



Hanover (Scotland) Housing Association Ltd

Asset Management Strategy

2016 - 2021

Board Approved

26 May 2016

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Section 1 : The broad context

Introduction

- 1.1 Hanover's key strategic objective is to provide warm, modern, comfortable and affordable housing for our residents and this means making the most of our property assets.
- 1.2 We are aware that we must apply good strategic asset management decisions to create value in our properties, that we must be very cost conscious, avoid waste and ensure that we take an approach that is focused and proportionate.
- 1.3 We are also aware that most of our finance comes directly from rent our customers pay, and that the quality of our housing must be maintained. It follows that customer satisfaction is central to maintain this flow of money. Most costs flow out, in the form of management, maintenance and investment and, in looking after our homes, we must work hard to ensure that our assets benefit our existing and future customers.

Defining asset management

- 1.4 Hanover endorses the definition of asset management¹ used by the Scottish Housing Regulator, which is:

“The management of property assets to ensure that they contribute efficiently and effectively to the achievement of an organisation’s objectives now and in the future.”

- 1.5 In the context of regulatory expectations, points stressed by the Regulator are:
 - 1) *Good strategic asset management is core business for governing bodies of RSLs who are well informed and set direction*
 - 2) *Customers want decent quality homes with modern facilities that reflect their (changing) needs*
 - 3) *An Asset Management strategy provides a transparent framework to explain and guide stock expenditure decisions*

¹ This strategy has been written taking account of guidance issued by the Scottish Housing Regulator, the Scottish Federation of Housing Associations, the Chartered Institute of Housing and the Royal Institute of Chartered Surveyors.

- 4) *Strategic asset management encompasses many potential issues but has to rapidly focus on the most important*
- 5) *It is important to have an up to date, comprehensive and reliable information base.*
- 6) *RSLs need to have plans in place that ensure core stock is well maintained and will stay that way*
- 7) *Strong procurement processes are important as is the fostering of a wider performance and value for money culture*
- 8) *Demand and need for housing is not static and understanding the impacts of this is important to ensure investment is both sustainable and targeted at identified needs, eg adaptations*
- 9) *Asset values need to be maintained to enable future borrowing*

Corporate strategy and the business plan

- 1.6 Overall, this strategy has the purpose of reflecting and supporting the long term business aims of Hanover as set out in the business plan. It is implicit in this report that strategy, business planning and asset management processes are closely linked.
- 1.7 Relevant references in the business plan to areas of asset management strategy are as follows.

From Hanover's Six Commitments:

- *We will provide well designed, well maintained, affordable, warm and modern housing.*
- *We will find simple and practical solutions that make a real difference to the lives of our customers.*

From Hanover's Strategic Priorities:

- *We will provide a development and asset management strategy to ensure that we provide quality, flexible, sustainable models as a platform for service delivery.*
- *We will ensure that all stock fully contributes towards the achievement of the Association's strategic objectives.*
- *We will develop cost effective ways of repairing and maintaining our properties.*

- *We will innovate and develop ways for our customers to avoid fuel poverty. To counter higher energy prices, we remain committed to making properties as energy efficient as possible and strive to achieve best value when negotiating contracts for the supply of energy.*
- *We will strive to continue the development of new housing in identified strategic priority areas in conjunction with the local authorities and other key partners.*
- *We have an annual target of 40 units over the period 2015-18.*
- *Only by developing 75 units or more will there be a negative impact on the gearing targets of around 7 years*
- *Where the stock no longer makes a contribution of being affordable, of the right type, location and standard, we will evaluate whether further investment in the stock will solve the problems or whether other options should be considered.*
- *We will have a good understanding of who our customers are and what their wants and preferences are. Where possible, we will look into the future and use our knowledge of customers to adapt our approach to asset management.*

Addressing strategic areas

- 1.8 Hanover has considered the areas below in strategic reviews and in other key areas of its work. However, they are evolving and will require to be addressed during the next few years as our asset management strategy and plans develop. These are listed in **Appendix 1** ie:
- 1) stock no longer fit for purpose;
 - 2) whole life costing;
 - 3) Net Present Value (NPV) – its effectiveness as a tool
 - 4) development viability
 - 5) development appraisals
 - 6) capital finance
 - 7) linking Hanover’s different strategic plans and considering economic and political drivers
 - 8) risks
 - 9) Energy Efficiency Standard for Social Housing (EESH) compliance.
- 1.9 These important elements of the aims and priorities will be addressed in the 5 year medium and 10 year long term period.

- 1.10 Officers will work with the Board in relation to the above and other key strategic issues to be developed from our asset management work. We will seek to obtain a clear strategic direction and set of parameters from the Board, from which Officers can implement the strategy.
- 1.11 Our work on this asset management strategy has been based on the above and Section 2 provides a summary of what this strategy intends to achieve.

Section 2 : Summary of what we intend to do

2.1 Hanover's asset management strategy will allow the Association to:

- 1) maintain a strategic approach to asset management that fits with the organisation's corporate objectives
- 2) consider that good asset management starts at the design stage of a new development and provide a suitable Design Brief (which is regularly reviewed) operate to meet the sustainability Silver Standard and adopting the concept of *Whole Life Costing*
- 3) deal with housing stock which gives us cause for concern by taking an active and proportionate approach to problem solving
- 4) extend major asset management work to include environmental and landscape improvements, to ensure that our properties continue to provide homes which are inviting, are enjoyable places to live and create a positive impression
- 5) apply criteria for the assessment, including NPV appraisal of proposed new developments
- 6) annually update the Net Present Values of our developments to show the best and poorest performing developments
- 7) consult with customers and incorporate customer feedback into the above appraisals and with regard to replacement programmes
- 8) be clear about changing patterns of demand amongst different client groups for our housing and the link this has with asset management appraisals
- 9) meet all statutory and regulatory requirements
- 10) use the best procurement methods and ensure cost conscious decision making
- 11) ensure good quality data is held about our housing stock by:
 - completing a full stock condition survey (building on the substantial SHQS surveys) between 2016 and 2018
 - establishing an individual property database with this information which:
 - is included within an integrated ICT system
 - embeds component replacement data with up to date costed data, and
 - is fully accessible to all staff

- 12) ensure that an effective management control and performance management system is in place to control expenditure and risk
- 13) develop accurate projections to give a 30 year planned maintenance investment cycle including identifying any under resourced areas of future expenditure
- 14) work collaboratively with Strategic Finance to inform our 30 year financial plan and develop 5 year rolling investment plans, building in strong performance management and flexibility to meet movement in annual plans
- 15) meet, within the above, the very challenging climate targets, complying with EESSH and actively work to address fuel poverty
- 16) creatively use the stock asset base to periodically raise capital borrowed against loan-free stock to part fund new housing
- 17) continue the recent trend of developing amenity developments to bring more balance to the stock reflecting extended lifespans and longer retirement years
- 18) ensure necessary capital and/or revenue funding is in place when working with local authorities on high care schemes
- 19) consider existing stock potential for opportunities in the light of future strategy and direction; use new development opportunities where possible to build on Hanover's Hub and Spoke service delivery model
- 20) work collaboratively across all sections of Hanover and with key partners to achieve successful outcomes
- 21) ensure that our customers are provided with quality information to help them use, operate and maintain the new appliances with ease
- 22) ensure there are adequate staffing resources and expertise in place to deliver the plan
- 23) ensure that our corporate risk register identifies key risks and the methods required to manage these.

Section 3 : Asset management methodology

Core principles

- 3.1 Drawing from the strategic priorities set out so far, the core principles of our asset management strategy will be:
- 1) taking an integrated approach combining the management of the stock with business aims and objectives and customer consultation and feedback;
 - 2) ensuring all stock, its location, type and condition is what Hanover and our customers need for the future, that it is viable and affordable;
 - 3) ensuring there is a clear direction for the future, set by the Board.

Taking an integrated approach

- 3.2 There are a number of related areas of asset management that need to be established and consolidated for a fully integrated approach (see diagram below). For Hanover, as a mature organisation with sound processes, it needs to have all of these in place.

Related areas

Taking an integrated approach to Asset Management (AM)

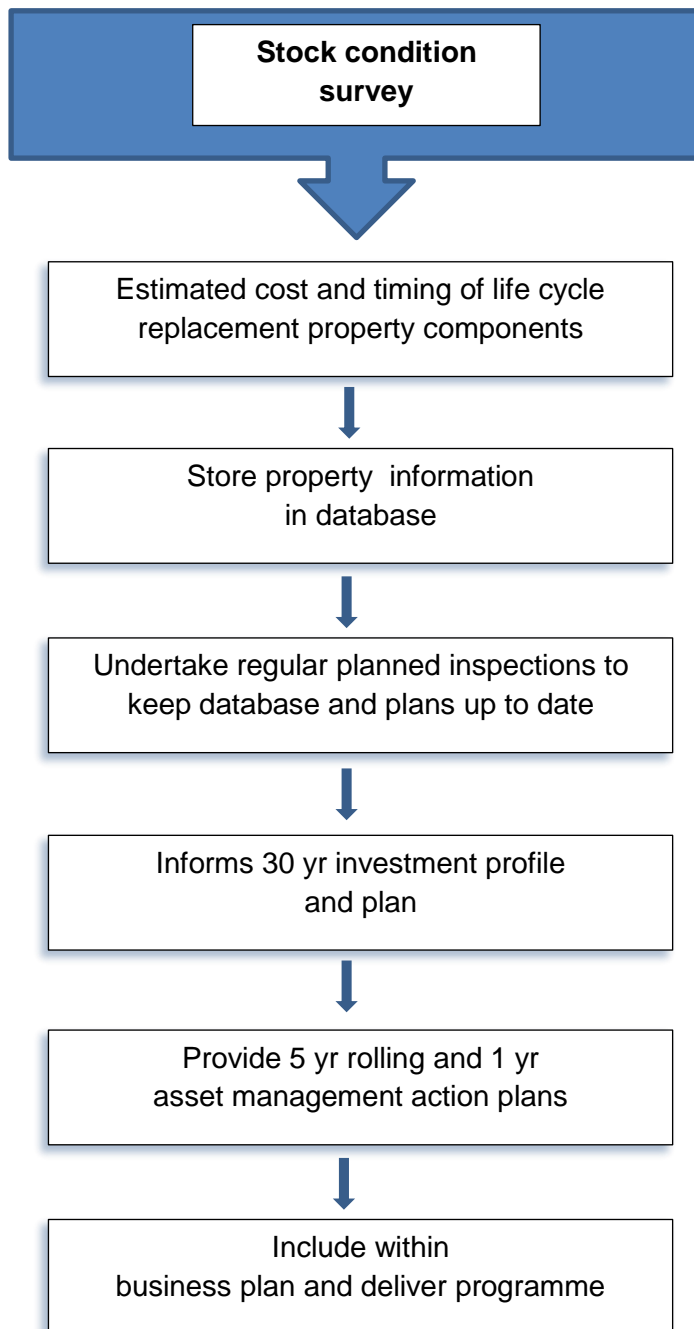


3.3 The areas and their application to Hanover are:

- 1) **asset management strategy** – We will maintain a strategic approach to the management and maintenance of our stock and new build.
- 2) **basic landlord duties** - All basic maintenance programmes such as reactive repairs, voids, planned, cyclical and servicing in place functioning and affordable with tenancy and legal responsibilities met.
- 3) **corporate strategy and business plan** - asset management reflects corporate strategy and informs the business plan
- 4) **customer involvement** - Ensure our customers are provided with quality information to help them use, operate and maintain new appliances with ease. Customer satisfaction feedback systems in place and comments fed back to improve programme planning and customer communication maximising digital opportunities..
- 5) **legislation, Regulation and Compliance** - responsibilities met (eg.SHQS) or working towards (eg.ESSH).
- 6) **procurement and Value for Money** – Procurement practices in line with the law, Hanover’s own processes and Value for Money obtained.
- 7) **Cause for Concern stock and development appraisals** - Review and make recommendations for developments affected by age or low demand.
- 8) **new build design brief** - Ensuring this is regularly reviewed so our new developments are of the highest quality.
- 9) **NPVs** – Stock reviewed on a NPV basis to show those developments making a positive or negative contribution to the overall portfolio.
- 10) **data and performance management** – Individual property database in place and constantly updated as component replacements and servicing takes place and rates change.
- 11) **30 year financial plan** – 30 Year asset management projections in place and affordable.
- 12) **assets to raise capital** - Creative use of loan-free stock to raise fresh capital to part fund more new housing.

Existing stock - a methodology based on good stock information

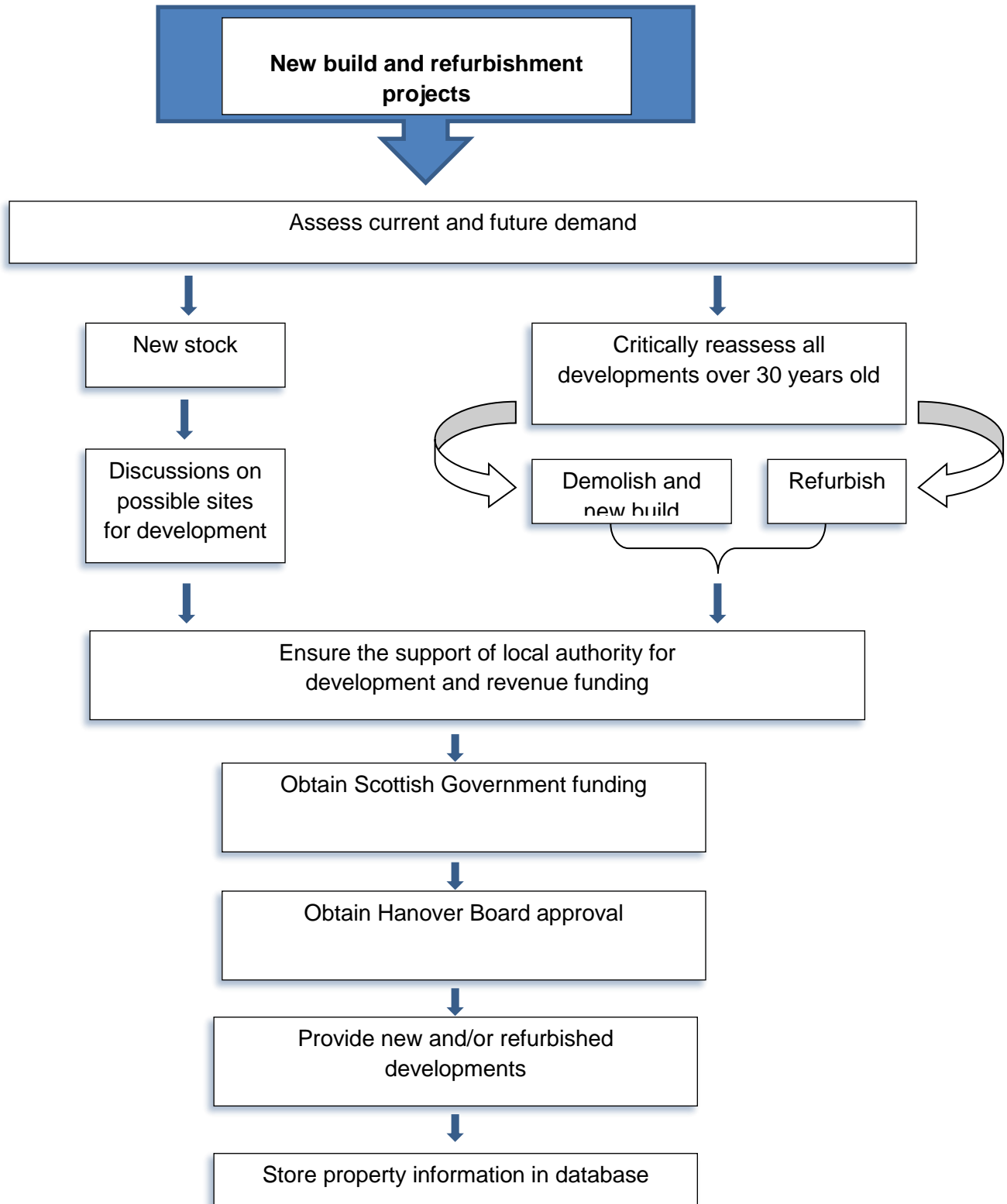
3.4 The diagram below provides an outline of the methodology applied.



- 3.5 Good quality stock information is essential to provide a firm foundation to inform decisions about investment, long term planning and delivery. A clear objective of this strategy will be to build a robust picture of stock condition to turn it into a sensible set of 30 year investment assumptions.
- 3.6 Stock condition information needs to be based on a stock condition survey, estimating the cost and timing of life cycle replacement of building elements so a 30 year investment profile can be built up.
- 3.7 Hanover has excellent SHQS information obtained from good sampling of our property and our work programmes. It is intended in the following 18 months to carry out a full survey to provide 100% complete property information of our stock.
- 3.8 In Hanover this information will be held on a new database. This will be a database providing records for individual flats and common areas replacing the current database which only holds records at scheme level. It will be kept up-to-date by recording work carried out in individual flats and common areas, together with replacement dates and information gathered from routine inspections.
- 3.9 This information in turn becomes the basis from which our 30 year investment profile will be developed and included within our business plan.
- 3.10 A basic starting point for the above is in providing for life cycle replacement of the different building elements (see Section 9). This is why having good information on our current stock, and its condition, is essential. It must include the age of building elements, an understanding of anticipated life-cycles and an understanding of replacement costs. All of this information informs the 30 year investment profile.

New build –a methodology based on identifying sites and re-appraisals of existing developments

3.11 The diagram below provides an outline of the methodology applied.



3.12 Going forward, in our new build proposals and asset management appraisals of existing developments,, we will ensure that we:

- 1) critically reassess our oldest stock against customer satisfaction, future demand and management and maintenance costs. We will start the process by reassessing all developments over 30 years old;
- 2) assess current and future demand for our existing developments;
- 3) obtain Board direction on where to focus our new build development programme to consolidate and avoid areas considered geographically peripheral;
- 4) ensure appropriate strategic linkages ie to local authority Strategic Housing Investment Plans (SHIPs) and Local Housing Strategies (LHS) / Housing Contribution Statements;
- 5) ensure the support of local authorities in developing new sites, in the redevelopment of sites in areas where we have established relationships and in new target areas;
- 6) ensure we have the support from local authorities for revenue funding as appropriate;
- 7) provide new and refurbished developments that properly reflect the type and location of housing we want to build.

3.13 With the above set out we then have the necessary information with which to develop, maintain, demolish, redevelop, re-model or sell, in short to make asset management investment decisions tied to objectives in Hanover's Business Plan.

3.14 When major questions arise during the implementation of this process, we will discuss them with the Board, obtain direction from the Board and give guidance to staff.

Section 4 : Stock – past, current and future investment

Context

- 4.1 The primary purpose of this paper is to highlight how asset management planning impacts on:
- 1) our current stock
 - 2) future development
 - 3) the options we have in using our property assets to continue part funding new housing.
- 4.2 To help place the above in context, a short overview is taken of where Hanover is now, providing our stock profile and our recent past, current and future investment.
- 4.3 Hanover is proud to provide homes in which people enjoy living and recognises the need for investment in the future on all forms of maintenance and servicing.
- 4.4 Whilst we do not have a wide variety of build types, mutual ownership or excessively wide variations in maintenance costs per property, our traditional model of sheltered housing, and variants of this, means we have large areas of internal and external common areas to maintain (such as lounges etc).
- 4.5 These additional elements are what makes our core model attractive, giving much added value for residents through the community facilities they provide for social activities and opportunities for companionship – factors which attract many residents to our housing in the first place .
- 4.6 This is highlighted as the majority of our developments add additional elements and costs to our asset management programme over and above what is likely to be provided by a general needs housing provider.
- 4.7 Overall, the Association has very well maintained housing and recognises the value of a forward-looking asset management strategy. The ongoing maintenance and upgrading of the stock is essential to preserve its appeal and, through that, its long term attractiveness to applicants.

Stock profile

- 4.8 Hanover has a rented stock of 4,088 properties. They are arranged over 165 developments developed between 1969 and 2015. The high point of development was between 1980 and 1996 when 104 developments, comprising 3075 properties, were built.

- 4.9 Hanover overwhelmingly caters for older people in developments with full common facilities and plant. As a national Registered Social Landlord (RSL), Hanover has stock across mainland Scotland from Dumfries to Fort William in the west and from Jedburgh to Inverness in the East.
- 4.10 Hanover has full ownership of each development. It is predominantly new build. There is no high rise or multi-tenure stock and there is only one known development of non-traditional build. There has been no Right to Buy.
- 4.11 There is some 'Cause for Concern' stock but Hanover is aware of this and will continue the record of the recent past by undertaking appraisals to consider the options available. There is some mutual ownership affecting refurbished developments but on a small enough scale not to distort our long term investment projections.
- 4.12 In addition, Hanover factors 1199 properties on 36 other developments. As these are wholly privately owned properties, with Hanover providing a maintenance service and some management services to the owners at their expense (through a management agreement), these owner-occupied developments are not to be considered part of this strategy.
- 4.13 This paper is therefore primarily about current rented stock, its future maintenance and use. We do, however, include a section on new development as this also needs to be aligned with the asset management strategy.

Investment overview

- 4.15 This strategy is written at a time when the peak years of Hanover's development is producing a corresponding peak in re-investment needed in our stock (see [Appendix 2](#)). It is also at a time when issues of low demand 'Cause for Concern' stock have appeared on a small number of developments and solutions need to be found.
- 4.16 Looking to the recent past, there has been a step change since 2011/12 in the amount of planned and cyclical maintenance investment made. The average annual investment from 2001/02 to 2010/11 was £2.374 million. From 2011/12 to 2014/15 the average was £4.847 million. For 2015/16 to 2017/18 it is projected to be £7.363 million.
- 4.17 £7.730 million is being invested by Hanover in two major stock redevelopment projects and one new build project at Leask Road, Forres, Waterford Court, Giffnock and Doonholm Road, Ayr; expenditure being spread over 2015/16 and 2016/17 .

- 4.18 Following Board approvals, a further £6.312 million will be invested in two new developments recently started on site in Elgin at Glassgreen and Haugh Road, most of the investment being in 2016/17.
- 4.19 These are significant levels of investment .We will act responsibly to make it work well for our customers. We worked with consultants, Gaia, on the scheme at Glassgreen which includes sustainable and innovative features incorporated into the design such as heat pumps and passive solar gain.
- 4.20 In addition, a major part of Hanover's re-investment is in meeting the Energy Efficiency Standard for Social Housing (ESSH) and component replacement programmes. Component replacement may be on the first or subsequent replacement cycles and involves key items such as kitchens, bathrooms, boilers and windows.
- 4.21 Hanover is currently 80.2% compliant with ESSH and our asset management plans will include a programme for the remainder to be compliant by 2020.
- 4.22 Our attention will also be focussed on those few developments (eg Drymen) which were exemptions under the SHQS for economic reasons and our approach will be to assess cost effective solutions for these developments.
- 4.23 Subject to approval, this draft asset management strategy will form the basis for drawing up a rolling five year Asset Management Plan. This plan will set out in more detail our investment, re-development and compliance plans.

Section 5 : Asset groups

5.1 Part of an asset management strategy would normally include dividing the stock into asset groups based on different build types. The purpose is to assess their performance by group as an indicator of their contribution within the stock as a whole.

The good practice approach is to:

- construct 'asset profiles' to reflect different groups of (built) assets
- compare performance (costs and incomes) between them
- recommend a strategic response for each group.

5.2 However, Hanover's housing stock is remarkably homogenous. There is some difference between the designs for amenity, sheltered and very sheltered but the build type varies little. The dominant build type is low rise new build.

5.3 Although each development is reflective of the time they were built, the point to make being there are insufficient differences between them to justify creating different asset groups.

5.4 In addition, it is felt that a fully refined and developed NPV analysis will be much more informative than creating asset groups.

5.5 There is some refurbished stock which could be a distinct asset group if differences in income and running costs justified it, but our assessment so far is that the differences do not justify creating a separate group. We will monitor this and act accordingly if material differences emerge.

5.6 Nor are there any implications arising from the Right to Buy or mutual ownership. Both charitable status and sheltered housing give Hanover exemption from the Right to Buy. The nature of new build on cleared sites also means there is rarely mutual ownership save for some boundary or party walls. Both factors mean Hanover can deal with a single pre-eminent asset group of 'low rise new build traditional construction'.

Appraisals of existing developments

- 5.7 Those developments which, due to age, design, excessive current and projected running costs, ESSH demands, falling demand or a combination of these, will be fully re-appraised as part of a rolling annual programme.
- 5.8 This is to introduce a timeframe for re-appraisal with the opportunity for consultation across Hanover on issues arising. The main point being to identify the reasons any scheme is thought to be problematic and to identify solutions.
- 5.9 The work done by consultants 4point2 on NPVs is a useful indicator and starting point for prioritising appraisals, which will be supplemented by the knowledge of staff managing developments.
- 5.10 Based on age, known developments that need early appraisal are:
- 1) 001 Conic and Montrose Way, Drymen (1965)
 - 2) 002 Stormont Road, New Scone (1968)
 - 3) 005 Hanover Court, Village Lane, Livingston (1976)
 - 4) 006 Hanover Court, The Square, Earlston (1976)
 - 5) 007 Coppice Court, Grantown-on –Spey (1977)
 - 6) 008 Hanover Court, Station Road, Banchory (1979)
 - 7) 038 Taylor Court, Broomhill Road Keith (1983)
- Another development, 009 Rosewell Gardens, Aberdeen, has already been subject to a past review and was significantly upgraded in 2014/15.
- 5.11 The appraisal would review all current and future factors impacting on a development as a first stage and go on to a second stage of making recommendations where changes were needed.
- 5.12 We will undertake any finer sensitivity analysis of the factors and data that might be needed to assist decision making.
- 5.13 In undertaking appraisals, Asset Management will consult with residents and work with other departments as a successful approach is more likely to occur from such collaborative working.

Section 6 : Stock condition survey and building a new individual property database

- 6.1 Our asset management strategy has to start with knowing the up to date condition of all our properties. To do this we need to undertake a stock condition survey. This is essential to build up an individual property database and, based on this, obtain reliable 30 year investment profiles.
- 6.2 The surveys will include inspecting the internal and external common areas as well as each flat. This will more accurately identify future planned maintenance costs on an individual property basis rather than at development level, as now.
- 6.3 The survey will assess condition and allow a restatement of the anticipated year of next replacement for each component. The list of components to be inspected has been finalised and uploaded to Hanover's live Open Housing environment. Open Housing is Hanover's Property and Tenancy database software.
- 6.4 Data will then be collected and input directly on site to a tablet, into a customised template which forms part of the property record. The first pilot surveys will take place in June 2016 which will also test the mobile working software.
- 6.5 As the surveys will result in setting up a new individual property database, they have to be completed reasonably quickly. This is to make sure early data does not become out of date and can be transferred to the new database as soon as possible. From this point, it is considered essential to complete the surveys and have all of the survey information in the new database by 31 March 2018.
- 6.6 Due to the corporate importance of the new database and the more accurate financial projections it will produce, it is proposed to delay the recruitment of the Energy Efficiency Officer until April 2018 and, instead, recruit an inspector to do the majority of the surveys on a two year fixed term contract from early in 2016/17.
- 6.7 Currently, component information is held on spreadsheets with limited access to staff in general. This will change, as stock data from the surveys will be held on our main Open Housing software system.
- 6.8 This is a deliberate and fundamental change to widen access to the information to as many colleagues as possible including the Customer Service Centre. It means the information will no longer be held in isolation, but will be integrated with all of our other housing and maintenance data.

The data will include information on gas servicing, periodic electrical inspection and other compliance programme dates.

6.9 At development level now, the components we keep include the leading items such as kitchens, bathrooms, boilers, radiators, storage heating, windows, common area painting, common lighting and doors. These core components make up the biggest spending items in our programme.

6.10 Looking at the 5 year period 2016/17 to 2020/21, the projected planned maintenance capital and painting investment needed is £25.225m. Of this, the main investment areas are:

• Bathrooms	£4,692m
• Boilers	£3,598m
• Kitchens	£3,551m
• Storage heating	£3,404m
• Painting	£1,887m
• Windows	£1,739m
• Radiators	£1,041m
• Common lighting	£0.785m
• Doors	£0.805m
Total	£21,502m

6.12 Each year we will use our inspections to critically assess the right time to replace components taking condition, repair costs and the needs of our customers into account.

6.11 The new property database we build up will also include records for our three main offices in Edinburgh, Glasgow and Elgin.

Section 7 : Net Present Value (NPV) and performance comparison

- 7.1 As previously stated, we feel at this time that Hanover does not need to categorise its stock by construction type into different asset groups in order to compare 'performance'.
- 7.2 However, we do now have the results of the work commissioned from consultants 4point2 which provides a meaningful league table of income and cost performance for all of our developments.
- 7.3 This produces an NPV as a key output. The NPV is based on core data on current and projected maintenance expenditure, tenancy termination rates, void rent losses, customer satisfaction, management costs and rental income.
- 7.4 The end result is a ranking of all developments in order of their NPV per property. As the NPV is effectively an aggregate expression of various 'performance' indicators, a development's NPV and its ranking in the league table, is directly and reliably a measure of its performance. The results range from a high NPV of £49,227 per property to a low of minus £13,112. The full listing is given in **Appendix 3**.
- 7.5 As this is an NPV report generated from a first and single data set, some degree of caution is needed in evaluating the results. We will need to see equivalent reports using subsequent years' data to be fully confident of first year trends.
- 7.6 A preliminary pattern from the first dataset shows:
- Very Sheltered developments have the poorest NPVs
 - Amenity developments have the best NPVs
 - Sheltered developments have positive NPVs but in the low to mid-range
- 7.7 It is proposed to further investigate this in order to ensure that we have a full understanding of the behaviour of costs. We will then use this knowledge to inform decisions and, where necessary, seek Board decisions on any strategic issues arising.
- 7.8 The performance comparison achieved through the 4point2 analysis can be used as a strong indicator of high cost developments. It is not proposed to use the analysis as the sole indicator of development performance but as a guide for further investigation through development appraisals.

7.9 Initial training has been given to two Hanover staff on how to maintain and build on the data. Fresh data needs to be input annually into the system to maintain its relevance and value to us. The fresh data is the same type of data as originally input but always using the latest year's data.

Section 8 : Investment planning and planned maintenance

- 8.1 The presence of a dominant build type removes the need for analysis between construction-type asset groups.
- 8.2 What is most meaningful for Hanover is to understand the impact of very sheltered developments at one end and amenity and general needs developments at the other end of the 4point2 NPV analysis.
- 8.3 The distinguishing features in both cases are the management and maintenance costs. Annual validation work will be required to verify the accuracy before drawing conclusions on which investment or appraisal decisions are made.
- 8.4 Current 5 year planned maintenance figures for the full stock are included in **Appendix 4**. This shows projected potential expenditure of £25.225m between 2016/17 and 2020/21.
- 8.5 The planned maintenance investment figures are accurate for the next 5 years but regular reviews are needed, especially of those beyond year 5. The first full 30 year review will be based on the results of the stock condition surveys.
- 8.6 Based on expected investment levels for the next 5 years, the annual contribution from each rent to meet this investment is £1,234.13. This is just above the mid-point of the 'industry' standard which ranges from £1,050 to £1,350 per year.
- 8.7 Included at **Appendix 2** is a graph showing new development and the history of handovers. The peak in the early 1980s illustrates how this leads to the higher profile of planned maintenance over the period 2016 to 2021. Hanover will need to ensure that its rent setting can meet the future work, whilst also ensuring that rents are affordable for our customers.
- 8.8 A list of life cycles we currently use for the leading components we replace are shown in Section 9. These will be reviewed as part of our 2016-18 stock condition survey plans. We wish to maximise the reasonable target life of each component so our investment has as long a life as possible.
- 8.9 In working on our future investment profiles, Asset Management and Strategic Finance will work together to produce accurate projections accompanied by statements as to whether the programme can be funded from existing resources or not.

- 8.10 Funding considerations need to take into account covenants included in loan agreements. These are designed so that annual planned maintenance capital investment is tied to gearing and asset cover calculations. The impact of this currently puts a ceiling on how much planned maintenance can be delivered.
- 8.11 We project that this is likely to further impact on our 2016/17 to 2020/21 five year programme meaning some work may have to be deferred beyond the component life cycles in Section 9. This is, of course, subject to the condition inspections we carry out which will show how much, if any, of an impact there is.
- 8.12 If in any circumstances programme proposals risk breaching loan covenants, costed options will be provided to the Board based on more detailed sensitivity analysis.

Section 9 : Component life cycles and projected expenditure

- 9.1 Each planned maintenance component we list has a life cycle allocated to it. This is the cycle that sets a forward year for it to be inspected and, if necessary, replaced. As it is primarily an inspection year, it does not automatically translate into expenditure. This should be borne in mind when seeing future years expenditure projections.
- 9.2 The component life cycles used will be subject to annual review, as will the expenditure 'rate' we attach to each. In future, the rates we use will be common across the stock where this is possible, but will still be development specific for items like roof renewal, common flooring, lighting and painting, where no two developments are the same and having a common cost rate for projected expenditure is not possible.
- 9.3 The rates used will be based on our own experience of the cost of replacement or, in their absence, benchmarking and/or industry standard rates. Rates will always be held at current year values no matter what year replacement is expected so the basis of projected expenditure is clearly understood.
- 9.4 Procurement through 4 year framework agreements is in place for kitchens and bathrooms. This will be extended to other components where it is efficient to do so.
- 9.5 Getting life cycles and replacement rates correct and subject to annual review will be one of the cornerstones of both our planned maintenance and financial projections. The more accurate we can be with these, the better our financial planning.
- 9.6 Component life cycles currently used are:

Component	Inspection Life Cycle in Years
Bathrooms	30
Boilers	15
CO detectors	5
Common Ventilation	10
Doors	20
Electrical Rewiring	40
Fire Protection	15
Gutters, Fascias, & Soffits	30
Individual Ventilation	10
Call Systems	15

Ironmongery	20
Kitchens	20
Landscaping	tbc
Lifts (Chair)	5
Lifts Major	20
Lifts Minor	5
Lighting	15
Painting	5
Plumbing (TMVs & Showers)	10
	15
Power	15
Radiators/Pipework	30
Roof Replacement	40
Smoke Detectors	10
Storage Heating	15
Windows	30

- 9.7 We will annually review these to ensure the timing of our replacements reflects condition in use and not an arbitrary life cycle. Should any of the component life cycles be lengthened or shortened, the years when expenditure is expected will be amended appropriately.
- 9.8 We have already identified that internal common area painting does not need to have a 5 year life cycle. This has been extended to 7 years.
- 9.9 It is considered that the list above represents the earliest point at which each component will need to be replaced. The potential for extending other life cycles and selecting products which assist this will be kept under constant review.

Section 10: Maintaining Scottish Housing Quality Standard (SHQS)

- 10.1 Our asset management planning needs to take account of new compliance areas.
- 10.2 Hanover complies with the 2015 SHQS subject to 122 exempted properties. These are exempted properties on energy efficiency grounds, held once the demands of higher standard in the 2020 Energy Efficiency Standard for Social Housing were known.
- 10.3 Compliance came as the result of doubling the planned maintenance programme. The capital planned maintenance programme is now running at over £4m per year. Hanover's strategy will be to maintain the necessary level of annual investment to ensure SHQS compliance is maintained. No higher level of investment will be needed unless new SHQS standards are imposed.

Section 11 : Energy Efficiency Standard for Social Housing (EESH)

- 11.1 The minimum cost of compliance with this new standard is estimated at £2.35m. This takes account of the 800 flats with energy assessment levels below the standard.
- 11.2 Passes or fails are assessed by the score of an Energy Performance Certificate (EPC) using the Standard Assessment Procedure (SAP) on a scale of 0 to 100. Properties heated by gas have to reach 69, and for all other fuels it is 65.
- 11.3 Should the fuel type at any development be changed as an EESH compliance measure (eg from electric storage heating to gas central heating) and a decision is taken to extend this across all the properties on a development, then costs will be higher. Future reports will be given to the Board where this is in prospect.
- 11.4 In 2016/17 Hanover will assess approximately 200 borderline fails with the confidence that they can be turned into passes at minimal cost. Preparations will also be made for developments with the highest number of failures to be included in the first upgrade programme in 2017/18. The remaining compliance work will follow in 2018/19 and 2019/20.
- 11.5 In addition, our aim is to identify, appraise and fully understand the demands of more complex developments as soon as possible to help us develop solutions which can be included in our EESH plans at the outset to ensure compliance.
- 11.6 The EESH is central to Hanover delivering the business plan commitment of addressing fuel poverty. As there will be a strong correlation between the lowest EPC scores and higher energy costs, investment in the EESH and, where possible, taking account of customer preferences for gas central heating, will help us to meet this commitment.
- 11.7 As at 31 March 2016, Hanover's compliance with the EESH stood at 80.2%. Annual targets are set out for us to reach compliance by 2020. We will investigate ECO (Energy Company Obligation) grant availability for any qualifying work.

Section 12: Additional areas of future expenditure

- 12.1 There are three areas of potentially significant future expenditure not sufficiently accounted for in our current plans. These are roofs, landscaping and to a lesser extent, Stage 3 adaptations. The first two will be covered in the 2016-18 stock condition surveys, whilst trends on government funding for adaptations will be closely monitored.

Roofs

- 12.2 We only hold records for future roof upgrades or renewals for a small number of developments. This does not have an immediate impact as the lifecycle we currently keep for roof renewals is 40 years, with the potential for this to be extended. Two of our developments have so far exceeded this timeframe. Both of these developments and their roofs are currently in satisfactory condition.
- 12.3 It is highly likely that 40 years will prove overly cautious and we can extend this to a longer period of 50, or even 60 years, with a mid-point overhaul.
- 12.4 If roofs do need to be replaced, costs are substantial. Roofs, at Hanover, are well maintained through our day to day programme and it will be our strategy to prolong the working life of a roof for as long as possible, to extend the point at which the high replacement cost becomes necessary.

Landscaping

- 12.5 Whilst landscape maintenance is covered by service charge income, improvements or re-investment in hard and soft landscaping is not. No provision is made for this at present.
- 12.6 Hanover, with our distinct character of wholly owned developments in their own grounds has the opportunity to enhance the setting of many developments by investing in landscaping.
- 12.7 Landscaping will become over-mature at some point. Kerbside appeal has a key role to play in maintaining the popularity of our housing, and attractively landscaped grounds enhance our customers' quality of life.
- 12.8 Landscaping will be brought in as a component in the 2016-18 stock condition surveys so that a priority re-investment list is drawn up each year. We will introduce a lifecycle based on the results of the stock condition surveys so that the high amenity value arising from good landscaping is maintained.

Stage 3 adaptations

- 12.9 The cost of mobility adaptations for our residents is met from annual 'Stage 3' funding from the Scottish Government. In each of the last three years, Hanover has received between £360,000 and £450,000 for this work. Although this is a substantial level of funding, it has, however, been less than our annual bids.
- 12.10 Our bid is based on submissions received from Occupational Therapists on behalf of their Hanover clients. These have been running at rates of approximately 150 per year. As at 31 March 2016, there were 24 cases outstanding.
- 12.11 There appears to be a widening gap between our bid and allocation. If demand continues at present levels, Hanover may have to part fund the programme in future to meet demand.
- 12.12 Indicatively, in 2015/16, we were allocated £361,000, a sum much less than our bid. Although a sign of what could become an annual shortfall, it may well be that demand in future years is reduced by the increase in wet floor shower rooms and push-pad automatic door entries already installed under our planned maintenance programme. These two items are the most common adaptations requested.
- 12.13 No immediate action is needed but we will monitor the trend to ensure applicants do not have excessive waiting times at any point in the year.

Section 13: Compliance with statutory standards

- 13.1 Alongside the SHQS and ESSH there are other areas of legal compliance that are core to our asset management.
- 13.2 These include gas safety, asbestos, Legionella and fire regulations. Programmes are in place to cover these on cycles that meet respective regulations and, in the case of the fire regulations, carry out a programme of improvements. Electrical safety inspections, whilst not subject to specific legislation like gas, are part of our health and safety regime to ensure that electrical installations remain safe and upgraded and are carried out every five years.

Section 14: Design brief

- 14.1 The Hanover design brief sets out our specification requirements for new developments. Its review will be a priority for the second half of 2016/17. It has a key role to play in our asset management by directing consultants to understand successful features from past developments and preventing unsuccessful features from being repeated.
- 14.2 The review of the design brief provides an opportunity to include Whole Life Costing principles where these will lead to reduced overall costs to Hanover over the full life of the building. The review also allows us to adopt features necessary for gaining the sustainability Silver Standard on our new developments.

Section 15: New development

- 15.1 The majority of development in the last ten years has been amenity developments. Without resident managers and generally no internal common areas, service charges are at a minimum. This has suited a trend of people wanting to downsize and live independently in the first phase of their retirement before considering managed sheltered housing at a later age.
- 15.2 It has also been a response to the requirements of local authorities who wish to minimise Housing Support funding and Hanover's need to reduce exposure to reliance on this.
- 15.3 To ensure that new development is compatible with our asset management strategy we need to have clearly identified client groups that we will build for and target a limited number of local authorities with whom we work closely. We should also consider developing partnerships with developers with whom we can jointly work on s75² sites.
- 15.4 We will be creative in the use of our stock as an asset base to periodically raise capital borrowed against loan-free stock to part fund new housing. Against this background we will be careful to stay within the financial covenants we enter into when agreeing new loans.
- 15.5 Our approach will fit with Hanover's corporate strategy and we will work jointly with Customer Services and local authorities to ensure new development proposals fully meet the strategic housing needs of the area.
- 15.6 Taking account of current borrowing costs, we believe there is scope to increase the current minimum target of 40 new units a year. Any increase will need to be affordable in terms of borrowing and the ability to raise capital.

² Section 75 relates to the Town and Country Planning (Scotland) Act 1997 (as amended)

Section 16: Low demand

- 16.1 Hanover has experience of low demand and recognising where developments have reached the end of their design life and/or local demographics have changed patterns of demand.
- 16.2 In such cases, the options are to either:
- 1) find an alternative use or client group for the property ourselves;
 - 2) lease the property to another provider;
 - 3) demolish and sell the site; or
 - 4) demolish and redevelop the site ourselves for a different client group.
- 16.3 Hanover has already redeveloped sites at Slamannan (2010) and is on site now at Leask Road, Forres, Waterford Court, Giffnock and shortly at Haugh Road, Elgin. In all cases, a development that suffered low demand had residents re-housed, was demolished and the site used for a new Hanover development meeting current demands.
- 16.4 Both Leask Road and Haugh Road are examples of close working with the local authority where flats are being created for a particular needs group identified by the Council's social work department.
- 16.5 At Stenhouse Street, Cowdenbeath, a development which became unviable, due to local authority funding not meeting our costs, was leased to a private care home provider who then exercised a lease option to buy.
- 16.6 All are examples of strategic decisions being made when confronted with issues of low demand or unviability.
- 16.7 Our strategy will be to continue to appraise low demand properties in terms of the options at 16.2 above.

Section 17: Risk

- 17.1 The level of investment Hanover makes in asset management is high. It will continue to be high in the future and, together with the new development, decision making needs objective risk assessments.
- 17.2 Such assessments need to be applied, for instance, to the appraisal of low demand developments, the setting of component replacement cycles, the procurement of work, the ability and standing of contractors, statutory and regulatory compliance, contract management, the quality of work and ultimately, the value for money Hanover and our customers get from the work.
- 17.3 Current documented risks are included in our risk register and new risks will be added as they are determined. Each will be assessed for likelihood and impact.
- 17.4 In recent years Hanover schemes in four locations have been affected by river and sea flooding. Whilst there was insurance recovery and new preventative measures have since been put in place by the local authorities and other agencies we are aware future risks cannot be ruled out. We will monitor the effectiveness of the measures and re-engage with the local authorities if necessary.
- 17.5 We will also ask the Scottish Environmental Protection Agency (SEPA) for information on other Hanover schemes thought vulnerable to flooding. All new schemes have this risk assessed as part of the overall scheme appraisal.
- 17.6 Staffing and consultant expertise will be included in our risk assessments to ensure there are adequate resources to deliver the rolling 5 year implementation plan.

Section 18: Customer Involvement and communication

- 18.1 The delivery of the programmes covered by our Asset Management strategy will aim to involve customers at key stages and on scheme appraisal outcomes that directly impact on them.
- 18.2 When delivering planned maintenance programmes, we will give individual choices on kitchen and shower room finishes and offer this on other items where it is feasible to do so.
- 18.3 We will build on our current ways of engaging with residents to deliver programmes that provide customers with services and information they need, at the right time and in the right way. We will ensure our Customer Contact Centre has the information it needs to respond to questions about all current and future programmes.
- 18.4 As part of our joint working with ICT we will plan the introduction of email and text communication to our customers.
- 18.5 We will continue to maximise the opportunities at Tenant Forums to engage and give updates on our asset management activities.
- 18.6 The establishment of the Customer Contact Centre will give further opportunities for a two-way exchange of information and feedback.

Section 19: Strategic Objectives and Five Year Plan

- 19.1 A table giving a summary of the strategic objectives is provided in the following pages, taken from each section of the Asset Management Strategy.
- 19.2 In addition, a five year investment plan will be produced covering the period 2016 to 2021 which will be presented to the Board in September 2016.

Summary of strategic objectives

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Section 1			
<p>Maintain a strategic approach to asset management that fits with Hanover's corporate objectives.</p> <p>Review the asset management section of the business plan to ensure it reflects reaffirmed or new policy positions.</p>	Once approved include in the 2016-2019 business plan	The Board Director AM Chief Officers	Possibly financial if new commitments are made or priorities are re-ordered.
Section 3			
<p>Develop longer term investment plans and programmes with strong performance management systems.</p> <p>Ensure that an effective management control and performance management system is in place to control expenditure and risk.</p>	31 December 2016	The Board Chief Officers	None
Section 4			
<p>Undertake appraisals of stock more than 30 years old as part of our 2016-2021 five year implementation plan.</p> <p>Be clear about changing patterns of demand for our housing amongst different client groups and the link this has with asset management appraisals.</p>	By 31 March 2017	The Board Chief Officers	None immediately but possibly some consequential work from consultants in selected areas.

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Continue the recent trend of developing amenity schemes to bring more balance to the stock, reflecting extended life spans and longer retirement years.			
Section 5			
<p>Appraise older schemes to assess their future and what changes may be necessary to meet and maintain customer demand.</p> <p>Work with Customer Services and other departments to demonstrate that successful asset management comes from a collaborative approach across all sections of the Association.</p>	Completion by 31 March 2017 for the first batch of appraisals	Head of AM	Can be accommodated through the consultancy budget.
Section 6			
<p>Undertake stock condition surveys to set up an individual property database with refreshed and up to date costed data fully accessible to all staff.</p> <p>Develop integrated ICT systems that embed component replacement data making it available throughout Hanover.</p> <p>Produce new 30 year cost profiles.</p>	<p>By 31 March 2018</p> <p>31 March 2018</p> <p>31 March 2018</p>	Head of AM	None. Survey costs to be covered by proposal to delay recruitment of Energy Efficiency Officer until April 2018 and employing a stock condition inspector on a two year fixed term contract.

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Section 7			
<p>Apply criteria for the assessment, including NPV appraisal, of proposed new developments.</p> <p>Annually update the data providing the NPVs of our schemes to show the best and poorest performing schemes.</p> <p>Further investigate the NPV/management cost behaviours of very sheltered developments.</p>	<p>Annual 4point2 updates by 31 July</p> <p>Starting 31 July 2016</p> <p>31 August 2016</p>	<p>Data Analysis Officer</p> <p>Strategic Finance Team</p>	<p>None. Joint working between Asset Management and Strategic Finance</p>
Section 8			
<p>Develop a 5 year rolling asset management plan.</p> <p>Develop accurate projections to give a 30 year planned maintenance investment cycle including identifying any under-resourced areas of future expenditure.</p> <p>Review the life cycles allocated to components as part of the 2016-18 surveys.</p>	<p>31 March 2018</p> <p>31 March 2018</p> <p>31 March 2017</p>	<p>Head of AM</p>	<p>None</p>

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Section 9			
<p>Annual reviews of life cycles and component replacement rates.</p> <p>Procurement through Framework Agreements where it is efficient to do so.</p>	<p>Next review due 31 March 2017 Use of Frameworks beyond kitchens and bathrooms to be reviewed annually</p>	<p>Planned Maintenance Manager Building Services Manager</p>	<p>None</p>
Section 10			
<p>Maintain compliance with the SHQS through annual planned maintenance investment.</p>	<p>Compliance achieved but note the possibility of new standards after 2020</p>	<p>Head of AM</p>	<p>None</p>
Section 11			
<p>Meet the very challenging climate targets, complying with EESSH and meeting and actively working to address fuel poverty.</p> <p>In 2016/17 turn approximately 200 borderline fails into passes at minimal cost.</p> <p>Prepare plans for developments with the higher number of clear fails to be included in upgrade programmes in 2017/18, 2018/19 and 2019/20.</p> <p>Take account of customer preferences.</p>	<p>By 31 March 2020</p> <p>By 31 March 2017</p>	<p>Head of AM</p>	<p>Assumes continued use of part time consultant in 2016/17. Minimum compliance cost of £2.53m – more if whole schemes are switched to gas.</p> <p>ECO and similar grant applications will be made to offset costs on eligible work.</p>

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Section 12			
<p>Extend major asset management work to include environmental and landscape improvements to ensure that our properties continue to provide homes which are inviting, are enjoyable places to live and promote a positive reputation.</p> <p>Incorporate them into our data and budget systems so that they are included in future projections and programmes.</p> <p>Stage 3 adaptation funding – monitor trends and assess the extent of shortfall in grant funding in relation to need for Hanover top up funding</p>	<p>From 2016-18 stock condition surveys</p> <p>Include a provisional sum in proposed budget for 2017/18</p>	Head of AM	<p>None. Roof and landscaping condition will be included in the 2016-18 stock condition surveys.</p> <p>Budget provision needed will need to be lost to other budgets</p>
Section 13			
Maintain the highest level of compliance with all statutory standards.	Continuous	Head of AM	None
Section 14			
Consider that good asset management starts at the design stage of a new development. Provide a suitable design brief (which is reviewed annually), operate to meet the Silver Standard, adopting the concept of <i>whole life costing</i> .	By 31 March 2017	Head of Asset Management Projects Manager	None

Strategic objective	Timeframe	Lead Officer(s)	Extra resources needed
Section 15			
<p>Work collaboratively across all sections of Hanover and with key partners to achieve successful outcomes.</p> <p>Creative use of stock asset base to periodically raise capital borrowed against loan-free stock to part fund new housing.</p> <p>Make recommendations on a new annual new build target compatible with the cost of borrowing and financial covenants.</p> <p>Develop partnerships with developers for joint working on s75 sites.</p> <p>Develop partnerships with local authorities and cater for varied client groups to reflect their priorities</p>	Continuous	Director AM Projects Manager Strategic Finance Team Customer Services Team	None
Section 16			
<p>Deal with housing stock which gives cause for concern by taking an active, proportionate and sensible approach to solving the problems they present.</p> <p>Make strategic decisions about the future of schemes with low demand, considering the alternative options for the site.</p> <p>Develop guiding criteria for development appraisals.</p>	First batch by 31 March 2017.	The Board Chief Officers AM and Customer Services Teams	Work from consultants will be required.

Appendices

Appendix 1	Key Questions
Appendix 2	Development and Planned Maintenance Profiles
Appendix 3	Hanover Developments by NPV
Appendix 4	Projected Five Year Planned maintenance costs 2016/17 to 2020/21