# Asset Management Optimisation

## March 2018

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## A Fresh Approach

i4H is a new insight tool designed to help drive improvements and deliver value for money using data analytics. Beever and struthers, HACT and QAHC have developed a collaborative partnership to offer this service, ensuring that we consistently meet your needs and continually improve to maximise the performance of your organisation

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# 1.   Introduction

A social housing provider's asset management strategy is fast becoming the most important document written. Our Value for Money (VfM) analytics platform has shown us that 70% to 80% of an organisations total spend will be on repairs.

Social housing providers are now under increasing pressure to build new homes as well as save money. The recent White Paper encouragingly sees the social housing sector as being pivotal to solving the housing crisis and the VfM agenda is still in the spotlight. So, if an organisation can get their asset management strategy right, it will have a significant impact on the business plan, building new homes and delivering VfM. Despite this almost 50% of of the Top 100 RP's do not state their return on assets in their VFM report.
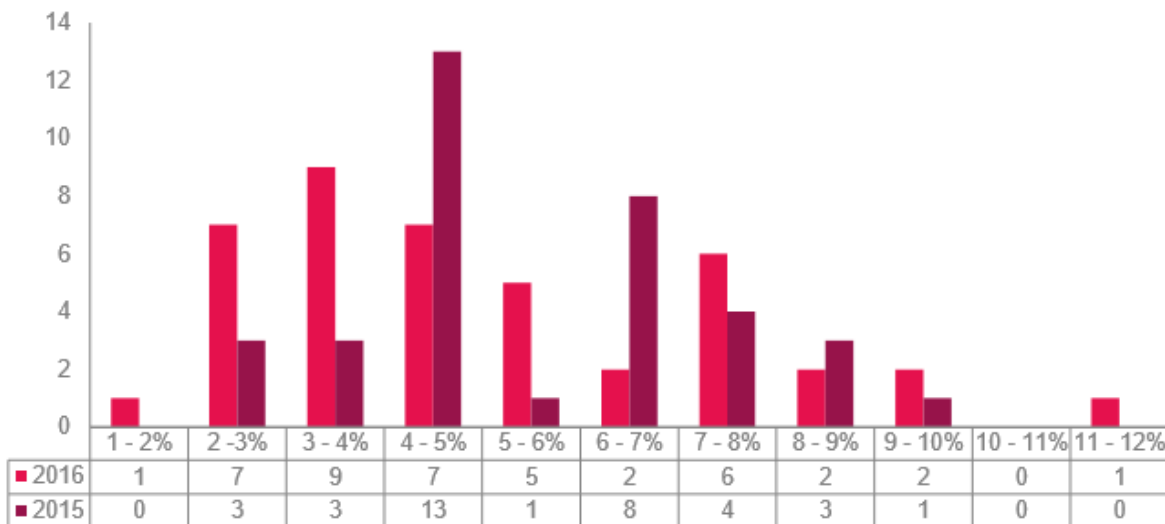
I4H is a specialist analytics provider and has worked in the social housing sector to transform Asset Management strategies through the use of analytics.

This paper jointly developed with Beever and Struthers outlines, how the sector is currently dealing with evidencing its assets management strategy and provides examples of best practices.

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# 2.  Sector Review of Asset Management VFM

More RPs this year have provided a return on assets with greater details. Also, some are noting where returns are negative and, in some cases, providing explanations or action plans on how they intend to deal with this.

Of those RPs that did discuss return on assets there was a wide range of results. RPs reported return on assets ranging from 2% to 11% with most in the 3-4% bracket whereas last year the majority were in the 4-5% bracket.



| | 1 - 2% | 2 -3% | 3 - 4% | 4 - 5% | 5 - 6% | 6 - 7% | 7 - 8% | 8 - 9% | 9 - 10% | 10 - 11% | 11 - 12% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 1 | 7 | 9 | 7 | 5 | 2 | 6 | 2 | 2 | 0 | 1 |
| 2015 | 0 | 3 | 3 | 13 | 1 | 8 | 4 | 3 | 1 | 0 | 0 |

The graph below shows that almost half of the Top 100 RPs do not state a return on assets in their VfM report. 22% do state a return and give further analysis, usually broken down by tenure type, with some breaking the data down by size/age of property, or by location.



It is surprising given the emphasis that the HCA has placed on asset utilisation nearly half of the Top 100 RPs still do not provide any analysis with regards to their assets and performance. The majority are making at least some comment about the overall return on assets with a number of RPs providing a detailed analysis by asset type. Some RPs, as noted above, provide a detailed analysis by asset type of the Net Present Value (NPV). In following the NPV route, a variety of discount factors have been used.

Again, London & Quadrant continues to provide a particularly detailed comprehensive analysis of its asset base giving the reader a great deal of information on the quality of those assets by type.

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**Return on assets analysis**

| Portfolio | EUV £ m | MV - VP £ m | Rental income £ m | Gross yield 2016 | Gross yield 2015 | Operating profit £ m | Operating margin 2016 | Operating margin 2015 |
|---|---|---|---|---|---|---|---|---|
| Affordable rent | 266 | 794 | 26 | 3.3% | 2.6% | 17 | 66% | 63% |
| General needs | 3,988 | 13,663 | 316 | 2.3% | 2.3% | 148 | 47% | 45% |
| Supported housing | 135 | 443 | 13 | 3.0% | 2.4% | 3 | 22% | 8% |
| Housing for older people | 112 | 346 | 13 | 3.9% | 4.4% | 3 | 25% | 38% |
| Intermediate Market Rent | 182 | 345 | 19 | 5.4% | 4.3% | 9 | 51% | 61% |
| Low cost home ownership | 423 | 1,497 | 35 | 2.4% | 2.2% | 27 | 75% | 47% |
| **Social housing lettings** | **5,106** | **17,088** | **422** | **2.5%** | **2.4%** | **207** | **49%** | **46%** |
| **Market Rent\*** | **278** | **350** | **15** | **5.5%** | **6.0%** | **9** | **72%** | **66%** |

**EUV** - Existing Use Value
**MV-VP** - Market Value - Vacant Possession

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# 3.    Asset Management Guidance

It is clear from our experience that many associations are working to improve their systems for understanding asset performance as a basis for making evidence-based business decisions. To add to the uncertainty, there is still some confusion amongst associations about what their asset management strategy is and what the VfM standard requires.

Together these factors result in a wide variety of responses to this aspect of the VFM self-assessment. Those associations that appear to be handling it reasonably well are able to provide assurance that they understand their stock and are making intelligent decisions to improve its VFM. There does appear some difficulty in interpreting the concept of return on assets: are we talking about the value derived specifically from the presence of physical assets, or about the value derived from everything we do?

Ideally there should be information that gives the association tangible evidence of the following:
* stock condition, associated investment needs, maintenance costs, demand, the communities and markets you operate in
* the performance of stock (return) at an appropriate level of detail - so that variation in performance is understood

This would then demonstrate that your association has:
1. an intelligent asset management strategy where decisions aim to improve returns, e.g. hold, invest, dispose and where the benefit of investment on future rental stream/social outcomes is understood
2. where a brief assessment of key asset decisions over the year will evidence active management and improved VFM – how has asset performance improved?
3. the strengths and weaknesses of current approach to assets?

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# 4. Case Study Examples

**Asset Analysis** – We have completed in-depth asset management projects which consider the cost of repairs, financial return and sustainability factors for each property.

We conducted an asset management analysis recently for a housing provider and found the following example. 1289 properties were generally low scoring, had high historic repairs costs and need higher levels of investment based on the 30-year forecast.

This organisation will need to consider if the investment in these properties is justified considering the significant open market value. The average market value for these properties was relatively high at £252,160. The average build age of these properties is 1949 and with an estimated build cost of £150,000 per property this would mean development of 2167 additional properties if sold.

We are starting to see a number of organisations now take this approach with the de-regulation of the sector. We see some great examples of cost savings being made for repairs which is positive. However, the key question is should you actually be spending anything on this asset?

**In-depth Repairs Analysis**- We have conducted a number of projects using our analytics platform which has considered the productivity of the contractors and internal workforce. By analysing routine repairs over a 3-5-year period trends can be identified for high cost contractors, high costing areas, internal workforce productivity, high cost tenants, transactional satisfaction by contractors/internal workforce and predictive analysis for all these factors mentioned.

By considering trends such as high cost contractors, increasing internal workforce productivity and effective procurement arrangements significant savings can be made. Improving organisational processes such as ensuring the right stock for vans, ensuring as many repairs are complete on the first visit and getting tough with repairs that are the tenants responsibility can significantly reduce costs also.

**Tenant Behavior** – We have found strong correlations between tenant behavior and repairs costs. I4H were involved in a big data project lead by HACT (Housing Association Charitable Trust) which found a **16-37**% saving for tenants on no housing benefit using a propensity scoring matching methodology.

We would suggest focusing on high cost tenants to consider why the routine repairs spend is high? Is this due to the condition of the property or due do tenant related issues?

**In conclusion** consider if you should have the asset in the first place, use data analytics to identify trends to can make savings, have effective procurement arrangements in place and consider tenant behavior to have an effective asset management strategy

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# 5.Testimonials

"The work done by i4h has been invaluable in assisting us develop our sustainability model for our assets, as well as in depth analysis of future investment needs and benefits. The ability to include various factors that influence investment, development and stock appraisals is a major step forward in achieving value for money and making the right decisions at the right time".

Denise Kent (Director of Commercial Services - CHP)

'I have found this to be a very useful analysis. I particularly like the way comparisons can be drawn against properties within individual parishes and of various property sizes. Such detail will be very useful in determining future programs of planned maintenance and other capital investments'

Nick Tregenna (Head of Finance – Cornwall Homes)

"We were extremely happy with i4H and the Return on Assets Project they undertook for our organisation. The amount of manpower required at our end was minimal and the data produced was very useful and of high quality. The turnaround time for the project was impressive".

Nicola Local (Director of Finance – DAMHA)

# 6. Asset Management Analysis Example

Based on the i4H Asset Management scoring system, we provide recommendations for consideration. The below sample provides an overview of our recommendations which is then sub-analysed by area and individual properties. The further consideration properties need a high level of investment over a 30-year period, high historic repairs cost and high SAP ratings. We recommended these properties to be considered further to justify the high level of investment needed. The decision for the housing association would be would it be better to dispose of these properties given the high average market value and lower maintenance costs of newer properties.

| Recommendation | Number | Market Sale Value Total | Market Sale Average | Current Annual Social Rent | Current Annual Market Rent | Additional Rent Converted | Years to recover social rent on current value | Average age of build | Investment Needed |
|---|---|---|---|---|---|---|---|---|---|
| Further consideration needed | 1289 | £325,034,569 | £252,160 | £7,327,094 | £13,641,399 | £6,314,305 | 44 | 1950 | £68,424,637 |
| Consider tenant behaviour | 267 | £61,050,386 | £228,653 | £1,475,104 | £2,531,099 | £1,055,995 | 41 | 1950 | £8,135,985 |
| Consider age of property and investment needed | 421 | £106,033,402 | £251,861 | £2,339,512 | £4,428,766 | £2,089,253 | 45 | 1943 | £22,133,010 |
| Dispose | 430 | £83,479,908 | £194,139 | £2,135,851 | £3,830,845 | £1,694,995 | 39 | 1961 | £19,569,219 |
| Consider alternative Use | 710 | £124,988,542 | £176,040 | £3,399,198 | £5,553,957 | £2,154,759 | 37 | 1966 | £24,196,064 |
| Low SAP rating only | 46 | £8,971,350 | £195,029 | £243,151 | £375,094 | £131,943 | 37 | 1958 | £1,508,261 |
| High historic repairs only, consider tenant behaviour | 50 | £10,120,359 | £202,407 | £266,280 | £425,273 | £158,993 | 38 | 1969 | £1,640,648 |

## Example Analysis
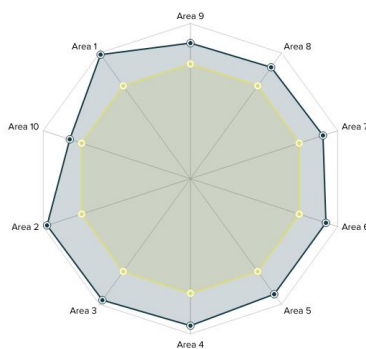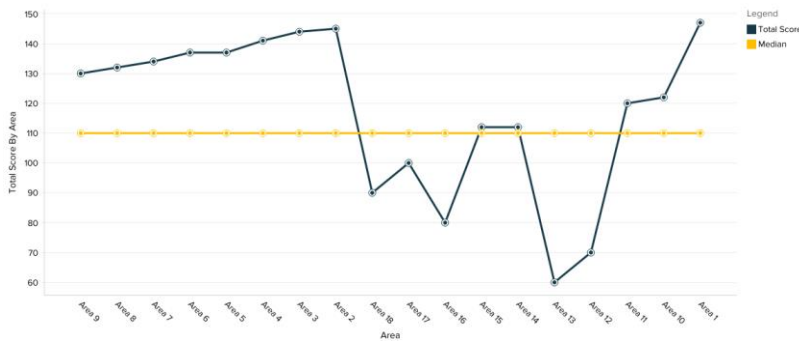
## *Contact Details*

**For more information on i4H, or for any queries, our contact details are below.**

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