



Advisory Panel: Asset Management and Repairs and Maintenance

Thursday 23 February 2017 – Savills, 33 Margaret Street, London, W1G 0JD

Attendees:

- **Chair:** Robert Grundy, head of housing, **Savills**
- Mike Donaldson, director of strategy, **L&Q**
- Jane Porter, executive director of operations, **Amicus Horizon**
- Jillie Smithies, director of housing and property services, **Golding Homes**
- David Morgan, managing director, **Wates Living Space**
- Richard Medley, director of assets and neighbourhoods, **Chartered Institute of Housing**
- Cliff Horrocks, corporate director - asset management, **whg**
- Steve Michaux, director of leasehold services, **A2 Dominion**
- Brent O'Halloran, director of asset management, **The Hyde Group**
- Charlotte Semp, director of strategy and investment, **Notting Hill Housing Trust**
- Steve Brookfield, regional operations director, **Kier Services**
- Paul Reader, director, **Morgan Sindall Property Services**
- Ben Johnson, assistant director of property, **Watford Community Housing Trust**
- Paul Pledger, assistant director of property and development, **Epping Forest District Council**
- David Sherrington, deputy director of property, **London Borough of Haringey**
- Jan Taranczuk, head of repairs and maintenance, **London Borough of Ealing**
- Richard Ellis, head of Peabody and CBHA projects and surveying services, **Peabody Trust**
- Greg Birch, head of property and investment, **Brent Housing Partnership**
- Ian Gregg, executive director of asset services, **The Riverside Group Ltd**
- Martin Hilditch, editor, **Inside Housing**

Apologies:

- Jez Lester, assistant chief executive, **Incommunities Group**
- Ian Thomson, executive director assets & investment, **Johnnie Johnson Housing Trust**
- Andy Mackay, director of planned delivery, **The Guinness Partnership**

Discussion summary

1) Deregulation, stock rationalisation and active asset management

- We are likely to sell void properties in high value areas rather than put residents in. Alternatively we are looking to redevelop if affordable. The question is – what do we do with the proceeds from the sale?
- We've been active in **stock rationalisation**. Deregulation has been an opportunity to be more active in churning out stock. We're identifying low performing properties to divest and where to invest in acquisitions. Also improving value and **performance of stock** and utilising income for development.
- Voids are serendipitous but the challenge is **decamping**. We need to find methods or rewards for residents to move out of high value properties without getting into financial bargaining. Perhaps by working with other organisations who may have suitable homes in an area where the resident wants to move to.

“Disposal is a useful tool but the problem is driving a receipt into a new product”

- We've been selling low performing stock for a while but it's difficult to decamp because people start to see the value of social housing. A big incentive would be to move them into a new home. It's a struggle to maintain the decamp process.
- **Deregulation** makes disposal easier but in reality, it's about the relationship with **Local Authorities**. We need to look at the land as well as the housing in our approach to demolishing and reproviding.
- How do Local Authorities feel about Housing Associations flogging stock?
- Disposing of low performing stock is a useful tool but the problem is how to drive the **receipt** into a new product. Another problem is the cost of **temporary accommodation**. What incentive can we use that saves us on that cost?

“How do you incentivize residents to move without bargaining?”

- The **high value levy** is a real problem for our district where property values are so high, there is the potential of losing over 40% of our stock. It's a real threat to our HRA business plan. We're lobbying the government to re-evaluate.

2) Managing the impact of cost savings on repairs and maintenance

- This isn't new – we're all looking at **appraising our stock**. The challenge is the increasing complexity of our stock profiles (both affordable and market housing). There are challenges in how we make the investment add up (converting tenures) but there are concerns about the lack of affordable housing supply.
- Is there potential for underinvestment in stock if we don't see a change in rent policies?
- Not the case for our organisation – we're still focusing on investing in assets. We're overlaying a **modernisation agenda** as a way of supporting **efficiency measures**. The services we offer may not be sustainable as the complexity of our stock portfolio increases – we may look at **differential services**.

“There comes a tipping point – we can't see our income go down as our costs go up”

- We're seeing a gap forming between housing management and asset management teams. We need to ask the question – is that house being utilised correctly? This provides a different slant on which assets are performing. We need to encourage a **shift in tenant mind-sets** and be stricter on expectations i.e. repercussions for property damage. It's not an entitlement – that mind-set is not sustainable now.
- There comes a tipping point where something has to give – we can't see our income go down as costs go up. We need to **ensure tenants understand their responsibilities** and take ownership, we can **lengthen lifecycles** and streamline customer service.
- The outside world is changing and we need to change with it. No-one expects to have their bin collected weekly any more, Tesco offers economy brands for cheaper prices – we need to challenge everything. For example, why are houses bigger than they need to be? Should we offer different housing and **different services for different segments?**

“You need to consider how to bring tenants along with you if you start to charge for services”

- You should also consider how to bring tenants along with you if you change services in this way or start to charge for services. How to **manage their expectations** and get them to understand there are duties on both sides.
- We're investing in assets in the hope that the **responsive repair bills** go down. It's worth having a discussion on differential service levels for mixed tenure properties – does it work? Or could this be problematic? Best practice models don't exist yet but it raises the question of what are we here for?
- We're facing challenges around components with huge **maintenance costs** in high density homes. How can we contain this efficiently within the rent cuts?

“My concern with demand-led maintenance is that it's customer-driven rather than property driven”

- It begs the question – how much should we invest on major works? Is it always appropriate in post-**Decent Homes**? We're shifting our approach to **demand-led replacements** rather than programmes based on stock condition surveys. Is decency withering on the vine?
- My concern with demand-led repairs is that it's customer driven rather than property driven through a survey. It needs to be both to avoid the **risk of underspending** in the short term for some properties.
- You also have to consider **stock valuation** issues waiting around the corner.
- We looked at costs after Decent Homes and they hadn't been decreased but it had raised **tenant's expectations**. Also, **development teams** need to consult with asset management teams about the maintenance costs and implications of materials they select.

“You need to understand where demand is coming from and why”

- We're looking at a way of putting in place an **investment cap** over the life of an asset i.e. a **tenant's allowance** on spend. If an asset is not performing well then you should adjust the investment you're willing to put into that asset. The question is – what is an acceptable allowance?

- You should also understand where demand is coming from and why. There is lots of **data** on this but we don't do a **proper analysis** of it.
- We achieved **Decent Homes** before the deadline and were self-financing because we bought our way out of the subsidy system. If we have **industry standard lifecycles** then we replace more frequently but repair costs go down.
- Do we carry on with modern homes standard or revert to Decent Homes standard because we can't maintain those standards?
- We have seen success in **asset investment**. We have used the most expensive contractor in the past because it saves us – delivering a better service with less grief and avoiding bad publicity around failures.

3) **Procurement. Large versus small delivery.**

- If you look at geographical density, there are opportunities for huge savings by **aggregating spend** and purchasing services in a more effective way. Through collective buying power, you get a better deal and better services across multiple stock.
- There is scepticism about **contract aggregation** – I don't recall seeing a better, cheaper service as a result of aggregating.

“Are larger providers always better?”

- We must acknowledge the huge amount of waste in the sector – for example **silos in procurement** and IT. In many cases, it hasn't changed in 15 years and the sector is being forced to make changes now.
- Agreed but are larger providers always better?
- It's not large contracts that give economies of scale, it's **standardisation**.
- Yes there is no evidence that bigger organisations cost less and I would invite any large organisation to prove that's the case.
- We're working on a Rethinking Repairs project and encouraging people to think differently. Rather than deciding whether to contract or go **in-house**, we're asking

“It's not large contracts that bring economies of scale, it's standardisation”

'how do you do it well?' How do you **redefine the service you're offering** in the first place before procuring it?

- As Housing Associations, we've not been good at **managing big contracts**, our objectives haven't been clear enough or we haven't had the skills to manage those contracts effectively. We tend to be risk averse.

4) Partnership working. Insource versus outsource. DLO versus contractor

- I was one of the judges on the UK housing awards and there were a number of applications where they delivered a great service because they got rid of a contractor and brought **in-house**. Yes there's the potential that scale can drive down cost but what about things like additional annual leave? It's not all more efficient and we should challenge that perception.
- Buying power is linked to size of organisation not size of contract. Everybody is doing it differently and I agree it should be about who is doing what well. **DLOs** are an option but I come from the generation who helped abolish them in the 80s – we're bringing them back while forgetting why we abolished them in the first place.
- Contractors can deliver the service Housing Associations want but they need to decide what service it is they want to buy. Whether it's **JVs, wholly owned subsidiaries or DLOs**, you need to ask – how much of a **partnership** do you want to make?
- Could the industry get to point where Housing Associations deal with tenancy admin and letting and the rest of it is **outsourced**?

*“Rather than deciding whether or not to contract,
you should ask ‘how do we do it well?’”*

- If you **procure in silos**, you end up with a siloed approach. One of the **advantages of the private sector** is they can react quicker to changes in the market and also take **risks** of asset management away from the client.
- You will respond to what the clients want but sometimes the client can't move fast enough or don't know what they want. You do need a **long-term relationship** to make it work.
- I agree – there are some things that private organisations are good at. Without doubt, a transformation is needed in the housing sector and **JVs** can be a good vehicle. However, you need to understand what they're for and what you want to achieve with the partnership.

- We're asking the question – should we have a DLO or not? Tenants love DLOs but it has never given us **good value**. We decided to **in-source**.
- Why didn't you run a **competitive** process to test whether your supposition is correct?
- I'm very sceptical about how we could compete taking into account salaries, annual leave, maternity leave, etc. We struggle to **compete** with partner contractors. Mergers are an interesting challenge as everyone has different approaches, this can be costly – it opens up the question of bringing in more **standardisation** and synergy.

“Tenants love DLOs but it has never given us good value”

- We have to ask ourselves – are we good enough as clients? In the past, the client's **finance departments** have been greedy and instead of tendering the best match, we have tendered the cheapest. So what can we expect? An adversarial battle. We need to keep our nerve over partnering.

5) The impact of mergers on asset management

- One of the challenges we faced in the merger was inheriting different **stock profiles**. We need to take an approach that looks at the **stock condition survey**. Otherwise we'll ending up spending money we don't need to.

6) Any other issues

- **Fire safety** should be on the agenda, particularly in light of new research that smoke alarms fail to wake children. Also new guidance on how to manage **sheltered housing**.
- **Gaps in databases** and the risks that presents needs to be addressed – things as fundamental as knowing how many properties we've. Encouraging organisations to **invest in data**.
- If we talk about demand-led repairs to a room of asset managers, we're preaching the converted. We need to **involve FDs too** and discuss how to construct a **business plan** around that.

7) Post-advisory board input

- I think the **construction skills** shortage is a good subject for the contractors on the Advisory Board to lead on. As an industry, we have managed to fill to **skills gap** with

Eastern European workers over the last 10-15 years, but we don't know whether **Brexit** will result in these workers being forced to return 'home' or whether their residency conditions change and make it uneconomical to remain in the UK.

I don't know whether we could get someone from the Government to contribute to a discussion. The **big contractors** must be thinking about the implications. Anecdotally, the week before the Christmas break and the week after, our key planned maintenance contractor's workforce (direct and sub-contractors) was reduced by around 40%, because their Eastern European operatives went home for an extended Christmas break (their 'annual' holiday).

I'm not sure where best practice lies on tackling this issue. **Apprenticeships** in construction trades have failed to work, as young people don't aspire to work in contraction. Apprentice degrees have now been launched, but its early days with this initiative. The industry needs to review how apprenticeships are marketed and delivered.

Someone from a college or university could speak on this subject. The CITB (Construction Industries Training Board), Westminster or South Bank Universities (who run construction degrees) or the College of North West London (who run trade courses) may be able to help.

Off-site construction would help – I believe Just Housing is doing some work on this. Ironically, **Direct Labour Organisations** – which we debated yesterday – could be an answer. Most DLOs deliver responsive maintenance services, but could they be adapted to deliver planned or new build services.

The Direct Works Forum is a trade body for DLOs and could be approached. One area of good practice that I am aware of is a charity called Bounceback, which trains serving prisoners to become painters/decorators and scaffolders and then employs them when they leave prison in their workforce.

- **Large v small delivery.** Two case studies in one session on a 'Tesco and Tesco local' repairs delivery model.

Insource verses outsource or **DLO verses contractor.** There is a Direct Works Forum that similarly represents DLO's. In addition you have delivery models in-between such as **Wholly Owned Subsidiaries** or **JV**. Perhaps do it as a 'court' with each having 10 minutes to put their case to the 'jury' the audience. Followed by a bit of cross examination! Maybe hire in a barrister to make it interesting and a bit of fun!



Homes 2017 is taking place on 22-23 November 2017 at London Olympia

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