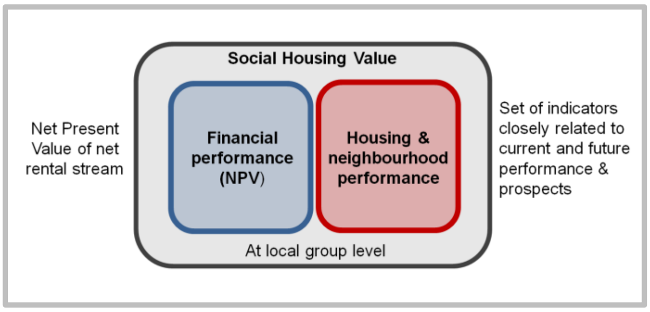
Demystifying And Using Value As A Practical Tool For Strategic Asset Management

Today, council and housing association homes are all in social housing businesses with huge asset bases, high expectations, and little public subsidy. So, what social landlords can make of that asset base largely defines what they can (or can't) do.

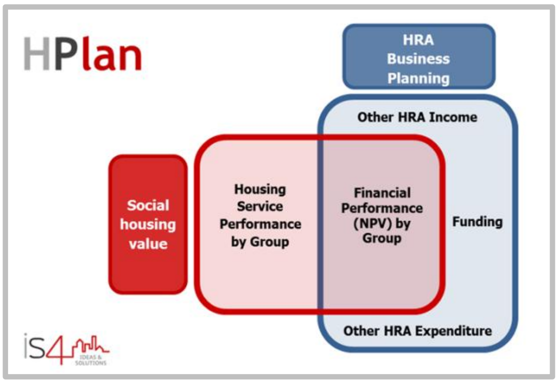
A strategic approach to asset management is what enables them to 'get the most out of what they've got'. It involves understanding the relationship between management, maintenance and investment, between income and expenditure, between the short, medium and long term, and with the changing housing markets within which they operate – and actively managing the business to make the most of it all. This sounds obvious, but it actually involves a conceptual shift for the sector that should not be underestimated.



The best foundation for strategic asset management is a proper understanding of the value that different groups and types of stock are bringing to the business plan. Experience tells us that the search for understanding of this often loses its way in the information forest. That is why i.s.4 developed our HFAT and HPlan tools, to help structure the information gathering and analysis process, and shine a light on social housing value.

For Councils, now with freestanding 30-year business plans, there is an ideal opportunity to get into the best habits from the outset, through a combined approach to social housing value and business planning. That is what i.s.4 HPlan makes possible. It exploits the full potential of Excel to create a modern easy-to-use and flexible tool for HRA business planning and strategic asset management.

It includes analysis of both financial performance and broader housing and neighbourhood performance at local housing group level to understand how value is being created within the stock and to help find ways of improving it. And it sits that within a comprehensive HRA business planning capability that ensures strategic asset management and business planning go hand-in-hand.

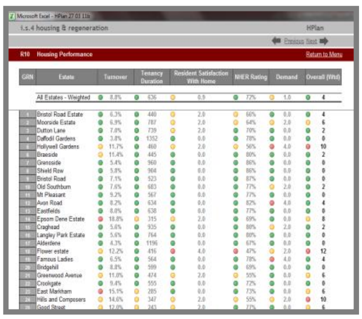


HPlan is designed to be used as part of the annual business and service planning cycle and to support strategy, project and programme reviews through the year

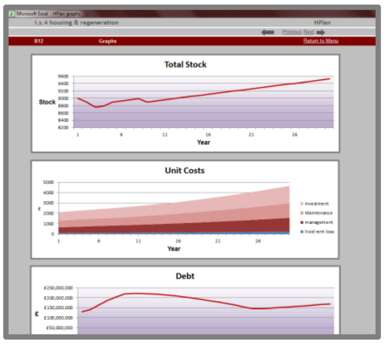
Let's look at three contrasting applications to see some of the big lessons that can be learnt when you shine a light on value – a medium sized council still with a serious Decent Homes challenge, an LSVT stock transfer association well into its initial delivery phase, and a housing association group the product of a mixed merger history of traditional and LSVT.

And let's pick out two very different lessons – the quality of information readily available within the organisations; and the variations in Net Present Value (NPV) between different groups of stock.

All three had plenty of perfectly good detailed data sitting in operational computer systems. But none of them were routinely turning that into the kind of clear and consistent business information needed in the future – data rich, analysis poor. A very simple example - the HFAT/HPlan process requires you to divide all stock carefully into the most practical 'useful groups' to support consistent analysis. All three started with internal inconsistencies in their use of basic geographical information, such as estates or groups – and the classic problem of 'similar but different' lists, both in use in different parts of the organisation, and standing in the way of read-across between different activities.



Now let's look at the groups with low NPVs and the reasons behind them. The common expectation is that differences between high and low investment costs are the main drivers of good and bad financial performance. Not so! In fact, variations in repairs and maintenance costs are far wider and variations are much harder to link intuitively to type of stock. Having said that, the exercise highlighted weaknesses in investment planning, including a tendency to overlook future costs of a 'significant but uncertain' nature such as remedial work to non-traditionally constructed homes, or upgrading of hard-to-heat homes for future energy targets.



The very lowest groups, with actual negative value, do tend to have the killer combination of low rents, high voids, high investment needs and high management and maintenance costs. And generally score poorly on the housing performance side of value, with, for example, high turnover, low satisfaction and high deprivation. The case for radical action is obvious. But, looking higher up the list, one simple example highlights the kind of difficult questions that landlords have to ask themselves in future.

A group of unattractive and unpopular flat blocks was identified as a well-known problem. At first glance it would be expected to have the killer combination referred to earlier, a negative NPV, and be an obvious candidate for a redevelopment plan. But, on this estate at least, the landlord is making every penny count. Maintenance and investment costs are resolutely low and yet flats are promptly relet. The estate is making money, more so than many more popular estates. And meeting housing need, if not housing aspiration.

Good asset management questions that follow include; will this continue? Can we fine tune the approach to lift it a little further? If we can achieve positive value here can we not do better elsewhere? And a bigger question for the sector. Are we comfortable with this? Is creating value through the economical but effective management of a moderately unpopular estate yet recognised as good performance?

These interesting questions make the final point. Understanding value as a practical tool for social landlords opens up new and better ways of doing things. But it doesn't tell you exactly what to do. In fact, it requires more thinking – and more joined-up thinking across the organisation, in a new relationship between finance, property, housing management. In other words, a modern approach to strategic asset management and business planning for social landlords.