



Department for
**Social
Development**
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Housing
Executive

DSD/NIHE Asset Commission Summary Report

December 2015

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1.0 Introduction

1.1 Purpose of paper:

This paper explains the scope of each element of the DSD/NIHE Asset Commission 2014-15 and provides a brief summary of Savills' key findings. In addition, it describes the options and actions DSD and NIHE are developing in response to Savills' findings.

1.2 Background:

Savills was commissioned in July 2014 by the Department for Social Development (DSD) as part of the Social Housing Reform Programme (SHRP). The scope of the commission included a range of asset consultancy and associated technical services which were carried out between August 2014 and August 2015.

The role of the Northern Ireland Housing Executive (NIHE) was essentially one of 'partner'. NIHE benefited from a deed of reliance, allowing them to rely upon the professional skills and judgement of Savills and all associated consultancy outputs. The commission brief was developed jointly with the NIHE and DSD, and the exercise as a whole was executed jointly with participation from NIHE and DSD staff. In other words, although the work was commissioned by DSD it was to all intents and purposes a 'joint commission' - a point of principle agreed with the NIHE's Board in early 2014.

The consultancy outputs were designed to facilitate the assessment of options for future social housing landlord arrangements under the DSD SHRP.

The outputs were also designed to support improved operational service delivery, programme planning, business planning and strategic planning by NIHE and DSD in the period preceding the implementation of the outcomes of the SHRP.

1.3 Commission Structure:

The technical requirements for the commission were set out as a series of 'client requirements', the details of which are described further in **Annex 1**. Broadly speaking the 'client requirements' fall under four key themes, which organise this summary:

- Stock Condition and Investment Requirements (Client Requirement 4 & 6)
- Asset Performance Evaluation (Client Requirement 3 & 5)
- Compliance (Client Requirement 2)
- Contracts (Client Requirement 9)

An overarching project management framework for the Commission was designed and implemented to ensure efficient delivery.

2.0 Stock Condition and Investment Requirement

2.1 Introduction:

Savills carried out a comprehensive exercise to assess the current and future repairs and maintenance liabilities of NIHE's properties and related assets. This involved 'a sample survey of 25% of the properties (over 22,400 surveys) and a detailed structural, mechanical and electrical assessment of the condition of the tower blocks'. Once the survey was complete Savills modelled the results along with financial data and assumptions provided by NIHE to create a cash flow for NIHE's landlord function.

2.2 Savills' findings and conclusions:

'the full level of investment identified during the 2009 survey¹ has not been made due to financial constraints and, as a consequence, the stock has deteriorated during the last 5 years. ... projections of costs moving forward have therefore increased and will continue to do so without sufficient investment...'

'...the total cost at today's prices [of the investment required in the NIHE stock] is £6.7bn² See Annex 2.

'...the survey costs identified in the 2014-15 survey total £370m more than comparable figures from 2009. These additional costs largely appear in the first five years [of the new cash flows] which is consistent with the actual investment in the five years since 2009 having been below that recommended in the 2009 survey. This has resulted in a back-log of works accumulating which must now be addressed...'

'...there is significant investment [circa £1.5bn] required during the next 5 years. In addition to the financial challenge this presents, there is also a significant practical challenge in terms of the capacity of the market to deliver such a large programme ...a 3 year lead in time is likely to be required before the levels of investment identified can be delivered on the ground and current investment programmes are concluded'. This "delay" will result in an increase in liability [from £1.5bn] in the 5 years that follow...'

'...in the short term, the pressing priorities are the internal fabric of the properties, particularly the bathrooms and wiring, but there will be an increasing amount of work required to the external fabric, particularly the roofs. This is inevitable given the age profile of the properties'.

'Whilst the stock has lacked investment, it generally meets the minimum standard for housing set out in the Fitness Standard, the Housing Health and Safety Rating System (HHSRS) and the Decent Homes standard'.

'the portfolio generally comprises of well built stock that has historically benefitted from significant ongoing investment. However, the stock is getting older which results in an inevitable requirement for increasing investment. This issue, combined with the limited investment that has taken place in recent years (particularly since 2009), means that significant investment is now required'.

¹ http://archive.niassembly.gov.uk/researchandlibrary/deposited_papers/2010/dp620.pdf

² This investment requirement was defined by Savills by reference to a standard – the Commonly Adopted Standard (CAS). As the name suggests CAS is an investment standard adopted by many landlords in other jurisdictions. It includes a degree of improvement to the properties moving forward. This standard also broadly aligns with NIHE's old Multi Element improvement standard – which was applied when refurbishing and modernising stock in the past

All quotations cited above have been extracted from Savills outputs under Client Requirement 4 and 6 of the joint DSD/NIHE Asset Commission 2014-15.

2.3 DSD/NIHE response:

The Department's Social Housing Reform Programme has considered all options for how the £6.7bn of required investment can be funded. It has worked with Savills:

- to see what current structures with current levels of income can afford;
- to see what current structures can afford if their income may be increased – i.e. if the rents that are charged by NIHE are affordably increased and if it may borrow; and
- to see what can be afforded by different models and structures – i.e. if the stock of the NIHE were to transfer to a housing association.

Savills modelled the results of the survey along with financial data and assumptions provided by NIHE to create a cash flow for NIHE's landlord function. This is a standard financial tool which housing professionals refer to as a 'landlord business plan'.

NIHE's landlord business plan illustrated projected income and expenditure (over 30 years). Savills used this to undertake scenario analysis and sensitivity analysis, as well as providing an indication of the long-term viability of various options and potential structural configurations for delivering landlord services.

These findings will inform proposals being developed for Ministerial and Executive consideration of the potential reform of social housing structures..

The key findings, however, are clear:

- If the level of investment that the Stock Condition Survey has identified is to be delivered, particularly the immediate investment requirement that is needed urgently, then significant additional funding is required. This cannot only be rental reform. If they are to remain affordable, rents cannot fund the investment in the NIHE stock that is required over the next 5-8 years.
- Affordably increased rents will need to be supplemented by significant additional capital investment (circa £500m to £750m) and a borrowing requirement of circa £0.5bn to £1bn (both estimates depending on underlying cost inflation, taxation liabilities, efficient procurement, source of the funds, cost of borrowing, etc).

In the meantime, and prior to reform, investment still needs to be taken forward by the NIHE. Decisions are required on how it can best manage its assets, and how it can best improve the performance of its assets and value for money. Other parts of the Asset Commission support plans to tackle these questions.

In this context a key output from the work of the Commission is a new Asset Management Strategy for NIHE.

The Strategy has now been formally approved by the NIHE's Board and DSD. Steps will now be taken to embed its strategic principles within the future delivery strategies of the Housing Executive.

Implementation of the Strategy will involve adopting an active asset management approach across the asset base and will inform the development of the first in a series of 5 year investment plans, thereby providing direction for the approach to investment in NIHE stock over the coming years.

DSD will monitor the work of the NIHE to ensure that investment activity is properly aligned with the principles of active asset management, the Asset Management Strategy and takes into account the findings of the Joint Asset Commission.

3.0 Asset Performance Evaluation

3.1 Introduction:

Savills in the first instance worked alongside NIHE staff to execute a quality review on a catalogue (list) of property assets provided by NIHE. The purpose for this activity was fourfold:

- To identify a complete and accurate list of all assets owned by NIHE.
- To ensure that the data used for the other elements of the commission was as accurate as possible.
- To assist NIHE in improving asset data quality and integrity for business as usual purposes.
- To ensure that the asset data used by the SHRP is as accurate as possible.

Once a list of assets was agreed with NIHE, Savills undertook analytical modelling, combining stock condition survey results with the data and assumptions from the NIHE cash flow (business plan) and a variety of non-financial data to create an Asset Performance Evaluation (“APE”) Model. In addition Savills worked with NIHE to support the drafting of a NIHE Asset Management Strategy (“AMS”).

3.2 Savills’ findings and conclusions:

‘NIHE operates a housing management system used by many modern social landlords..... Similarly, NIHE operates electronic databases for capturing and managing asbestos information and planned works. Much of this information appears complete and consistent however a notable number of opportunities for improvement, within and between systems, have been identified’.

‘A comparison of the data held on the HMS [Housing Management System] and the Schemes Asset Management System (SAMS) and Asbestos Information Management System (AIMS) has revealed some material mismatches between property numbers, and property status (e.g. in particular whether properties that have been demolished, or sold leasehold, were accurately identified as such on all systems). There is a further mismatch between HMS and AIMS with 9,260 property records of NIHE owned assets on HMS that cannot be matched to the AIMS extract provided’.

‘[At the time of the review] NIHE [did] not have a single source detailing a complete and accurate list of all its assets. Although based on reviewing and triangulating the systems, Savills have prepared a single asset catalogue with data held for housing, asset and asbestos management which will assist NIHE in rectifying some of their data issues’.

‘However the level of data issues identified is not inconsistent with data reviews we [Savills] have carried out in other large landlords’.

‘Just under 44% of the stock (37,974 units) is in asset groups with an average net present value (“NPV”) per unit which is negative [i.e. the rental income collected from these properties is not sufficient to maintain the properties and service residents over the next 30 years]’.

‘Just over 56% of the stock (49,245 units) is in asset groups that have a positive NPV [i.e. 56% of the homes generate enough rental income to meet the cost of maintaining the properties and service the residents over the next 30 years]’.

‘Within the positive NPVs there is just over 20% of the stock (17,842) units with marginal cash flows with an average NPV of below £5,000 [i.e. 20% of the stock is marginally viable and therefore very susceptible to reductions in income and/or increases in operating costs]’.

‘there is a considerable level of under-occupation in the Housing Executive’s stock. Data from the 2011 Census indicated that 58% of its housing stock was under-occupied....., at a broader level under-occupation [in NIHE stock] is largely a function of a relatively static stock - much of which was built as family housing to serve renewal needs in the 1960s-1980s, with no new build by the Housing Executive since the late 1990s - and the continuing trend on the waiting list towards smaller households due to socio-economic and market factors’.

‘the performance of the NIHE portfolio is weak when compared with similar large landlords in other jurisdictions. A decline in current [financial] performance is observed when compared with the results from earlier analysis by

Savills in 2009.

'Performance has declined, as predicted in 2009, as income has been, and is forecast to continue to be, insufficient to mitigate the impact of revenue and capital costs'.

'14% of the stock (11,861 units) show poor sustainability from both a financial and non-financial basis. This stock represents priorities for options appraisals to explore how performance can be improved'

All quotations cited above have been extracted from Savills outputs under Client Requirement 3 and 5 of the joint DSD/NIHE Asset Commission 2014-15.

3.3 DSD/NIHE response:

A key part of the Asset Management Strategy will be the introduction of a wide ranging option appraisal programme designed to address the issues identified in the Asset Appraisal Evaluation.

In addition the Strategy sets out a number of key strands which include:

- Adopt an active asset management approach.
- Target major investment in stock with a long term life.
- Conduct option appraisals for stock currently performing poorly prior to major investment.
- Deliver holding investment as necessary in appraisal areas.
- Set a standard to achieve when making investment.
- In this context adopt a commonly adopted standard (CAS) similar to that delivered by NIHE in previous capital improvement programmes.
- Create a longer term investment plan.
- Procure contracts commensurate with the long term plan.
- Recognise that the stock holding cannot be static and therefore demolition and new build should form part of future asset management considerations.

In order to ensure the effective delivery of these strands of activity, all designed to support efficient and targeted investment to maximise the performance of the NIHE portfolio under a constrained financial operating environment, a number of other initiatives are underway:

- The procurement of a new Asset Management System is complete.
- The creation of a new Asset Management division with a significantly revised structure is currently under development.
- The approach to procurement is being revised to maximise the ability to deliver forward programmes of work as identified by the stock condition survey.

DSD has put in place an Asset Management Sponsorship team to enable and monitor the NIHE's asset management work and support the new NIHE Asset Management Division.

4.0 Compliance

4.1 Introduction:

Savills conducted a review of all NIHE's compliance processes and provided recommendations for future improvements in order to ensure that NIHE's compliance function complies with all statutory and regulatory obligations, is fit for purpose to manage risk, and adopts good practice. Savills report was based on the information and evidence that NIHE provided up and until the end of January 2015.

4.2 Savills' findings and conclusions:

'NIHE is a large and complex organisation going through a significant compliancy transition involving the compliance delivery functions being migrated from the centre to the three regions'.

[At the time of the review NIHE demonstrated] 'a lack of consistency regarding policy, process, procedure, performance management and a lack of clear accountability in the majority of compliance areas,.....the quality of data relating to compliance on some of the core systems needs improvement,.....a large number of databases hold the compliance data rather than a single source.'

'...additional framework documentation is required to create a more comprehensive and robust approach and in doing so minimise risk to the business [NIHE],it is necessary to ensure ownership is clearly identified and a robust organisational wide approach to managing compliance is implemented,.....there is a need to develop a more integrated approach to the IT systems used to support compliance'.

[Savills recommend] 'a corporate review of NIHE's structure, policy, procedure, processes and systems in relation to compliance,.....the creation of a central asset assurance and compliance function,[and] the establishment of a programme of training for staff at a regional level, as the functions are transferred from the centre, to ensure competence in the management of compliance and an understanding of its importance'.

'there is a general lack of landlord policy, process, procedures and performance management in relation to compliance and, where it does exist, it is inconsistent. A more structured framework of documents covering landlord compliance is required'.

'NIHE is in the process of transferring the delivery of Compliance from the centre to the regions'. Savills suggest 'the general approach, roles, responsibility and accountability are not clear at a central or regional level' and therefore recommend 'a review of job descriptions linked to the transfer of compliance to the regions'.

'NIHE could be at risk regarding legal action should any significant incident occur. DSD's oversight role would be facilitated by the compliance management change plan being in place and implemented'.

All quotations cited above have been extracted from Savills outputs under Client Requirement 2 of the joint DSD/NIHE Asset Commission 2014-15.

4.3 DSD/NIHE response:

The Compliance Review set out a series of recommendations concerning the effective implementation of all Health and Safety related statutory and regulatory obligations. The Board of NIHE subsequently approved a comprehensive action plan designed to address all of these issues. This is, in practical terms, now well underway and will ensure the delivery of a comprehensive suite of policies, processes and procedures designed to ensure that all key risks are minimised in this vital area of the Housing Executives operation. The action plan was developed in line with the recommendations put forward by Savills and includes ensuring the introduction of clarity around roles, responsibilities and accountabilities at all levels within the revised asset management structure in relation to compliance issues.

Given the high importance of compliance issues, the NIHE will report progress against the Action plan to DSD on a monthly basis, and also update the DSD Minister at performance review meetings.

5.0 Contract Review

5.1 Introduction:

Savills worked alongside NIHE staff to review and summarise existing repairs and maintenance (responsive, planned, cyclical, compliancy and consultancy) contracts, on a contract by contract basis, with a bias towards legal matters, contract continuity and transition planning. The work was executed through a desk top review of contract documentation.

5.2 Savills' findings and conclusions:

'The current [NIHE] practices broadly reflect the [NIHE] procurement strategy and standing orders. We [Savills] have provided commentary based on observations developed during the review process and suggest these should be considered as NIHE review and refine current practices and its approach to procurement'.

[Savills raise the following points for consideration by NIHE through their review]:

'Reduce the number of small works contracts through larger, longer and more comprehensive main contracts, and in particular the repairs and maintenance contracts.

Move towards industry recognised schedule of rates as opposed to customised pricing schedules.

Consider moving towards 5 to 10 year contract arrangements with appropriate extension periods built in based on efficiency and quality of service provided. For example 4+3+3 or a variable suitable to the business and contracting environment.

Consider the use of alternative contract formats.

Streamline the quality assurance process covering both pre and post inspection'.

[Savills also drew the following conclusions]:

'The quality of contract documentation reviewed reflects the environment within which NIHE operates, and they are broadly fit for purpose under the current procurement strategy and standing orders. Legal support is used throughout the procurement process and is available for day to day advice and support.....A contract register is in place covering both works and professional services....A procurement time table is under development and will be complete by the end of the summer.....Work is required to align the finance ledger with the number of live contracts currently in place'.

'The contract information reviewed broadly reflects, as far as we can tell, historic priorities for Government and NIHEs historic asset management strategy³. Obviously this will however change as the priorities for Government are refreshed and NIHE develops a new Asset Management Strategy. We understand that NIHE is preparing to refresh supplier arrangements at which point in time any new requirement for alternative supplier arrangements (i.e. mix of works, trades, skills or specialism's) or additional contract cover will be addressed'.

5.3 DSD/NIHE response:

Following the Savills report and in considering how best to maximise benefits from its future procurement approach, the NIHE Board agreed to formally adopt some key principles in respect of works procurement. The key tenets set out below have all emerged from recent reviews and they represent a summary of the main ideas generated as a result.

- a) move towards the adoption of industry recognised schedule of rates and contract terminology instead of utilising bespoke Housing Executive approaches;

³ The NIHE Maintenance Investment Strategy Review 2011-2016

- b) reduce the size of documentation used for small works, converting it into a more user friendly format, reflective of the value of works being tendered;
- c) build customer requirements into the contract documentation reflecting the needs of the residents within the dwellings;
- d) review the approach to quality assurance processes and inspection requirements;
- e) adopt a streamlined structure for procurement, providing a more joined up and efficient approach;
- f) reduce the number of small works contracts through larger, longer and more comprehensive main contracts, particularly in the delivery of repairs and maintenance service;
- g) actively consider moving towards 5 to 10 year contract arrangements with appropriate extension periods built in based on efficiency and quality of service provided. For example, 4+3+3 or a variant suitable to the business and contracting environment;
- h) streamline the quality assurance processes covering both pre and post inspection;
- i) give active consideration to the scale and nature of the client function required to monitor future contracts which are designed on this basis;
- j) similarly give consideration to the extent of the use of consultancy in project management delivery;
- k) develop corporate social responsibility initiatives through the procurement process;
- l) use a 60/40 quality price ratio in procurement of new contracts and
- m) closure of historic (redundant) final accounts.

6.0 Interpretation & Insights

When Savills findings are read together and interpreted as a whole, they provide the following insights:

- Some of the findings arising from the DSD/NIHE joint asset commission highlight areas in which NIHE can improve service delivery, governance, compliance, operational processes and procedures.
- The findings from the main stock condition survey, combined with the asset performance evaluation modelling and cash flow modelling, indicate that the requirement for investment in the NIHE stock over the next 30 years exceeds NIHE's current forecast income and borrowing limits.
- A material portion of the assets are performing poorly from a financial and non-financial perspective, placing a disproportionate drain on NIHE's limited and finite resources. This places a question over the sustainability of the current arrangements.
- Collectively these findings frame the requirement for a significant investment intervention if all of NIHE's assets are needed to serve another generation of social tenants, and particularly so if there is a desire to maintain them at (or above) current standards.
- The situation has worsened since 2009⁴, and is likely to worsen again in the next five years in the absence of increased investment (made at the right time in the right place) combined with the application of modern asset management principles.
- The performance (viability) of the portfolio will continue to decline in the absence of increased investment because NIHE's income is insufficient to cover the required revenue and capital costs.

Response by DSD and NIHE

DSD and NIHE are now formulating options and (where appropriate) mobilising action plans to help address the various findings and recommendations arising from the DSD/NIHE Asset Commission, 2014-15.

These findings will inform proposals being developed for Ministerial and Executive consideration of the potential reform of social housing structures.

In the meantime, and prior to reform, investment still needs to be taken forward by the NIHE. Decisions are required on how it can best manage its assets, and how it can best improve the performance of its assets and value for money. The 2014-15 Asset Commission provides valuable tools and data to help NIHE progress such matters.

⁴ Costs identified in the 2014-15 survey total £370m more than comparable figures from 2009.

Annex 1. Description of the Client Requirements from the DSDNIHE Asset Commission 2014-15

The consultancy requirements were in the first instance set out as 'Client Requirements', these were then structured into three Work Streams based on the delivery structure illustrated below. Each Work Stream drew upon a different set of specialist consultancy skills and different subject matter experts.

Asset Work Stream 1 (AWS1)	Asset Work Stream 2 (AWS2)	Asset Work Stream 3 (AWS3)
<p>Client Requirement 2 Compliance</p> <p>A detailed review of all NIHE's compliance processes and measure of its compliance performance</p>	<p>Client Requirement 3 Asset Catalogue</p> <p>A qualitative review on a catalogue (list) of property assets provided by NIHE</p>	<p>Client Requirement 6 Options Analysis & Cash flow Modelling</p> <p>Contribute to the housing stock options analysis supporting the business case process and producing tenanted market values, rent analysis and landlord business plan (cash flows)</p>
<p>Client Requirement 4 Stock Condition Survey</p> <p>An assessment of the future repair and maintenance liabilities of NIHE's properties and associated assets</p>	<p>Client Requirement 5 Asset Performance</p> <p>An evaluation of the performance of NIHE residential assets from a financial and non-financial perspective and development of a draft asset management strategy</p>	<p>Client Requirement 10 (Part of) Funding Feasibility</p> <p>A review of fundability of transfer options and market appetite for transfer options under consideration</p>
<p>Client Requirement 9 Contract Review</p> <p>Review of NIHE existing repairs and maintenance contracts</p>		
<p>Client Requirement 10 (Part of) Contractor Market Sounding</p> <p>An assessment of appetite and capacity within the construction industry to take on additional work within the NI social housing sector</p>		

Note: Client Requirements 1, 7 and 8 all related to project management and data management requirements, and as such do not deliver technical insights or consultancy products – for this reason these elements of the commission have not be summarised in this paper.

Note: Client Requirement 10 has not been summarised within this document because some of the information associated with these requirements is commercial and sensitive it nature.

Annex 2. Stock Condition Survey Results - DSDNIHE Asset Commission 2014-15

Table 1. Stock Condition Survey Results (costed at the Commonly Adopted Standard)

**Commonly Adopted Standard
Draft 30 Year Costs
Total Stock - 87,439 properties**

Summary of All Costs							
Description	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Total
Programmed Renewals	£935,347,695	£585,199,868	£727,895,668	£633,706,093	£461,824,173	£354,779,098	£3,698,752,594
Tower Block Structural	£35,390,335	£0	£1,078,405	£0	£1,078,405	£0	£37,547,145
Tower Block M & E	£1,979,000	£3,576,900	£1,563,500	£2,502,800	£2,407,500	£1,536,300	£13,566,000
Related Assets	£12,199,992	£10,807,525	£8,976,716	£8,450,787	£7,396,132	£7,006,079	£54,837,230
Environmental Improvements	£43,729,500	£43,729,500	£43,729,500	£43,729,500	£43,729,500	£43,729,500	£262,377,000
Response/Cyclical/Void	£325,832,461	£325,832,461	£325,832,461	£325,832,461	£325,832,461	£325,832,461	£1,954,994,765
Painting and Repairs	£96,523,500	£65,594,250	£65,594,250	£65,594,250	£65,594,250	£65,594,250	£424,494,750
Asbestos	£15,000,000	£5,000,000	£5,000,000	£5,000,000	£5,000,000	£5,000,000	£40,000,000
Fire Related Work	£10,000,000	£5,000,000	£2,500,000	£2,500,000	£2,500,000	£2,500,000	£25,000,000
Aids and Adaptations	£31,501,258	£31,501,258	£31,501,258	£31,501,258	£31,501,258	£31,501,258	£189,007,548
Grand Total	£1,507,503,741	£1,076,241,762	£1,213,671,757	£1,118,817,148	£946,863,678	£837,478,945	£6,700,577,032
Total per Annum	£301,500,748	£215,248,352	£242,734,351	£223,763,430	£189,372,736	£167,495,789	£223,352,568

Average Cost per property **£76,631**

All costs are exclusive of professional fees, VAT, management and administration costs and are based on today prices.

The Aids and Adaptations budget is based on our understanding of current expenditure. This is not a survey item and the expenditure incurred is very much based on policy.