



DSD/NIHE Asset Commission Key Messages Document 2014/15

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Housing
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1.0 CONTEXT

- 1.1 In 2009 Savills completed a stock condition survey of 10,000 NIHE properties, on behalf of DSD, and concluded that the cost to maintain the properties over the next 30 years would be £5.1bn. The focus of the 2009 survey was to identify the investment needed to meet and maintain decent homes and other statutory obligations without any allowance for improvement work.
- 1.2 In 2014 Savills undertook a second stock condition survey of circa 22,000 NIHE properties, on behalf of DSD and NIHE, and concluded that the cost to maintain the properties over the next 30 years had risen to £6.44¹bn.
- 1.3 Adjusting for property numbers and a consistent (2015) price base, to allow for a true like-for-like comparison between 2009 and 2014, the total costs over 30 years for the '*work elements included in both surveys*' increased by £375 million².
- 1.4 Between 2009 and 2014 the Housing Executive did not invest in the stock at the levels recommended in the 2009 stock condition survey. The net result is that the 2014/15 survey has concluded that the level of investment required in the stock has increased since 2009.

¹ The basic Survey Standard applied in 2014 (before the Tenantable Standard and Commonly Adopted Standard are applied) has a 30yr forecast investment requirement of £6.44 bn. The 2014 survey provides three 30yr investment forecasts (a) Survey Standard @ £6.44bn, (b) Tenantable Standard @ £5.84bn, and (c) Commonly Adopted Standard @ £6.70bn.

² The increase in costs over 30 years, when comparing 2009 to 2014, for 'the work elements included in both surveys', is estimated at £375 million. This figure is calculated based on the 'work elements included in both the 2009 and 2014 surveys', which broadly aligns with the Survey Standard, with elements not common to both 2009 and 2014 removed. This figure is adjusted to a consistent (2015) price base and calculated based on a consistent number of properties.

1.5 In 2014 the basic survey results were also adjusted to allow for the cost implications of two Housing Standards to be modelled. A lower minimum standard, referred to as the Tenatable Standard, and a higher modern standard referred to as the Commonly Adopted Standard. Under these two standards the forecast investment requirement over the next 30 years is estimated at £5.84bn and £6.70bn respectively.

2.0 2009 STOCK CONDITION SURVEY VS 2014

- 2.1 The 2009 survey projected the peak demand for major repairs investment occurring in the, then, second five year period, i.e. 2015-2020, in the order of £528 million (after adjustment to the 2015 price base and property numbers). The 2014 survey identifies total costs for major repairs of £793 million³ in 2015-2020, which indicates that the need identified for the period in 2009 has now increased in real terms by circa £265 million⁴. This suggests that a significant backlog of investment need has arisen in the five years since 2009.
- 2.2 The shortfall in investment in the stock over recent years has manifested itself in deterioration of the stock and some properties now being in a poor state of repair. The properties will continue to decline in the absence of an appropriate funding plan supported by modern asset management principles.
- 2.3 The 2009 survey identified significant levels of investment being required to meet the decent homes standard, particularly after year five (2014 onwards).
- 2.4 The 2009 survey concluded that the stock had benefitted from considerable investment in the past; however, the survey also demonstrated that ongoing investment would be required to protect the fabric.

³ The 2014 survey, based on the 'Survey Standard', identifies the total costs for major repairs at £793 million in the period 2015-2020. This comprises of (a) Programme Renewals @ £756m in 2015-2020, (b) Tower Block Structural works @ £35m in 2015-2020, and (c) Tower Block M&E @ £2m in 2015-2020.

⁴ The forecast investment requirement identified through the 2009 Survey, for the period 2015-2020 (at 2015 prices) is estimated at £528m. When we look at the same period (2015-2020) using the 2014 survey data (at 2015 prices) we arrive at a figure of £793m. This suggests that the investment requirement for the period 2015-2020 (comparing 2009 to 2014 on a like-for-like price basis) has increased by circa £265m. These estimates are based on the 'Survey Standard' and not the 'Tenantable Standard' or 'Commonly Adopted Standard'.

3.0 THE 2014 STOCK CONDITION SURVEY

3.1 In 2014 the stock is found to be performing poorly in energy efficiency terms and requires investment to reduce fuel poverty (see key message relating to non traditional stock and tower blocks below). The overall average SAP rating for the stock is 57.3. According to Savills this average is low in comparison with other stock they have inspected. The reasons are primarily:

- The lack of over cladding work undertaken to the low rise non traditional properties and the tower blocks.
- A large number of electric and oil heating systems which attract a lower SAP rating than gas.

3.4 The stock condition survey has concluded that a large amount re-roofing will be required in the next 20 years.

3.5 There are currently circa 41,000 dwellings outside the Housing Executive's target to maintain the external elements of a property every eight years (including planned external painting and repairs to prevent deterioration in the physical condition of the stock) – this equates to 47% of the Housing Executive's residential stock.

3.6 The great majority of the Housing Executive's portfolio has no failures against either the Housing Health and Safety Rating System (HHSRS) or the Fitness Standard. Less than 1% fails. HHSRS and Fitness represent the minimum standard for housing and therefore this is unsurprising. Whilst the Housing Executive has spent insufficient money on capital works, they have generally carried out essential repairs, the absence of which could lead to HHSRS and Fitness failures.

3.7 The 2014/15 survey has identified a need to spend circa £6.44 billion over a 30 year period – this is the investment on a component and property basis and includes responsive, void and cyclical repairs. The total investment includes an average capital investment (to fund replacements and improvements) of **£45,790** per property (excluding responsive, void, cyclical, related assets and painting). Areas of investment priority include:

- Bathrooms
- Heating
- Electrical wiring
- Kitchens
- Roofs
- External repairs and decorations

These survey findings and the costs have been used to develop an investment plan for a minimum standard and a higher, more commonly adopted standard.

3.8 The minimum standard requires less than £6.44 billion because it excludes some elements of work and is broadly the standard to achieve statutory compliance plus the minimum investment required to ensure a property is fit for sustainable occupation.

3.9 The total cost for the higher standard is above £6.44 billion because it assumes that all properties are brought up to the same standard within a similar and reasonable timeframe - ensuring that investment is made at the right time. It also ensures the work is done in sequence to maximise the benefits, e.g. there is little merit in replacing windows with new double glazed windows, if you do not replace the front and back doors – the right investment.

3.10 In the event the programme of work identified is not undertaken, the implications would be as follows:

- Deterioration is likely to accelerate in the future, which is likely to increase the rate of component failures and so make the organisation of planned proactive works programmes more difficult.
- The cost liability will increase in overall terms since the scope of work is likely to be greater and efficient planning more difficult.
- There's a possibility that there could be further HHSRS and fitness failures.
- The current poor performance of the stock in energy efficiency terms will continue and is likely to continue to impact on tenants in terms of fuel poverty.
- There will be an increasing level of dissatisfaction from the tenants as a result of the deteriorating stock and lack of modernisation.

4.0 INVESTMENT STANDARDS MODELLED IN 2014

- 4.1 Ultimately the cost of maintaining the stock is driven by the current condition of the stock plus the standard that a landlord adopts. The Asset Commission has identified two “investment standards” – a **minimum** standard (tenantable) and a **modern** standard (commonly adopted by other social landlords). In summary a minimum standard includes the minimum investment required to achieve statutory compliance plus the lowest amount of investment required to ensure a property is fit for sustainable occupation. In comparison, the modern standard delivers the right level of investment at the right time - carrying out, as required, programme and improvement work and providing components which do not currently exist. And the modern standard ensures that all properties are brought up to the same standard within a similar and reasonable timeframe.
- 4.2 The total investment required over 30 years to achieve the **minimum** standard is £5.84bn and includes an average capital investment (to fund replacements and improvements) per home of **£38,951**. The total investment required over 30 years to achieve the **modern** standard is £6.70bn and includes an average capital investment (to fund replacements and improvements) per home of **£48,791**.
- 4.3 Historically the investment made by the Housing Executive appears to have aligned with a standard which is higher than the minimum. More recently however any investment made by the Housing Executive has been against the minimum (tenantable) standard due to insufficient funding. In practice this has meant that the Housing Executive has only had funding to carry out work to some of the stock and as a result work is continually being deferred and a backlog is increasing.
- 4.4 In parallel with only being able to achieve a lower standard, the Housing Executive’s approach to asset management in recent years has been to direct its limited resources as widely as possible, where it would optimise compliance with the decent homes, rather than to target where investment can increase value (socially and/or economically).

5.0 HOUSING DEMAND/STRESS IN 2014

- 5.1 The Asset Commission has supported the Housing Executive to create an asset catalogue.
- 5.2 The production of an asset catalogue has identified circa 536 long terms voids, with approximately 372 of these already earmarked for disposal/demolition. The remaining 164 have been empty for at least 3 years.
- 5.3 Demand for properties varies across estates with around 10% of estates showing no waiting list, and a similar proportion where the number of applicants is higher than the number of homes. 2 estates have 10 times as many applicants as homes.
- 5.4 43% of all households reported as the Housing Executive's tenants in the 2011 census are one person households. Of these, 71% are living in family sized accommodation (defined as 4 rooms or more). 28% of tenants are in 2 people households, and of these, 88% are living in family sized accommodation. This mismatch of stock to demand could have financial implications for tenants and the Housing Executive following the introduction of welfare changes. The Housing Executive's own preliminary research (MS Excel file: "NIHE under occupied cases 290115") has identified almost 27,000 tenants aged under 65 years who live in properties with more bedrooms than they require under the assessment. The majority of these (74%) have one additional bedroom and 26% have more than one additional bedroom. In total there are over 34,000 under-occupied rooms. In addition there is a projected growing number of over 55s in Northern Ireland and coupled with welfare changes, this may lead to an increase in demand for retirement and smaller homes that currently isn't being met.

6.0 FINANCIAL PERFORMANCE IN 2014

- 6.1 The Asset Commission has reviewed how well the housing assets are performing from a financial and non financial perspective. The non financial sustainability indicators look at a range of factors including demand.
- 6.2 Just less than 60% of the Housing Executive's stock is performing efficiently i.e. the rent due on the property meets the long term investment needs of the stock and costs of day to day management and maintenance. The initial results of the asset performance evaluation exercise indicate an average Net Present Value (NPV) of approximately £128 per unit. The total NPV is £214m worse than when assessed in 2009 presenting a picture of a cycle of decline driven by underinvestment in the stock.
- 6.3 The average rent charged for Housing Executive homes is now significantly below the average rents charged by comparable social landlords in other parts of the UK. These averages were very similar 10 to 12 years ago and this relative reduction in income contributes towards the financial challenges facing the Housing Executive.

7.0 NON TRADITIONAL PROPERTIES (2014)

- 7.1 One in ten of the Housing Executive's properties are of non traditional construction. These homes typically suffer from structural defects and the properties generally have poor thermal insulation qualities, resulting in low SAP scores and often damp and condensation issues. These issues can be dealt with by carrying out any necessary repairs to the structural components followed by over cladding. This work can be costly but has the benefit of giving the property a long term life, improving the thermal performance and also improving the appearance.

8.0 TOWER BLOCKS (2014)

8.1 The Housing Executive owns 32 tower blocks. These generally remain as constructed and, similarly to the non traditional low rise properties; have issues with the structure and poor thermal insulation qualities, both of which can be addressed by over cladding. Historically the Housing Executive has had insufficient funds to undertake this work and has instead only carried out essential repairs to the structure. The 32 Tower Blocks are a disproportionate drain on the Housing Executive's finite resources

9.0 SYSTEMS, PROCESSES AND PROCEDURES (2014)

- 9.1 The Housing Executive has no easy way of identifying all its owned or leased properties on its Core IT system– with a need to research data in several different fields to confirm status and a particular lack of clarity on properties sold on a leasehold basis. This means that compliance and due diligence tasks are difficult to complete accurately and in a timely manner. At the time of preparing stock lists for modelling it was assumed the Housing Executive owned and managed 87,726 number of rented properties, with an additional 6,000 leasehold dwellings and 87,290 appear to have a rent charged against the property based on the rent roll at this time.

10.0 EFFICIENT SUPPLY CHAIN ARRANGEMENTS (2014)

- 10.1 The Housing Executive currently has 1,528 contracts relating to asset and property works, of which 1,223 are works contracts and 305 professional service contracts – there are opportunities to bundle these contracts and procure more efficiently.
- 10.2 The Housing Executive doesn't currently have the resources or capability (internal or external) in place to deliver a major programme of work as specified in the 2015 stock condition survey. Savills have indicated that it would take at least three years to have the right contracts in place (18 months procurement + 18 months ramp-up), a procurement strategy developed in order to procure the contracts and a dedicated asset management function within the landlord.