strategies have often been based on the assumptions that:
- *Properties will normally remain in social housing forever.*
- *The social landlord which built the property will be the right landlord to manage it.*

"Strategies have consequently focused principally on the delivery of works programmes rather than actively managing the asset."

Since 2011 there has been a trend towards a different approach to asset management. Landlords have started to take a more dynamic view of using their resources to maintain and develop homes and services. This requires a full understanding of the long-term financial value and performance of assets in terms of new investment, retention or disposal of stock, the type of rental product offered (market, affordable or social rents; type of tenure) and the range of activity the landlord will engage in with the community.

The Asset Management Strategy therefore needs to direct the best use of resources to ensure a value for money organisation. There is therefore a need to assess the potential to manage assets to release resources to fund objectives including considering:
- The range of products to be offered based on local needs and markets.

- Stock rationalisation through disposal of stock if it is no longer fit for purpose or is inefficient to manage; transfer of stock to better placed landlords (small scale transfers) or the acquisition of new stock.
- Future investment in new homes and / or sustainable neighbourhoods.
- Analysis of performance issues such as voids and turnover rates.
- Level of revenue that needs to be generated from asset management for development purposes.
- Appropriate targets for energy efficiency improvements in the existing stock.

To do this there is a need to understand the long-term performance of the property portfolio and those properties or assets that exceed or fail to meet performance thresholds.

To develop a sustainable investment programme there is a need to know and understand the assets including:
- 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

There is also a need to ensure sufficient funding for the necessary work and to balance expenditure on revenue repairs and maintenance with capital investment. To do this there needs to be a clear understanding of property costs and market conditions. This requires a strategic planning process involving systematic gathering of information, clear organisational strategy and good understanding of risk.

Asset Performance

There is a need to monitor asset performance. This includes sustaining demand; investing in improvements and redevelopment; and disposals especially of high value assets, high cost assets and low density dwellings. It is sometimes said that:

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

Some studies have concluded that implementing modern asset management standards can result in a 20% reduction in the lifetime costs of assets. To achieve this three things need to be borne in mind:
- Assets are not simply stock. Landlords also need to consider the residents and the communities in which they live. The need is to use assets to achieve the aims of the organisation and to add value.
- There needs to be a common asset management 'vision' in the organisation to ensure best use of the skills, motivation and direction of those involved in asset management.
- Asset Management is a long-term project that requires long-term financial plans rather than annual budgets driven by short-term pressures rather than long-term objectives.

Performance Management

Government is increasing the focus on performance management with an emphasis on 'sweating assets' and 'return on investment'. For example, the Homes & Communities Agency has recently provided this advice that is directed at housing associations but is equally applicable to local authorities:

"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."

The Homes & Communities Agency sees the preparation of effective asset registers as the foundation of good asset management. In the past it has been critical of the poor quality and inconsistency of data in landlords' asset registers. The revised regulatory framework to be introduced in 2015/16 will include an obligation to maintain a 'thorough, accurate and up to date record of… assets and liabilities'. They regard this as an essential business tool and not as a regulatory imposition.

The minimum information that an asset register should include is:
- A stock list with accurate details of the current rents and service charges.
- Information on whether the property is let and the form of tenancy in use.
- The most recent valuation – existing use value as social housing (EUV-SH) and market value subject to tenancy (MV-STT).
- Whether restrictions on use apply such as planning restrictions or restrictions on title.
- The future repairs liability attached to the dwellings.

There is also a need to devise appropriate performance measures based on clearly defined high-level data showing overall performance, making comparisons with other landlords and including qualitative and intuitive information as well as quantifiable data. The National Housing Federation has suggested that this may include:
- Performance measures to assess actual delivery against the asset management and repairs & maintenance plans. Key performance indicators in this area include: average void costs; void turnaround and let periods; percentage of repairs where an appointment was made and kept; percentage of repairs completed at first visit; average time from repair first reported to work completed; and average number of repair order per property etc. Indicators can be broken down by area, property type, etc. for more detailed analysis.
- Formal reports on progress against the investment plans – including detail of variances in programme and / or spend.
- More detailed indicators specifically geared at monitoring and analysis of a particular service, for example, faults reported accurately, reports of problems after work is supposedly finished, etc.
- Customer insight outcomes, providing information on customers' characteristics and preferences.
- Direct Labour Organisations – typical areas of focus should be income per operative, transport costs, number of jobs per day, average cost per repair, overheads and profit.
- Customer feedback from asset management and repairs programmes, including complaints and compliments.

- Updates on stock condition survey information, measures of neighbourhood sustainability and environmental sustainability.

Case Study: Wigan & Leigh Housing

Wigan & Leigh Housing is an Arms' Length Management Organisation that manages council housing on behalf of Wigan Borough Council.

Their Asset Management Strategy is an overarching statement of objectives, goals, issues, processes and action priorities. The strategy is applied to ensure effective management and maintenance of all property and land assets, and provides the best service, value for money and customer satisfaction within the delivery of those services.

Asset Management Strategies often concentrate on stock condition and the development of investment programmes. Wigan & Leigh Housing's Asset Management Strategy takes a more holistic approach, not only dealing with stock condition issues, but also addressing matters of housing demand, stock and neighbourhood sustainability, and customers' needs and aspirations. The overall aim of the strategy is to deliver well maintained, energy efficient homes that meet local needs on estates where people wish to live.

The strategy outlines how Wigan & Leigh Housing will deliver an integrated investment programme with successful delivery of the programme contributing to a number of national and regional priorities as well as local needs and issues.

The key thrust of the strategy is to ensure the future of sustainable stock and neighbourhoods by considered targeting of resources. The strategy covers a five year period between 2014 and 2019, but also informs decisions on long term priorities by identifying investment needs which will assist in the development of the overall business plan assumptions.

The strategy has been developed in conjunction with the 2013 -17 Vision and Business Plan and seeks to build upon and complement other Wigan & Leigh Housing strategies.

The Asset Management Plan includes the following sections:

- Introduction
- Background
- Context
- Understanding our assets
- Investing in the stock
- Be energy efficient and reduce fuel poverty
- Maintaining the Assets
- Develop and grow the business
- Understanding Neighbourhoods
- Effective procurement and value for money
- Engaging customers
- Added Value
- Implementation, monitoring and review
- Action Plan

Wigan & Leigh Housing consider that self-financing has made the development of longer term plans to make the best use of assets essential. Their thirty year Asset Plan will be developed to maximise the value of investment. The stock condition information has been updated from the last condition survey and projected against the Government's housing revenue account settlement for Wigan. Subject to assumptions on rental income and inflation, there are predicted to be sufficient resources available to maintain the management and maintenance of the properties at current standards, maintain levels of decency on retained stock, have some capacity for additional borrowing to improve the stock and have a modest new build programme. This is however a simplistic picture subject to a number of internal and external risks including the Government's changes to rent setting policy and welfare reform.

A full analysis of stock investment needs, based on the 2008 stock condition surveys and updated expenditure, has been completed. The total expenditure requirement is £1,252m over thirty years commencing 2014/15. These costs include a level of betterment due to component improvements. However, they do not include funding for additional major improvements to homes or estates, new build, grounds maintenance and environmental initiatives, additional energy saving measures, or rear garden fencing.

During years 1-12 it will be necessary to build up balances to address the investment spikes that will occur in the following five years due to component replacement of Decent Homes works carried out from 2002. This analysis is based on the current stock and does not take account of demolition, disposal, new build or the additional non housing assets. Long term predictions will be amended as circumstances change and Wigan & Leigh Housing works through five year asset management delivery plans including decisions on priorities for additional available investment.

There will also be £35million capital borrowing headroom available over the thirty years although the impact of changing government policy will need to be carefully monitored. The long term priorities for that headroom will include delivering an agreed decency plus standard with tenants and a modest programme of new build, environmental improvements and non-housing assets will also need to be considered.

Wherever possible, additional resources will be secured through efficiency savings, effective procurement and income generation through grants. Any other viable opportunities to add value will also be considered where there is a business case and implementation will not detract from the main aims.

A key risk is rental income. Any significant change to rent levels or collection rates would have a significant impact on the ability to deliver the asset management strategy. This is a particular risk with the Government's policies on welfare reform and on right to buy in terms of stock numbers. An income strategy is being prepared to try to minimise the risk as much as possible and to consider the impact of the Government's alternative rent setting policies for the future following the ending of rent convergence.

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.

Adrian Waite
December 2014.

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