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**Title:** Asset Management Strategy and Stock Condition Update

**Report of:** Managing Director, TGHC

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### **Purpose of Report**

1. To provide the Board with an update on the emerging findings from the recent stock condition survey exercise and to seek comments on the draft Asset Strategy Executive Summary and Action plan (Appendix 1).

### **Background**

2. The previous Asset Strategy (2008-13) was drafted in the context of the Decent Homes Programme, which concluded in 2012 having delivered investment of approximately £330 million to Gateshead council properties. The Decent Homes Programme focused heavily on upgrades to internal property elements, with bathrooms, kitchens, heating systems and window replacements being delivered. As a consequence of the programme, significant improvements were made to the condition of properties and a number of sustainability schemes were undertaken to estates to improve the neighbourhoods and have a significant positive impact on customer's lives.
3. The Board acknowledged that there was a need to refresh the stock condition data to reflect the post decent homes position and agreed at the September 2014 meeting to engage an external provider to undertake a sample stock condition survey. Ridge were subsequently appointed to undertake this work to provide a refreshed baseline position. They were also engaged to support the implementation and development of an asset strategy and assist to interpret the findings of the stock condition sample to inform the 30 year Housing Revenue Account (HRA) Business plan.
4. The asset strategy is a key document in supporting TGHC's five year strategic plan 2015-2020. It is most closely aligned to the following strategic objectives:-
  - Protecting Housing Revenue Account Income and investment made in the stock'
  - Supporting tenants and sustaining tenancies and neighbourhoods.

The strategy also links to the following :-

- Vision 2030 - Gateshead's Sustainable Community Strategy
- Gateshead Council Plan 2013 -18
- Housing Revenue Account (HRA) Business Plan 2013-43
- The Gateshead Housing Strategy (2013-18) – which focuses on the three key themes of supply, standards and support.

### **Context**

5. The current five year capital programme 2013-2018 is determined by the HRA 30 Year Business Plan. It is important to note that the current 30 year HRA Business plan has been informed by existing stock condition information that was last fully refreshed in 2004.
6. Throughout the last ten years, asset data has continued to be updated as works to properties have been carried. There is a recognition that within a ten year period, property elements will have deteriorated and without a refreshed stock condition survey it is difficult to ensure that properties have not fallen out of decency. A refresh of data has been necessary to ensure the current investment programme can keep pace with the need to maintain decency.
7. Despite projections being made about the life expectancy of certain elements, the validity of these projections needed to be verified on a cyclical basis to ensure that future investment decisions continue to be directed in the right areas.
8. Additionally, there are a number of emerging investment pressures, that would not fall within the category of maintaining decency, that need to be tackled through the asset strategy.
9. Some of the areas that need to be given a focus have been identified through analysis of repairs and maintenance trends. Similarly ongoing monitoring of the capital programme has highlighted inconsistencies between the asset database and the actual condition of the stock.
10. Feedback from customers and officers across the housing management network continues to identify issues that require investment but have not had specific budget provision within the capital programme.
11. Some examples of these areas are detailed below:-
  - Expansion of the existing investment programmes to improve the energy efficiency of non-traditional stock;
  - Condensation and dampness continues to feature heavily in terms of repairs calls, particularly in hard to heat homes or specific properties with cold spots;

- Undertaking environmental improvements to address wider public realm issues within existing estates and help to invest in improving infrastructure such as drainage, walls and communal spaces;
  - Investing in improvements to communal areas within the Council's Housing Stock that are not currently captured within the Maintaining Decency programme and are negatively impacting on lettings and sustainability;
  - Investing in improving non-dwellings and garages within the HRA.
  - External works and structural issues associated with the age of the stock
12. These themes were also highlighted through a series of workshops with officers and Asset, Investment and Development committee members.
13. Committee and Board members also attended asset tours where some of these issues were highlighted further and the feedback from these visits have been incorporated into the draft strategy.
14. These are issues that will need to be tackled through the asset strategy if it is to contribute to the Council's vision for the borough as a place where:-

***"Local People who live in good quality, affordable homes, which meet their changing needs and are located within pleasant, safe and sustainable communities."***

#### **Stock Condition Update**

15. On site surveys commenced in January this year and concluded in April 2015. The focus of the surveys was twofold.
16. Firstly, a full address list was provided from which a sample of 2,000 address were identified, to be representative of all property types and give good coverage of estates across the Borough. Supplementary addresses were also identified to "backfill" for any properties where access could not be arranged. The surveys that were carried out during this period have given a fully validated stock condition update on approximately 10% of the housing stock. The data was then cloned to give projections that have been included in the cost tables contained within the asset strategy.
17. Whilst it should be noted that the surveys are on a sample of addresses, it is a fully validated sample that is robust and reflective of the wider stock. One of the actions from the asset strategy is to continue a rolling programme of stock condition surveys to try and achieve a fully validated assessment of all stock over the next five years, in line with recognised best practice in asset management.
18. Secondly, Ridge were asked to carry out an external survey of all blocks. This work was carried out alongside the internal inspections and 100% of blocks have been surveyed and the findings incorporated into the strategy document.
19. The findings and projections are consistent with what would be expected from an organisation that has recently concluded a decent homes programme, with spikes in required investment for major works peaking in years 10-15 and again in years 21-25. This is reflective of life cycle replacements on elemental

replacements, such as kitchens, bathrooms, heating systems and electrical upgrades.

20. The additional spike in required investment during years 1-5, is largely attributed to a recommended increase in estate improvement works which again is consistent with trends in customer satisfaction surveys showing dissatisfaction with estates and common areas. It is reflective of the fact that despite significant investment to individual properties throughout the last ten years, there were a number of areas that did not fall within the definition of “decent homes” that now need to be tackled and be fed into the 30 year HRA Business Plan to ensure that estates and neighbourhoods remain sustainable.
21. Part of the exercise to develop the strategy involved compiling a demand assessment which was the subject of a board report on 21 May 2015. The emerging themes from the stock condition findings, will need to be considered alongside the demand picture. One of the clear indications from both is that there is a need to focus on external and environmental investment alongside the overriding need to maintain homes as decent. Additionally, re-investment in low demand properties needs to be carefully considered, particularly in relation to high cost infrastructure and structural works.
22. Desk top cost projections have been included for areas that were outside of the scope of the sample survey and further validation of these areas is a key action within the first year of the strategy to clarify the investment needed. Typically, this will include invasive and structural surveys on complex mechanical and engineering areas on high rise and sheltered schemes, garage assets and non-traditionally constructed properties. These are areas that should be considered high risk in terms of financial projections and further validation of the assumptions for investment is required.
23. As part of the follow on work from the stock condition survey and the implementation of the asset strategy, Ridge were commissioned to provide a viability modelling tool to assess how properties or estates are performing in terms of yield over the life of the 30 year plan. Whilst not definitive it will support discussion around estates that are not performing and help to inform decisions around re-investment or potential regeneration.

### **Next Steps**

24. The cost projections that have been highlighted and recommended will need to be factored into the HRA 30 year plan. The plan has been recently updated to reflect changes in demand, void rates, right to buy assumptions and rent levels but the plan needs to be updated with investment projections to establish whether the investment needs of the stock remain affordable within the context of the HRA.
25. The Executive Summary and action plan is attached as an appendix to this report but the full strategy document will need to be finalised following discussion with Gateshead Council and assessment of the findings and the impact on the HRA business plan.
26. Priority actions outlined in the strategy will need to be progressed, particularly around high risk areas of projected spend that needs further validation.

27. An asset management working group will be established with clear terms of reference that will be comprised of officers from TGHC and Gateshead Council. This will be a forum where future investment needs are considered and it is anticipated that this group will develop an investment programme for the next five years, aligned to priorities identified in the strategy.
28. It is envisaged that the viability modelling tool that has been procured as part of this phase of activity will be implemented and considered through this group for properties or estates that require significant investment to ensure ongoing sustainability.

### **Link to values**

29. This report relates to the following company values, in being: -
  - Customer Focused
  - Open and Honest
  - Innovative and
  - Accountable

### **Health implications**

30. Failure to appropriately direct capital investment will result in properties becoming non-decent, may lead to fuel poverty and associated health problems for customers.

### **Risk Management Implications**

31. Through not actively managing the assets and investing capital in a strategic way, there is a risk that properties will fall into a state of non-decency and the sustainability of council housing and estates across the Borough will be negatively impacted.
32. Failure to appropriately inform investment decisions will have an adverse impact on customers and the company.

### **Financial Implications**

33. There are no immediate financial implications arising out of this report in terms of Capital Investment, however the asset strategy is a critical document in informing the 30 year HRA Business plan and the investment decisions that will need to be made in future years.
34. Through the effective implementation of the asset strategy there may be an opportunity to achieve efficiencies in terms of Repairs and Maintenance spend through identifying appropriate planned investment works.

### **Equality and Diversity Implications**

35. The strategy recognises the social responsibility to provide adaptations and facilities for disabled and vulnerable people and to comply with the requirements of the Equality Act.

### **Value for Money implications**

36. The strategy advocates that in line with best practice, planned investment is maximised to reduce responsive repairs spend. This will potentially lead to value for money being achieved.

### **Environmental Implications**

37. Improvements to the environment and public realm are heavily endorsed throughout the asset strategy.

### **Consultation Carried Out**

38. Members of the Asset Development and Investment Committee took part in an asset management workshop in 2013 to discuss competing investment priorities. This was subsequently followed up with a tour of various estates to highlight emerging investment issues. Board members also attended an asset tour where some of the themes in the asset strategy and this report were highlighted.
39. Prior to the commencement of the stock condition exercise, discussions had taken place with officers of the council including the Strategic Director of Community Based Services and the Strategic Director of Communities and Environment. Discussions with Council colleagues, including the HRA Accountant are ongoing in terms of the inclusion of revised investment projections in the business plan.
40. The Board had a specific workshop on the development of the asset strategy on the 22 January this year and a joint TGHC board members and elected members seminar is scheduled for July to consider both the findings from the stock condition survey and the current demand position.

### **Recommendations**

41. The Board are asked to:
  - (i) comment on the contents of this report and the accompanying executive summary and action plan. Following further consultation with Gateshead Council, the full asset strategy will be brought back to Board for formal approval;
  - (ii) receive updates on progress against asset strategy actions, via the Asset, Investment and Development Committee and at future Board meetings.

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Contact: Phil Gallagher, Head of Investment and Development Tel No: (0191) 4336155

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This document summarises the key aspects of Gateshead's Asset Management Strategy (AMS). The AMS is designed to support the delivery of The Gateshead Housing Company (TGHC) and Gateshead Council's (GC) wider aims and objectives. The AMS reflects current best practice and is reflective of the fact that Gateshead is a 'self financing' organisation.

The stock is located in an area of moderate to low demand; it comprises a mix of flats within blocks and street properties.

## Strategic Asset Management Objectives

Gateshead wishes to ensure that the housing stock and related assets that it manages:

1. Are appropriately maintained on an agreed programme cycle, to an agreed Gateshead Standard, building upon and maintaining the Government's Decent Homes Standard (that was achieved by the previous strategy);
2. Meet all regulatory standards, including the Homes and Communities Agency's (HCA) Homes Standard;
3. Are located in well managed and attractive environments that feel secure and welcoming;
4. Are healthy and safe places to live (free from Category 1 Housing Health and Safety Rating System hazards);
5. Are not maintained simply because they are part of the portfolio, but are actively challenged against a range of assessments that consider their viability and contribution (ideally with an improving Net Present Value [NPV] and high levels of demand);
6. Meet the needs and aspirations of both current and future residents, contributing to high levels of customer satisfaction (with both the property and the neighbourhood);
7. Can be heated efficiently and cost effectively (whilst reducing the overall environmental impact); and
8. Contribute positively to the local community.

In order to deliver the AMS, robust links between the financial planning framework set out in the Business Plan and the requirements of the stock are essential. The focus of the AMS is re-investment that improves the overall business plan position, delivering for customers, the assets and the Council.

## Principles for Delivery

To deliver its asset management objectives, Gateshead will:

1. Use the AMS to support a practical programme of re-investment that reflects best practice and delivers value for money;
2. Support a professional asset management team, responsible for all 'planning' of re-investment needs;
3. Listen to the views and aspirations of all stakeholders;
4. Consider the impact of all proposals on leaseholders as well as tenants;
5. Work with residents through risk based tenancy audits, to ensure that homes are being looked after and that the needs of the household are identified;
6. Actively manage, maintain and use its asset data within its Asset Management Database;
7. Improve the quality and currency of the asset data held, through undertaking regular stock condition surveys;
8. Obtain updates on condition records through a range of sources, including works completed data;

9. Actively obtain and then manage data relating to health and safety compliance, acting promptly to tackle any issues or matters for concern;
10. Develop programmes of work from the asset data, based upon agreed area and delivery method objectives (over a programme period of not less than 5 years);
11. Procure works and services for delivery that provide best value for money and good standards of quality;
12. Maintain an Asset Management Group (comprising the Council and TGHC), to review and monitor proposals, objectives and delivery;
13. Use a Viability Model to assess the performance of the existing assets (demand, NPV etc.), followed by an options appraisal process for assets requiring further review;
14. Define systems and processes for asset management to identify stock requirements, or to identify where options appraisal is otherwise desirable;
15. Undertake as much work as possible in a pre-planned way, thus reducing reactive works to a minimum;
16. Assess the condition, performance and opportunities associated with related assets (including garages for example), to provide a joined-up neighbourhood approach;
17. Inform and be informed by the aims and objectives of the Council's Housing Strategy, including new build development and re-development opportunities;
18. Aim to decrease levels of crime and anti social behaviour through appropriate specification and joined-up neighbourhood delivery; and
19. Consider opportunities for 'joined-up' wider area regeneration, re-provision and the development of new accommodation that meets the housing needs of the wider community (helping to support the Council's 'Vision 2030').

## Measures

Gateshead will regularly monitor its asset management performance, including the following measures:

1. Compliance with the HCA's 'Homes Standard'.
2. Proportion of stock meeting the Decent Homes Standard;
3. Average SAP rating;
4. Estimated CO emissions;
5. Demand for homes;
6. Yield (NPV) per property/block (ideally with an increasing NPV over time);
7. Customer satisfaction with:
  - a. the home
  - b. the neighbourhood
  - c. works
8. Health & Safety compliance;
9. Local economic investment; and
10. Added social value.

## Action Plan

The key actions that are required over the next 12 months include:

1. Approve and adopt the AMS;
2. Establish and then review the function and outputs of the Asset Management Group;
3. Develop and populate a whole stock Viability Model (work in progress);
4. Introduce a new Options Appraisal template (currently in draft) and commence appraisals;

5. Continue the current rolling programme of stock condition surveys (100% target by 2019) to improve the quality and accuracy of the asset data held;
6. Commission an updated engineering appraisal of the high-rise and non-traditional property structures to ensure that they are sound and to validate the re-investment levels over the business planning term;
7. Undertake surveys of garage sites and evaluate, then act upon, results;
8. Collate data on other 'related assets' and consider opportunities (using geographic information systems [GIS] mapping to identify neighbouring opportunities);
9. Work closely with the Council to ensure that the AMS and stock appraisal systems are aligned with wider regeneration and development activity to enable delivery to occur strategically and not opportunistically;
10. To work with the Council to jointly establish a Development Strategy;
11. Continue to consult with residents and stakeholders about their current priorities and aspirations;
12. Review the Gateshead Standard (both internal and external/estate areas & common parts);
13. Consider the options for future delivery (post Decent Homes Programme completion);
14. Identify agreed estate/neighbourhood delivery areas on the GIS mapping system;
15. Undertake an independent audit of health and safety compliance activities;
16. Consider optional 30 year business plan delivery profiles (with various standards) and agree a preferred solution; and
17. Develop a new 5 year programme of works based on an agreed business plan profile.

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