

# Understanding our Assets

A self-assessment framework  
for Boards of Housing Associations

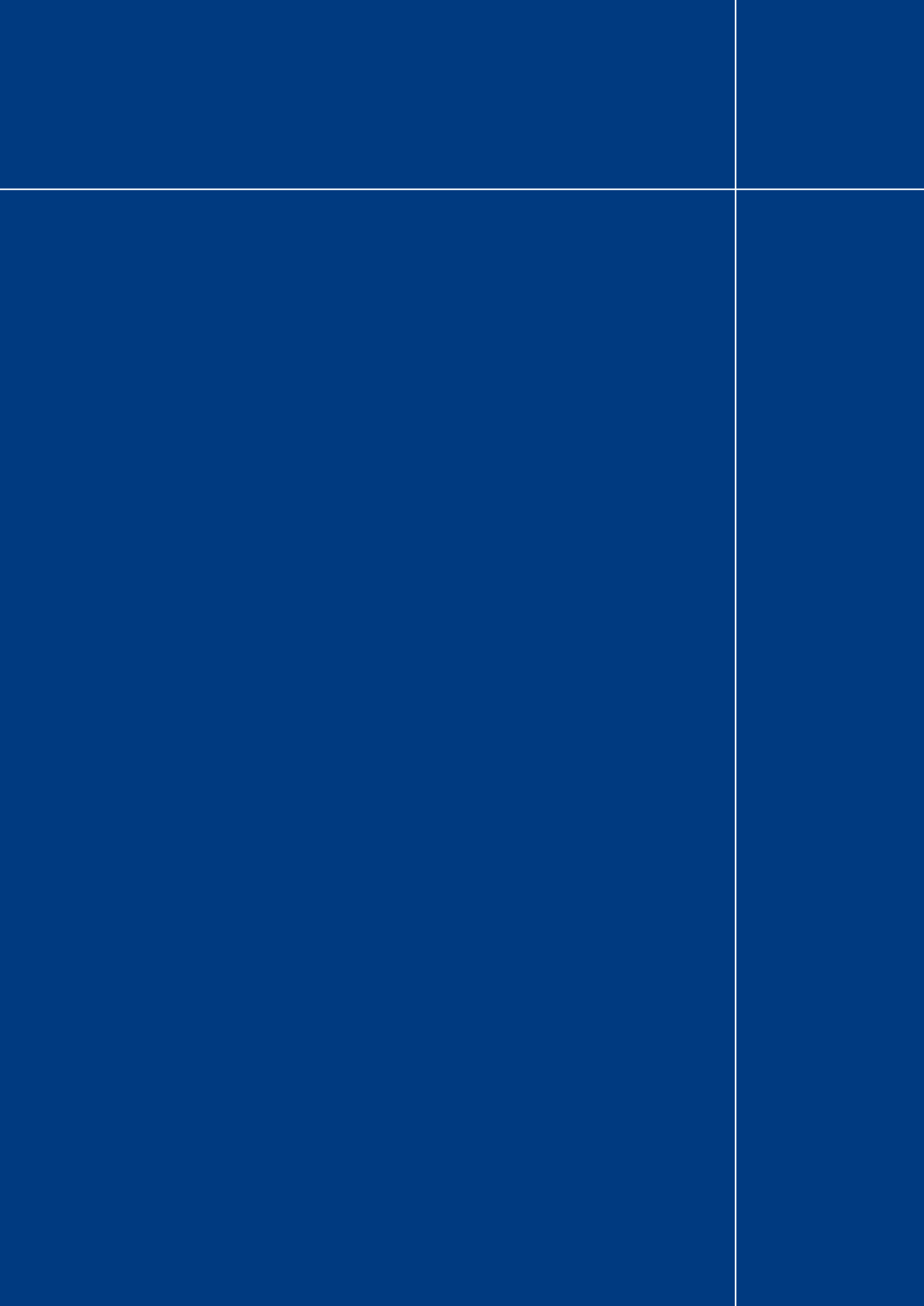


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## **PART 1: WHAT IS ASSET MANAGEMENT?**

### **CHAPTER 1**

#### **Foreword**

The fundamental question behind asset management is what are the costs and benefits of owning this piece of land or property? The question has many different aspects

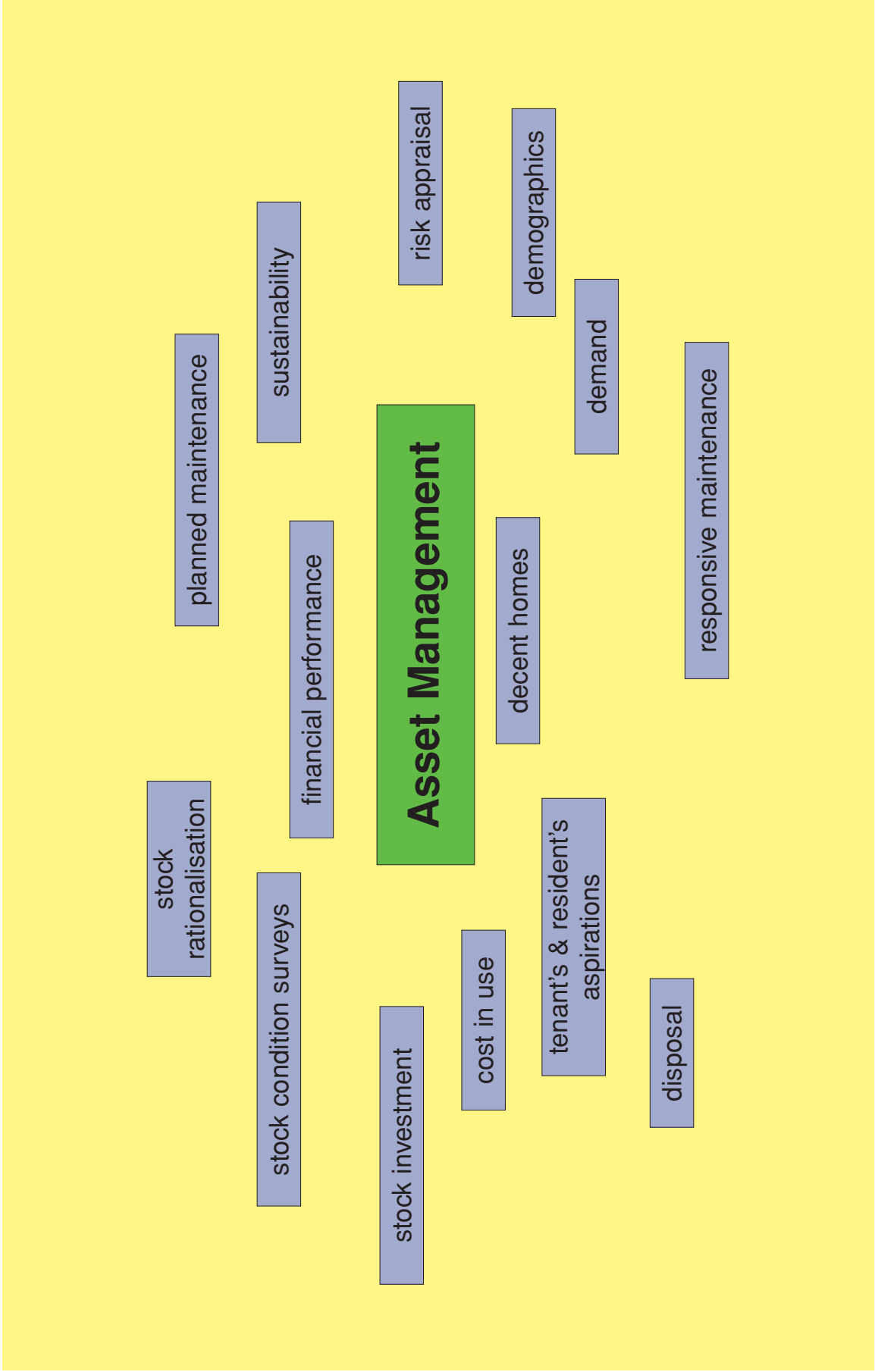
- do we know when and where we have to invest in our assets?
- is it better to own this piece of land rather than any other?
- how do our assets contribute to our overall corporate objectives?

We take it as given that every housing association wants to provide a high standard of accommodation for the people who live in their properties. Asset management has to incorporate a strategic view of reinvestment in, and maintenance of, existing property. But the association which sees asset management as being only about property maintenance blinds itself to serious risks, and to potential opportunities to better meet its objectives. Asset management has to be seen as affecting all parts of a housing association, encompassing questions about new development, demand for properties and housing management issues, financial performance, as well as maintenance.

So whilst most associations will be best advised to continue to own most of the property they currently own now, no-one should avoid the question of how well their stock meets the association's objectives. If stock does not meet the association's objectives then what investment is required to remedy the position? And will investing in the stock be a good investment, or do we need to consider other options for this stock?

Every housing association has its own asset management challenge. It should be self-evident that good asset management is an essential feature of the business and operations of every housing association. The Housing Corporation makes clear requirements in its Regulatory Code that can only be met by a good asset management strategy. The Government's targets on ensuring all social housing tenants live in a decent home give added impetus to the need for housing associations to properly manage their assets. Housing associations are in a powerful position to ensure the communities they operate in, and the buildings they manage are sustainable, and to make a valuable contribution to the Government's policy on building Sustainable Communities.

This framework aims to assist housing association boards to pose the questions they need answered to make sure that asset management is effective and is being given the right degree of priority. By posing these questions we hope to promote the adoption of good practice, and to provide tools for board members to assess the effectiveness of their association's asset management strategy in delivering continuous improvement and its compliance with the Regulatory Code. But this document is not intended to be a detailed guide; the National Housing Federation's "Managing the Assets" is the reference source for detailed ideas, case studies and examples of good practice.



## Some Components of Asset Management

## CHAPTER 2

### Using the framework

This framework tries to be as concise as possible, given the wide range of issues asset management has to address. The document is intended to be a framework for self assessment for use by board members of housing associations.

The concept behind this framework has been to provide a series of questions which board members should be able to pose of their own association's activities. We have identified a small number of key areas, each of which needs to be studied, and all of which contribute to a well rounded asset management approach. For each of these key areas we provide an introduction, illustrating the importance of the subject, and highlighting particular issues. We then pose a series of more probing questions which we believe board members should pose of their own association. These questions are also shown in a series of flowcharts.

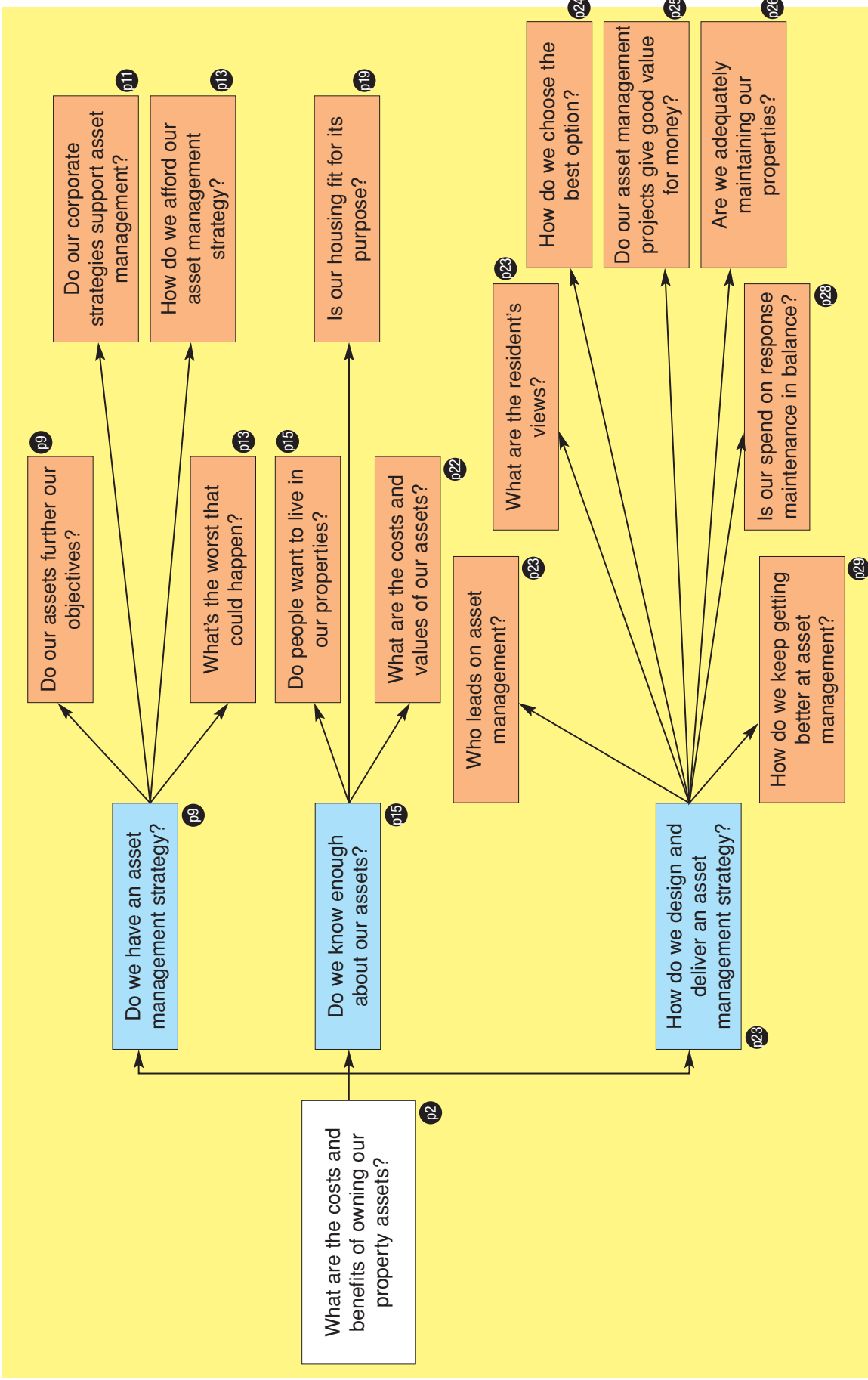
It is tempting to offer the answers to these questions; but that would miss the point. Asset management has to respond to the individual circumstances of each housing association. There can be no single "right" answer provided from outside each association. Asset management practice is evolving all the time with new techniques being tried as new challenges need to be tackled. Our aim is to provide the tools board members need to start (or continue) the debate within each association, to seek out and promote best practice in each association, and to make informed decisions about asset management.

In some places, where our commitment to try to be concise allows, we have tried to provide pointers to good practice. But ultimately it is the board itself which needs to evaluate all aspects and implications of its asset management practice, ensuring proper consultation with residents, local authorities and other stakeholders along the way, and then take the decisions to effectively manage its assets. The answers to some questions may suggest further probing or investigation; often the answers will be interrelated, and an iterative process of question, answer and re-questioning will be needed.

We can see many potential outcomes to using this framework. Boards may wish to:

- Have key topics on asset management placed on a future board agenda;
- Obtain independent advice on some aspects of asset management;
- Suggest a review mechanism for the association's asset management strategy, either as a whole, or in its constituent parts;
- Arrange relevant training.

Where more information and guidance is needed, we recommend the National Housing Federation guide to asset management "Managing the Assets". Other sources of guidance are detailed in the bibliography towards the end of this document.



## Identifying Costs & Benefits of Owning Our Assets

We hope that this framework will be used by housing association boards on a yearly or two-yearly basis, when each of the high level questions is addressed. We expect that senior staff of the association will want to work with their boards in helping to provide answers to the questions posed. The framework will also provide the basis for Housing Corporation regulators to review a housing association's asset management approach and strategy in the context of the Regulatory Code. The degree of sophistication and the amount of resources devoted to asset management will depend upon the size and complexity of the association's operation. However, many of the questions we pose in this framework are applicable to all organisations regardless of their size. For example, all associations need to ensure that there is a continuing demand for the properties that they are letting. Without a solid and sustainable stream of rental income that is sufficient to meet the association's financial commitments, the association will not remain financially viable.

The board should be able to demonstrate that it has participated fully in the development of its asset management strategy and is involved in regularly updating the strategy. The board must ensure that the association's long-term strategic objectives are converted into achievable plans with clear, measurable targets set within realistic timescales. Whilst there is no requirement on housing associations to produce a single document as its asset management strategy, the Housing Corporation will want to see evidence that all aspects of asset management, as covered in this framework, have been considered.

Although this document deals with asset management it should be read in conjunction with the companion document "Assessing Procurement" that deals with construction procurement. The procurement of maintenance services, and for developing associations, new construction, forms a key part of any housing asset management strategy.

## CHAPTER 3

### What is “Asset Management”?

The housing association sector has grown in complexity, size and importance over the last decade. Many of the changes have an impact on asset management; the increase in private finance, increasing turnover of associations, and the many large scale voluntary transfers of council housing into the sector are all examples. More challenging – and more worrying – has been the emergence of low demand and abandonment in some areas where housing associations have traditionally operated.

The market for social housing is changing in many locations across the country. All associations are potentially vulnerable to falling demand for their property within specific neighbourhoods and within specific property types (such as bedsit or shared accommodation). Even in areas of high demand for social housing, such as the south of England, there are pockets of low demand. Associations therefore need to examine whether the housing that they provide or propose to construct or acquire, is of the right type in the right location to meet defined needs; is of an adequate standard; and is affordable in relation to the local market.

### Definition of Asset Management

Land and property assets are held by associations to support the main business of the association, which is to provide housing and associated services for its residents. Assets, in the context of this document, are the land and buildings that the association owns or manages.

This property resource should be managed to maximise the quality of the housing and the services that the association provides. Most property assets of an association are used to house its tenants and other residents. But some property assets may be constructed and held, or sold to provide a financial return rather than to directly provide social housing. In this case the focus will be on maximising the rate of the financial return. Such returns will be applied in support of the association's main business.

All associations need to consider some basic questions regarding the ownership, management, maintenance and development of their housing stock. Asset management lies at the core of this process and is key to the success of the association in providing high quality housing and services for its residents.

It will be apparent that this definition of asset management is widely drawn. Many of the people we talked to during the preparation of this framework used a much more limited definition when they used the term “asset management”. We have to emphasise here that housing associations are expected to consider all the issues covered in this framework. The important issue is the coverage of the issues, and not the terminology used to describe them.

### Why is Asset Management important?

The nature of property is that it is expensive and immovable. The nature of buildings is that they are expected to last a long time, and can be costly to alter and maintain. Housing associations provide homes for people who need them, and the nature of our population is of changing demographics, demands and aspirations; changes which can appear to happen over much shorter timescales than the life of a building.

There is a clear business case for pro-actively managing your property assets. There is also a clear social responsibility to ensure that property assets are used in a sustainable way to best meet the objectives of the social housing sector. As well as the inherent justification for good asset management, for registered social landlords the Housing Corporation's Regulatory Code poses requirements which it is the responsibility of the board of each association to address.

### **Asset Management and the Regulatory Code**

The Regulatory Code requires that associations are viable, well governed and well managed. The emphasis for assessing compliance with these objectives is placed upon the association. However, the Housing Corporation will continue to monitor association performance through its lead regulators and through the inspection reports prepared by the Housing Inspectorate.

The Regulatory Code and guidance requires that housing associations must operate viable businesses, with adequate recourse to financial resources to meet their current and future business and financial commitments (paragraph 1.1 of the Code). The association's business planning should be informed by asset management information which is reviewed regularly (paragraph 1.1b). Housing associations must also operate within a framework that effectively identifies and manages risks (paragraph 1.2). Sound asset management has a key role to play in managing risk.

The Regulatory Code also requires that housing associations are properly managed. Paragraph 3.4 requires associations to develop and manage good quality homes that seek to meet people's needs and preferences both now and in the future. Effective and responsive maintenance, investment in existing stock and continued lettable of housing are all identified as requirements under the code (paragraphs 3.4.1, 3.4.2, 3.4.3, and 3.4.4). This section of the code is accompanied by eight points of regulatory guidance, including specific reference to the decent homes standard. This and other parts of the guidance are contained in the Housing Corporation's statutory housing management guidance.

In assessing an association's compliance with the Regulatory Code, the Housing Corporation will consider whether this asset management framework has been followed, or if has not whether the association has taken appropriate steps to achieve the same objectives. It is not the intention of the Corporation to stifle or limit an association's approach in monitoring compliance with the Code's objectives. This framework is not the only way to achieve compliance with the Regulatory Code (and does not of itself ensure compliance). Alternatives are welcome, as long as the outcome is good asset management in line with the Code's requirements.

The new regulatory approach expects that associations will at least meet the minimum standards required, and will also work towards the continuing improvement of their services. The inspection framework now being delivered by the Housing Inspectorate seeks to establish how associations are pursuing continuous improvement. Association boards and their senior executives will need to take account of this requirement and monitor improvements in the delivery of services.

The Housing Corporation has reasons other than the Regulatory Code to be interested in the asset management strategy of an association. These include the formal consent to dispose of land or property ("section 9 consent"), the conditions it attaches to social housing grant, and its expectations on such matters as working within local authority housing strategies, Rethinking Construction, and sustainability.

## PART 2: KEY QUESTIONS FOR THE BOARD

### CHAPTER 4

#### Asset Management and Corporate Planning

##### Identifying Objectives

###### *“Do we have a strategy for asset management?”*

Every association needs a strategic approach to asset management, which recognises the inter-relationship between many aspects of its operations. There are five key aspects that we recommend are incorporated into the asset management strategy:

- An understanding that property assets are held to meet the objectives of the association, showing how the association tests that this continues to be the case.
- A demonstrable interlinking between strategies for the management and maintenance of its existing assets and for the procurement of new property.
- Explicit consideration of the ways in which the association will meet the Housing Corporation’s requirements in respect of equality and diversity.
- Support from the association’s business plan for all its asset management objectives showing how the association can adequately fund them.
- Integration of the asset management strategy into the association’s risk management framework.

Boards also need to consider how they can demonstrate their association has considered all aspects of asset management. One way of doing this could be to include all information on asset management in a single document that outlines an overall approach to asset management including links and cross references to other policy statements or documents that affect this asset management strategy. Another way could be to ensure that asset management policies and activities are directly incorporated and written into all other areas of relevant activity

As referred to in Part 1, the definition of asset management we are using in this framework is a broad one, and some of the associations we contacted when we were drafting the framework used the term “asset management” to refer to only some of the issues that are covered here. The Housing Corporation expect housing associations to be able to demonstrate that they have considered all aspects of asset management, as outlined in this framework.

##### Matching our assets to our objectives

###### *“Do our Assets further our objectives?”*

The first stage in preparing an asset management strategy will be to identify and agree at board level the objectives that the association wishes to achieve. Such objectives will include the type and standard of accommodation to be provided, the client groups to be housed, areas of operation etc. These objectives should then be compared with the property portfolio that the association holds or proposes to develop to ensure that new and changing needs are met.

The association should critically review the reasons why particular housing stock is held by the association including the management and maintenance costs of, and the current and future demand for, the accommodation. This review may result in options to remodel, demolish or sell dwellings, or to transfer stock to another association.

Associations should have nothing to fear about considering selective disposal of stock, in a structured and justified way. There is anecdotal evidence that some associations are reluctant to challenge themselves about historic developments which have more sentimental value than practical use. At the same time this framework is not promoting the widescale use of disposals; to do so would be wasteful of resources and threaten the stability of individual associations' stock holdings.

**Questions to ask:**

Are we clear how the objectives of the association can be matched to the property assets we own?

Do we regularly review how well our existing and proposed assets will continue to meet our objectives?

**More Probing Questions:**

Why do we own, or seek to develop or acquire, stock in this location?

Is this stock financially viable?

How much money do we lose each year by retaining this stock?

Should we consider disposing of this stock?

**Considerations about stock disposal**

As we say in the text, this framework does not promote the widespread use of property disposals by housing associations, but it does at the same time emphasise that associations should be prepared to consider selective disposal of their stock, where such action will enable the association to better meet their objectives. If an association decides that disposal is appropriate then the following questions should be posed:

What are the political implications of disposing of stock? e.g. the views of the local authority

What are the views of residents and the local community to stock disposals?

Will stock disposal have an adverse impact on the sustainability of the local community?

What are the financial implications of disposing of stock? e.g. RCGF (the Recycled Capital Grant Fund)

How would the proceeds from any disposals be used?

What problems might arise from decommissioning properties?

## Balancing Strategies

### *“Do our corporate strategies support asset management?”*

The association may have a number of strategies that deal with these issues. For example, the asset management strategy may be supplemented by a separate development strategy and by specific policies on equality and diversity. The objectives of these strategies should not conflict. If conflicts arise the board needs to be clear why and how such conflicts have arisen and decide upon a logical course of action which can be clearly justified.

The Government has set a target for all social housing to meet the decent homes standard by 2010. Housing associations now have to report annually on how many homes fail the standard. It is a clear expectation that associations will do what is required to meet this target, including where necessary, revising other policies and strategies to ensure the Decent Homes standard is met.

The Regulatory Code requires associations to demonstrate their commitment to equal opportunity (paragraph 2.7). The nature of many of the communities we operate in has changed faster than the buildings we provide for housing. Do the properties we own now meet the needs of our communities? Are there particular investment requirements to better meet local needs? And, if properties no longer meet your requirements for their existing use, do they meet the needs of other associations offering specialist provision? The asset management strategy should take account of equality and diversity issues that cover all aspects of equality. In relation to black and minority ethnic (BME) people the strategy should also take account of the Race Equality Code of Practice for Housing Associations.

### *Questions to ask:*

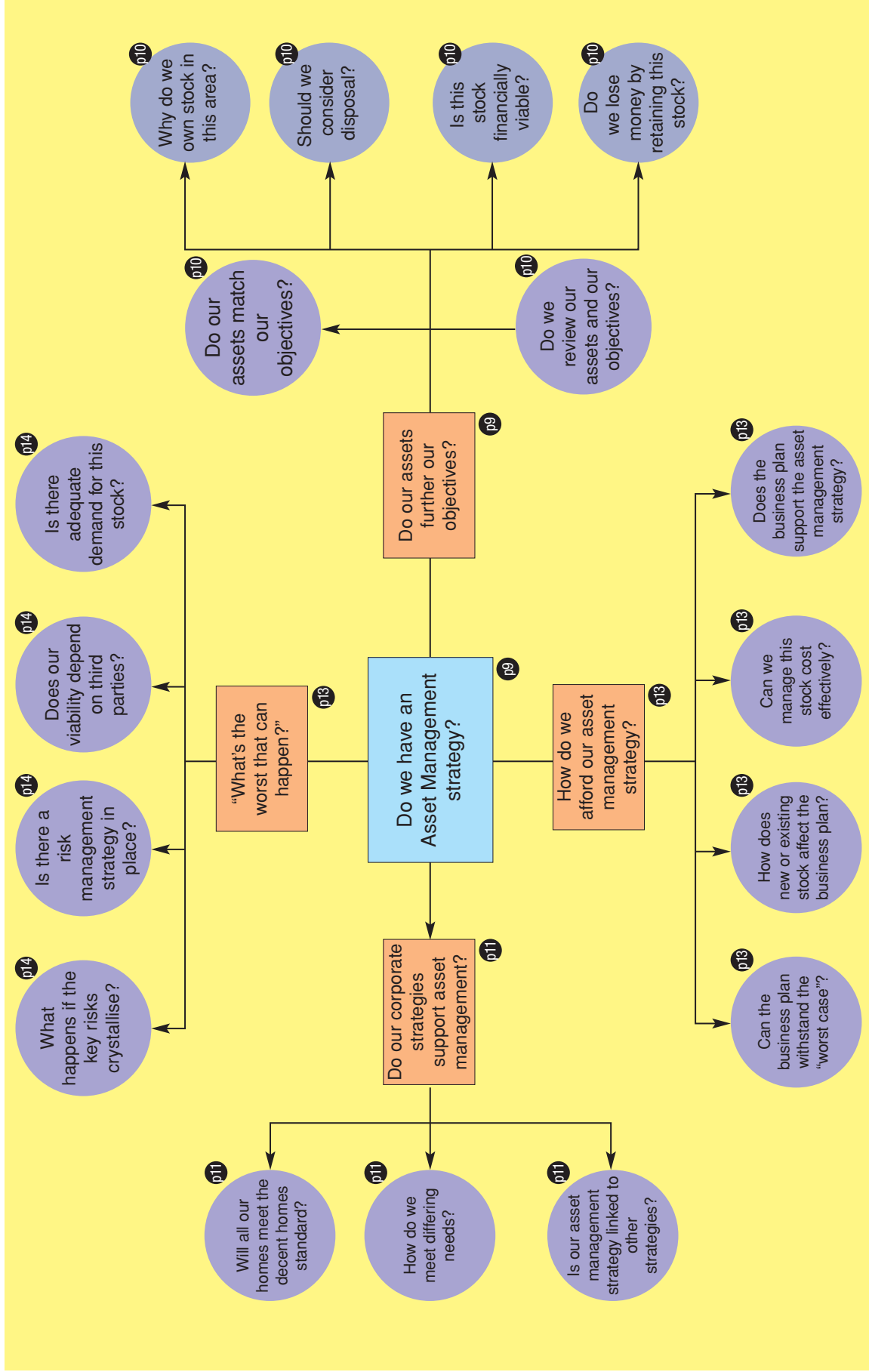
How do we meet the differing needs of the communities in the areas in which we operate?

Is our asset management strategy actively linked to and consistent with our new business/development strategy, our equality and diversity strategy and our sustainability strategy?

Will our asset management strategy ensure all our homes meet the decent homes standard?

There is anecdotal evidence of some associations finding a number of large Victorian houses uneconomic. They were put into a disposal programme for sale on the open market. At the same time, BME associations in the same area were seeking exactly this type of property to meet the specific needs of certain black and minority ethnic households.

# Asset Management & Corporate Planning



## **Support from the Business Plan**

### *“How do we afford our asset management strategy?”*

The cost of implementing all of these strategies must be fully reflected in the business plan assumptions. The cost implications must be tested to ensure that sufficient funds are available throughout the life of the business plan to ensure that all of the association's strategic targets can be met. This will include undertaking sensitivity analysis to demonstrate that the business plan is robust enough to withstand significant changes in the pattern of demand for the association's housing stock and for any new housing that it proposes to develop. Sensitivity analyses should also be carried out studying changes in maintenance costs, major repair costs and other key assumptions. It will be obvious that the business plan must include good information about the future costs related to the association's property assets. This will only be available from a fully costed stock condition survey showing the predicted timing of expenditure.

### *Questions to ask:*

Does the business plan support your asset management strategy, and provide the necessary resources to ensure success?

How does the acquisition, construction or retention of this stock affect the business plan?

Is the business plan robust enough to withstand “worst case” scenarios?

Can we manage this stock in a cost effective and efficient manner?

## **The Effective Management of Risk**

### *“What's the worst that can happen?”*

The association should examine the “worst case” financial scenario and compare it with its financial covenants to confirm that the association has the capacity to deal with all probable risks. In particular exit routes and strategies for dealing with risks if they do materialise should be identified.

The association's risk management framework should highlight the key risks and how these are to be managed. The asset management strategy should consider all major risks that might prevent the association from achieving the objectives set out in the asset management strategy. In particular, the association should identify the stock at a neighbourhood level that is or may become a liability and develop appropriate strategies to deal with this stock.

**Questions to ask:**

Is there adequate demand for this stock in the foreseeable future?

Is there a risk management strategy in place that addresses the main risks?

What financial flexibility do we have if the key risks materialise?

Does the viability of any of our housing assets depend on services provided or funded by third parties over which we have little influence, for example funding from “Supporting People” budgets?

**Risk Assessment and Risk Management**

The Regulatory Code places considerable emphasis on associations operating within a framework that identifies and manages risks. All associations to some extent face risks to their future survival that need to be identified, evaluated and managed.

For associations to be viable and well managed, as required by the Regulatory Code, careful thought must be given to the current and future role that their stock plays in the overall housing market context both nationally and locally.

The Housing Corporation publication “A Strategy for Success: Effective Risk and Business Management” identifies seven challenges facing associations:

1. Changes in Government policy e.g. rent restructuring, housing benefit rules, and funding for supported housing.
2. Large scale voluntary transfer of former local authority stock where often very large new organisations are created that are almost entirely funded by borrowing; where the stock requires high levels of investment; and where there may be unstable demand in some areas.
3. Associations that face the problem of low demand for some or most of their stock.
4. The increased cost of managing properties where there is a high tenant turnover, high void levels and rising rent arrears.
5. Competition for new development that leads some associations to provide very high levels of subsidy from their reserves.
6. The move into new markets and areas of operation such as market renting, student accommodation, PFI projects, large re-development schemes, and dealing in derivatives. These activities require specific skills and experience that the association may lack. In addition some types of activities, such as PFI have long term financial risks for the association, and simple exit routes such as the disposal of the asset are not available, as they may be for a market rented scheme.
7. Financial pressures from rising debt levels caused by some or all of the above pressures, particularly where the association is not generating sufficient returns from these activities.

This framework also identifies a number of questions which the association should ask. These questions need to be addressed as part of the asset management process. The association should decide how identified risks should be analysed. The board should determine what information it needs to see to enable it to make informed decisions. Reports from officers should be clear, consistent, timely, accurate and based upon up-to date information.

## CHAPTER 5

### The Information Needed for an Asset Management strategy

#### The Fundamentals of an Asset Management Strategy

*“Do we know enough about our assets both now and for the future?”*

Every housing association should have an asset management strategy that :

- Examines the current and likely future demand for the property it owns.
- Defines the standard of accommodation that the association currently provides and aims to provide in the future for all resident groups.
- Has an estimate of the costs involved and can deliver these standards in an agreed timescale.
- Identifies the key risks and how these risks will be managed.
- Is a living document that is regularly reviewed and improved.

#### Demand

*“Do people want to live in our properties, and will they in the future?”*

The majority of housing association stock nationally is in good condition and well located. Providing that it is well managed and maintained and periodically modernised to meet contemporary standards it is likely to remain in demand for the foreseeable future. However, there is a significant percentage of housing association stock that requires a fundamental appraisal of its future.

There are two principal causes of concern, and they are often although not always interlinked. The first is low demand and the second is condition.

Low demand is characterised by:

- A small or non-existent waiting list
- Tenancy offers that are frequently refused
- High void rates and/or high tenancy turnover

Over the period 1996-1999, the number of housing association homes experiencing low demand rose by two thirds. This increase was significantly greater than the overall expansion of the sector seen in that period.

*“Although the incidence of low demand is consistently higher in the North and Midlands, considerable intra-regional variation exists”.* (Housing Corporation Sector study 7 – Low demand for housing association housing). All associations therefore need to be aware, even if they operate in areas of generally high demand such as London and the south east of England, that a proportion of their stock may be at risk from low demand.

For associations that have high proportions of such stock, particularly where it is geographically concentrated, the failure to take appropriate, early action can threaten the financial viability of the association.

The factors that influence the demand for housing are extremely complex. It is very difficult to project the level of demand for social housing in the medium term at the neighbourhood level. Housing needs surveys undertaken by local authorities may be available and provide valuable pointers. There are a number of factors that the association should consider.

A key factor in the demand for housing in the medium and long term is the demographic structure of the population in an area and how this population will change during the life of the asset management strategy. For example, an ageing population within a local authority area may increase or decrease the demand for certain types of accommodation.

Similarly, changing residents' preferences for the type of accommodation can have a significant impact upon demand e.g. bed-sit accommodation within sheltered housing schemes has become increasingly difficult to let in many areas and many associations have had to develop strategies for dealing with stock that has become difficult to let.

In some locations the poor physical condition of the stock can make letting properties very difficult and void and turnover rates may be high and tenants' satisfaction with their accommodation low. However, no amount of money spent on improving such stock in areas of low demand will automatically ensure the future of such stock. Investment directed at improving housing stock in areas of low demand may not always be recouped. A more radical appraisal of the options is therefore required that may involve demolition or disposal rather than further major investment in the stock. Such strategies should be discussed with the residents and the local authority before they are implemented.

The Government's Communities Plan ("Sustainable Communities: Building for the Future") and the regional statements accompanying it clarify the important role which housing associations have, both as property owners and as developers of new social housing. Housing associations are in a powerful position to ensure the communities they operate in, and the buildings they manage are sustainable. The Government's definition of sustainable development states that sustainable development is about "ensuring a better quality of life for everyone, now, and for future generations to come". There are four key objectives:

- Social progress that meets the needs of everyone;
- Effective protection of the environment;
- Prudent use of natural resources;
- Maintenance of high and stable levels of economic growth and employment.

The Housing Corporation's Sustainable Development Strategy encourages associations to foster environmental, economic and social issues in a range of ways. By making explicit choices regarding the environmental, social and economic costs and benefits, asset management policy making is made more comprehensive and rigorous.

A key objective of the asset management strategy should be to identify those properties that are at risk and prepare action plans to deal with them before they become financial liabilities.

When undertaking new development the association must be able to demonstrate that there is a demand for the housing that it proposes to develop. If the association decides to undertake new development to help meet the needs of new client groups (such as students, key workers, tenants renting at market rents), the association should carry out appropriate market research to ensure that their investment will be an asset and not a liability. The association should also determine the risks associated with the project and establish how those risks will be managed including examining exit strategies should the association decide to withdraw from the project at a later date.

### ***Factors affecting demand***

The association should examine key factors that affect demand to identify stock that is potentially at risk. Such stock may include:

- Shared and bed-sit accommodation that may require conversion to self-contained accommodation to increase its popularity and make it easier to manage.
- Supported housing that generally requires higher levels of maintenance, but which rarely generates sufficient income to cover major repair work. This may include shared and bed-sit accommodation. Supported housing is also potentially at risk owing to changes in the funding system. Such accommodation is often difficult to re-model if the demand for it changes. Loan security valuations for supported housing schemes can be relatively low compared with general needs self-contained accommodation where specialised design attributes reduce the level of demand in the open market.
- Sheltered accommodation where there is an excess of supply over demand and where the poorer accommodation is particularly difficult to let. Bed-sit accommodation is particularly at risk. It may be expensive to convert bed-sit units to self-contained units. The income stream from rents and service charges for the re-modelled scheme of self-contained units may also be insufficient to justify the expenditure, and more radical options may need to be considered.
- Former local authority estates where there is poor design, poor security and high crime levels, concentrations of poverty and anti-social behaviour. The demand for properties on such estates may be low, heavily influenced by reputation of the estate.
- System built housing requires a careful appraisal of the options to determine that value for money will be achieved by their improvement or their re-development.
- Victorian terraced housing rehabilitated in the 1970s and 1980s that now requires substantial repair and improvement works. Some of these properties may be located in inner city areas where there is also low demand for housing.
- Flat conversions of properties, usually where the original property was built before 1919, and where the quality of the conversion does not meet current standards. There are often problems of disrepair, poor internal layout, a lack of effective sound insulation and where the means of escape in case of fire does not comply with current regulations.
- Scattered properties purchased under purchase and repair programmes often require higher levels of planned maintenance. These costs may not have been adequately reflected in the major repairs sinking fund included in the financial appraisals undertaken by some associations at the time of purchase. In addition the cost of managing and maintaining properties that may be geographically scattered and/or separated from the association's core areas of operation may be high.

**Questions to ask relating to demand:**

- Is it cheaper for a resident to buy or privately rent than to be a housing association tenant?
- Can the association's housing database be interrogated to provide key information on the demand for property at the local level to inform decisions on the future strategy at the neighbourhood level?
- Do we consider trend analyses?
- What else is happening in the areas in which we operate?
- What are our competitors offering?
- How well do we "market" our properties to prospective residents?
- How does our housing contribute to the sustainability of local communities?

**More Probing Questions:**

Do we consider the trends of:

- changing demographic structure of the national and local population
- the condition of the association's stock now and in the future
- maintenance expenditure
- waiting lists, turnover and void rates
- letting times and refusal of tenancy offers
- abandonment of properties by residents
- crime levels and anti-social behaviour
- residents' satisfaction with their housing conditions and the services that the association provides
- residents' satisfaction with the local environment and local authority services
- residents' housing aspirations, recognising that different groups of tenants and prospective residents may have differing aspirations
- income levels
- market rents and the association's rents
- vacant possession and existing use values.

What else is happening in the areas we operate in?

- Does the local authority have plans and policies that may affect the association's asset management strategy, for example neighbourhood renewal?
- How does our work fit with the regional and sub-regional housing strategies being developed by the regional housing boards?
- What are the activities of other associations and the private sector?
- What is the general reputation of the localities in which our stock is located?

## Condition of the Housing Stock

### *“Is our housing fit for its purpose?”*

Every association should have a stock condition survey that establishes the current state of the stock. It should identify the number of properties that fail to meet the Government’s decent homes standard and the cost of bringing the stock up to the decent homes standard by 2010. The stock condition database should be updated regularly to take account of repair and improvement work undertaken.

The asset management strategy should define the standard of accommodation that the association is aiming to provide for all resident groups (including residents in the association’s existing stock), and be satisfied that these standards are achievable. It is surprising how many associations have defined standards for new developments but not for their existing stock. The total costs of achieving the standards must be measured against the association’s capacity to finance the agreed standards within the term of the strategy. The costs of implementing the strategy must be comprehensive and include allowances for adequate staff and IT resources as well as the cost of repairs and improvements to the stock.

Residents of social housing should be able to expect good quality homes to live in, and the Government’s decent homes standard is an essential element in achieving this. The practical implementation of the decent homes standard requires associations to have a good understanding of their base line position, with clear statements on how the standard should be interpreted. Some social landlords are considering “decent homes plus” standards, their own commitment to raising the standard of the housing they offer their residents.

The asset management strategy should set out how the association intends to achieve these objectives within a set timescale. The association needs to be satisfied that it has addressed all of the issues entailed in delivering the standard including its own internal management structures, staff skills and resources, IT systems and information databases, and the capacity of the local building industry to deliver the required construction programme in each neighbourhood.

A stock condition survey is vital in understanding the current condition of your stock and the investment which will be required as components fail over the life of a building. Such surveys are specialised investigations requiring a clear brief, surveying expertise in the fieldwork, and sophisticated IT systems for the analysis of the data. There is much guidance available on obtaining stock condition surveys. Notable examples are the National Housing Federation publication and the guidance published originally by the Department of the Environment, Transport and the Regions. See Chapter 7: “Useful Publications” for more references on the subject.

### **Questions to ask:**

What are the association’s standards for its existing properties?

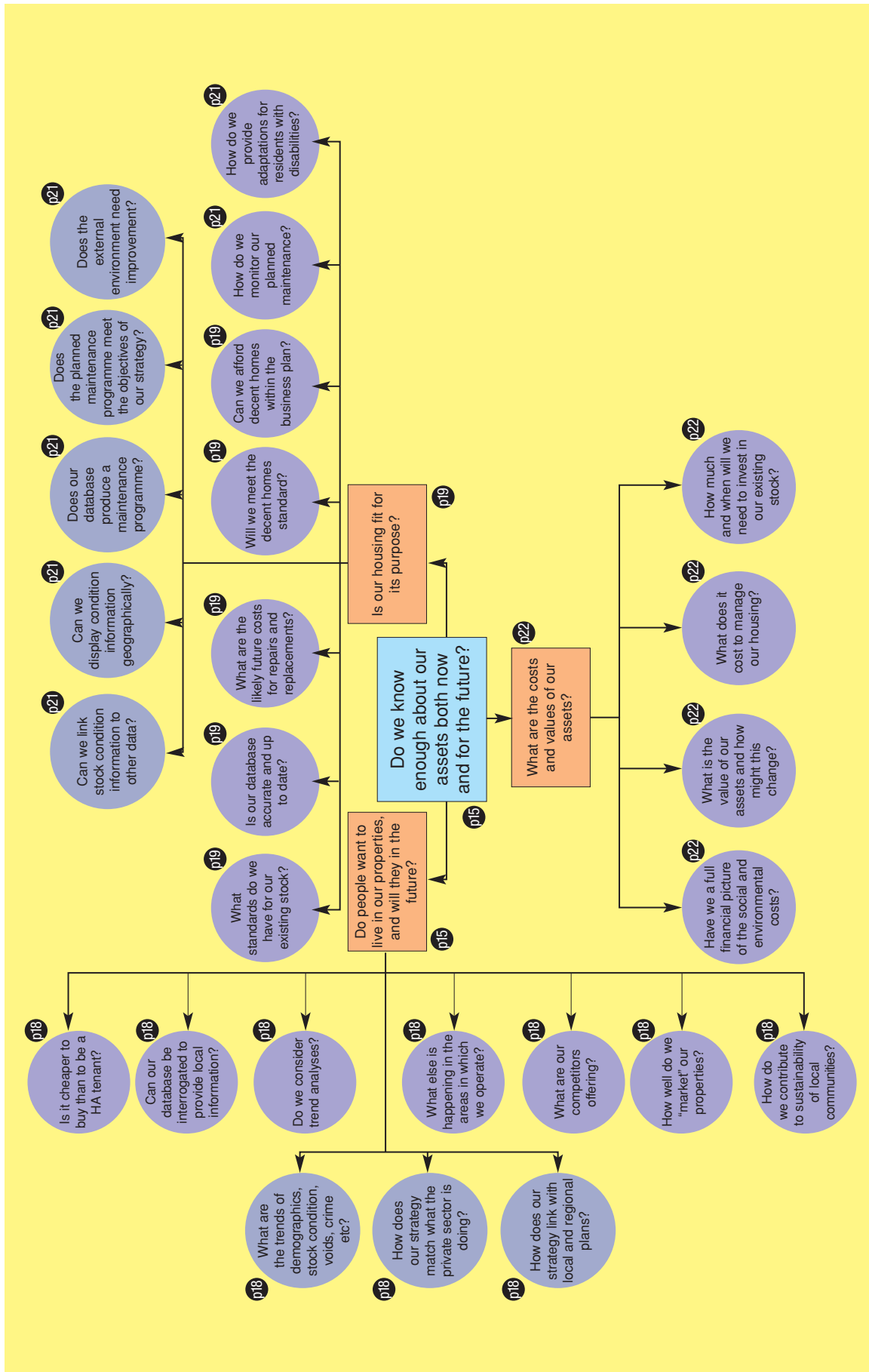
Do we have an accurate and up to date database that details the type and condition of properties?

What are the likely future costs for repairs and building element replacements?

Will our properties meet the Government’s decent homes standard by 2010, and how much will it cost to meet the standard?

Can we afford to achieve this standard within the parameters of the business plan?

# Information Needed for an Asset Management Strategy



How do we monitor the effectiveness of our planned and programmed maintenance?

How do we provide adaptations to allow our residents with disabilities to continue to live in their homes, and do we have an adequate budget for this work?

***More probing questions:***

Can this information on stock condition and maintenance be linked to information on the management of the stock? For example, cost of repairs, ratio of planned to response maintenance, void levels, rent levels, rent arrears, anti-social behaviour and property values.

Can this information be displayed geographically at a local level?

Can the database be easily interrogated to produce a planned maintenance programme?

Does this planned maintenance programme meet the objectives of the asset management strategy? Are there properties in the planned maintenance programme that might be considered for demolition or disposal?

Does the external environment where our properties are situated need improvement?

## **Financial Aspects of Asset Management**

### *“What do we know about the costs and values of our housing assets?”*

It is the primary responsibility of the board to control the finances of the association. This is recognised in the Housing Corporation's Regulatory Code which requires associations to have long term financial plans which demonstrate the association's financial viability. The cost and value of an association's existing property are a major element in the financial health of the organisation. Future investment needs must be properly forecast so that appropriate planning can take place, to ensure funding is available as necessary, that the association can continue to offer security for its borrowings, and that the costs of servicing borrowings are sustainable. Housing associations are expected to pursue best value, and this requires an understanding of the costs and benefits (both monetary and non-monetary) of the way in which the organisation carries out its activities.

### **Questions to ask:**

What is the value of our assets and how might this change in the future?

What does it cost to manage our housing?

Have we a full financial picture of the social, economic and environmental costs of our asset management strategies?

How much will it cost and when will we need to invest in our existing stock?

## CHAPTER 6

### Designing and Delivering an Asset Management strategy

#### Staff Resources

##### *“Who leads on asset management?”*

An asset management strategy should be led by a senior manager who can take a broad overview of the issues. This will not necessarily be someone with a background in housing maintenance because the issues to be addressed are far wider than simply the consideration of the condition of the housing stock.

To assist in achieving a broader view, it is good practice to involve staff from all departments and from a wide range of professional disciplines, including finance, housing management, maintenance, development, IT, and personnel. In addition it is necessary to involve local authority staff to ensure that the strategy aligns with local policy objectives. Consultations with local authorities should involve all relevant departments including housing, planning, education, social services and leisure services and must take account of local plans and renewal initiatives.

##### *Questions to ask:*

Does the association have the necessary skills and experience to undertake a comprehensive approach to asset management? In particular do we have the skills and experience to:

- examine the future demand for our housing stock?
- in IT, undertake the exercises required to produce an integrated asset management system?
- implement a programme of repair and improvement, or disposal?

If the association lacks these skills, how can they be obtained?

What steps are we taking to acquire the necessary skills?

Does the board have the skills it needs to oversee asset management properly?

#### Resident Involvement

##### *“What are residents’ views about asset management?”*

Resident involvement in asset management decisions form a very important part of the decision making process. Residents’ views may provide additional evidence of the problems associated with an area, including issues requiring the association to involve external bodies such as the local authority and the police in order for effective action to take place.

Residents can often highlight specific problems with their homes such as poor property and estate design, poor security, disrepair and building component failure. Taking proper account of residents’ views on the priorities for the improvement of their property and the neighbourhood in which it is situated are essential for the successful long-term asset management of the association’s stock.

**Questions to ask:**

How do we involve residents in preparation of the asset management strategy?

What do we know about our residents, and how might their needs change in the future?

- How can we reflect the views of prospective tenants and other residents?
- Does the strategy match the needs and aspirations of our residents?
- How do we measure resident satisfaction with the existing asset management service?

**Option Appraisal*****“How do we choose the best option”***

Option appraisal is an important technique which should be used to ensure a structured decision is reached. Some associations have found it useful to classify their stock into three groupings. The terminology varies, but the general idea is:

1. Good condition property in high demand.
2. Poorer property, which can be improved with suitable investment.
3. Property which no longer meets the objectives of the association where it may be better to consider disposal.

This process highlights that asset management policies need to consider not only the average or the best performing properties, but also to concentrate on the poorer performing assets. Reporting frameworks need to be able to distinguish the average from the extremes. It is incumbent on boards to ensure that asset management decisions are justified properly through an option appraisal framework which is appropriate to the need and circumstances of the association.

**Questions to ask:**

Have we fully considered alternatives, and assessed the respective costs and benefits of different options?

How much better is any proposed option than just doing nothing?

Could we provide a better service by using some of our properties in a different way?

What legal constraints affect the options open to us?

## **Budgetary Control and Value for Money**

### ***“Do our asset management projects provide good value for money?”***

The implementation of an asset management strategy will inevitably involve building work. The board should have an appropriate level of involvement in the process of approval of such building projects. This will include approval of budgets and the monitoring of project costs during the construction period as well as reviewing outturn costs.

The level of board involvement in this process will vary according to the size of the association and the risks that the projects pose. It is important to establish an appropriate level of delegation of decision making to officers to ensure that programmes can be efficiently managed, whilst maintaining board control over major risks. All delegated authorities should be regularly reviewed and assessed in response to changing levels of risk that the association faces.

The board must be satisfied that the association's construction procurement processes deliver value for money and the board must be clear how this is demonstrated. In the past associations have usually determined that value for money was achieved by accepting the lowest price tendered by contractors for construction projects. The Government and the Housing Corporation now place the emphasis on entering into construction partnering arrangements, particularly for associations with larger programmes. This may mean partnering with contractors and consultants where the partner is chosen on the basis of the overall value offered, including the consideration of non-monetary factors, and not on the basis of lowest price alone.

The association must establish a value for money framework for each project that ensures a structured approach to planning and managing a project from inception to completion. The evaluation process should follow Government best practice guidelines contained in the Construction Procurement guidance (see Chapter 7: “Useful Publications”) and referred to in the companion framework on “Assessing Procurement”.

The association must have good clear records to demonstrate how decisions have been reached, that value for money has been obtained and that probity has been maintained. The board should be kept informed of the performance of contractors and consultants employed by the association on new construction, maintenance and improvement programmes.

The association's responsive maintenance programmes are an area where budgetary control is essential, but often difficult to achieve. See the section on responsive maintenance where we expand on this point.

### ***Questions to ask:***

How do we demonstrate that our asset management projects deliver good value for money?

What key performance indicators (KPIs) do we use?

***More probing questions:***

Do we have good clear records to demonstrate how decisions have been reached, value for money has been obtained and that probity has been maintained?

Do we comply with Government guidance on best practice in construction procurement?

Do our practices and procedures comply with the standards adopted by other comparable organisations?

Is our system of delegating authority up to date? Does it strike the right balance between efficient working practices and appropriate levels of control?

**Planned Maintenance and Reinvestment*****“Are we adequately maintaining our properties?”***

The board needs to be satisfied that the association is meeting its planned maintenance programme targets and progressively achieving the standards of housing that the association has set in the asset management strategy.

The association needs to ensure that it is carrying out and maintaining a consistent programme of planned maintenance from year to year to ensure that the stock is brought up to, and maintains the standards that the association has set. These standards must include the decent homes standard. If the association consistently fails to meet its planned maintenance targets, then it may find it difficult to catch up with the required programme in subsequent years. In turn the failure to maintain the stock may influence the ability of the association to let property that has not been repaired and modernised to meet residents' expectations. The reasons for failing to meet targets therefore require careful examination by the board to establish if a serious problem that affects the financial viability of the association is developing.

***Questions to ask:***

What are our targets for planned maintenance and improvement work, and are we achieving them?

***More Probing Questions:***

Has the planned maintenance budget been cut repeatedly during the past 3 years? If it has, why has the planned maintenance budget been cut?

Have the targets for planned maintenance expenditure and outputs been achieved in the past 3 years?

How do we measure planned maintenance activity? Do we know how many homes are affected, the volume of elemental replacement (such as kitchens, bathrooms or roofs) as well as the expenditure?



## Responsive Maintenance

### *“Is our spend on responsive maintenance in balance with planned maintenance spend?”*

The association should usually be spending considerably more on planned maintenance and stock investment than it does on responsive maintenance each year. You will achieve much better value for money in a properly planned programme, and planning works allows for a much more holistic approach to keeping a property well maintained. The precise ratio of planned to responsive maintenance is difficult to define since each association's stock varies in age and condition. However the association should set an appropriate ratio and monitor performance against this target on an annual basis.

Managing budgets for responsive maintenance is a difficult but essential task. Controls need to be exercised over the balance between work paid for by the association and that which residents are expected to pay for. Similarly, the ordering processes for work need to be effective in specifying the correct work, and balancing the need for pre-inspection and post-inspection of works carried out. The board needs to satisfy itself that audit controls are cost-effective, and commensurate with the risk involved, without unnecessarily impeding service delivery.

The association should also monitor how the repairs budget is spent; what components are being replaced? What is the impact on response maintenance, cyclical and servicing expenditure. The trends in expenditure and the underlying reasons should then be critically examined to ensure that the association has the appropriate balance of expenditure between the various maintenance budget headings and that budgets are being effectively spent.

The association should consider benchmarking their maintenance performance against that of other associations that have comparable stock and face similar challenges.

The association should continuously monitor feedback from residents and the board should be clear how such feedback is used to influence policy. For example, a high level of resident satisfaction with the association's responsive maintenance service does not automatically imply that the stock is well maintained, but rather that association has a good record in responding to day-to-day maintenance requests from residents.

Those associations which employ their own tradespeople (typically in a Direct Labour Organisation or DLO) can benefit from VAT savings and a certain flexibility in responding to repair issues. However there are many challenges to managing a DLO, including achieving the right level of management control, measuring the cost-effectiveness of the service, and recruiting the right skills and experience. The Housing Corporation has published a Good Practice Guide on DLOs; see Chapter 7: “Useful Publications” for more details.

There are a number of questions that the board may ask to satisfy themselves that the association is maintaining its stock to agreed standards.

### **Questions to ask:**

How much do we spend on responsive maintenance compared with other associations?

Has the targeted ratio of expenditure between planned and response maintenance been achieved over the past three years? If not, why have the targets not been achieved?

Are residents satisfied with the responsive maintenance service they receive?

**More Probing Questions:**

Are there significant variations in the planned and response maintenance expenditure from year to year? If so, why has this happened and were the changes planned?

Does the association benchmark its performance, budgets and expenditure on planned and response maintenance against that of other comparable associations? If so, how does your performance compare? What are the reasons for any significant differences?

**Continuous Improvement*****“How do we keep making our asset management better than before?”***

The asset management strategy should be a living document that is regularly reviewed and improved to ensure that it keeps pace with changes in demand and residents' aspirations and expectations. The board should be involved in regularly reviewing the strategy to ensure that the association's approach to asset management remains relevant and addresses any new risks that the association faces.

The board also needs to consider how Best Value reviews can be employed to improve performance in the preparation, implementation and monitoring of the asset management strategy.

It is also essential that the association measures itself against other comparable organisations. This is often done through a benchmarking process. The primary purpose of benchmarking is to improve the performance of the association by testing how it is performing, whether it is achieving better performance and the rate at which its performance is improving. Without measuring the association's performance it is not possible to check whether the targets that the association has set are being achieved. Benchmarking is therefore critical to the process of continuous improvement required by the Regulatory Code.

It is also possible to benchmark performance internally between consultants and contractors working on the programme, or between projects within a programme to see if value for money is being obtained.

The association needs to agree what indicators it will use for such comparisons. Possible indicators include; cost, time, quality, customer satisfaction, and environmental impact. The results can then be used to inform the selection of firms for future tender lists, to justify negotiating further contracts with a particular contractor, or for entering into a construction partnering arrangement.

Associations with larger construction programmes (whether for new development or for maintenance and improvement works) will be required to obtain Client's Charter status that will facilitate benchmarking between comparable associations. (see also the companion framework "Assessing Procurement").

**Questions to ask:**

How often do we review our asset management strategy?

Are there any weaknesses in our asset management strategy?

In what areas of our asset management strategy can we demonstrate best practice and/or continuous improvement?

What steps do we need to take to improve our approach to asset management? (Have we programmed action on all of these steps?)

Do we receive regular reports from officers detailing progress against agreed targets?

Do we appraise the impact that new activity may have upon our business plan and asset management strategy? How is this carried out? Do we receive sufficient information to make properly informed decisions?

***What is the role of Best Value reviews?***

- Do we challenge our working practices and assumptions?
- Do we consult with our stakeholders?
- Do we compare our performance with others?
- Do we consider competition?

## **PART 3: POINTERS TO MORE INFORMATION**

### **CHAPTER 7**

#### **Useful Publications**

##### ***HOUSING CORPORATION PUBLICATIONS***

These publications are available on the Housing Corporation website at:  
[www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)  
or from the Publications Unit.

##### **The way forward**

##### **Our approach to regulation**

Published by the Housing Corporation – January 2002

##### **The way forward**

##### **Inspection: our approach**

Published by the Housing Corporation – January 2002

##### **Treading the boards: A self assessment framework for board performance**

Published by the Housing Corporation – September 2001

##### **A strategy for success: Effective risk and business management**

By Caroline Shah

Published by the Housing Corporation – January 2001

##### **Embedding risk management – some tips and tactics**

##### **Risk Management Topic Paper 2**

By Gill Bolton and Sarah Blackburn

Published by the Housing Corporation – May 2002

##### **Assessing financial viability**

##### **Code Good Practice Note 2**

Published by the Housing Corporation – July 2002

##### **Internal controls assurance**

Guidance notes for RSLs

Published by the Housing Corporation – December 2001

##### **Sector Study 7: Low demand for housing association housing**

##### **Measuring low demand: the national picture**

Published by the Housing Corporation – October 2001

##### **Sector Study 13: Characteristics of low demand housing association housing**

Published by the Housing Corporation – February 2002

##### **Race equality code of practice for housing associations**

Published by the Housing Corporation, Commission for Racial Equality, National Housing Federation and the Federation of Black Housing Associations– May 2002

##### **Race equality and diversity**

##### **Good Practice Note 4**

Published by the Housing Corporation – November 2002

**Learning from problem cases**

Published by the Housing Corporation – January 1999

**Learning from problem cases 2**

Published by the Housing Corporation - March 2003

**Good practice guide for RSLs assessing the performance of their Direct Labour Organisations, (DLOs).**

Published by the Housing Corporation – April 2003

**Housing Corporation sustainable development strategy**

Published by the Housing Corporation – June 2003

**A case for sustainability**

Published by the Housing Corporation – June 2003

***OTHER SOURCES*****Assessing Procurement: Ensuring probity and value in property development, regeneration and maintenance procurement**

A self assessment framework for Boards of Housing Association – Trimmer CS, Norman Kidston and Housing Corporation – July 2003

**Managing the Assets**

Edited by Karen Tait

Published by the National Housing Federation – June 2003

**Asset management strategies**

By Andrew Larkin

Published by Metropolitan Housing Trust –2000

**Strategies for asset management**

By Andrew Larkin

Published by the National Housing Federation – July 2001

**Asset management**

Quarterly newsletters published by the National Housing Federation  
[www.housing.org.uk](http://www.housing.org.uk)

**Housing repairs and maintenance****Learning from inspection**

Published by the Audit Commission - 2002

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

**Housing repairs and maintenance handbook**

Learning from audit, inspection and research

Published by the Audit Commission – March 2002

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

**Asset management of local authority land and buildings**

Good practice guidelines

Published by the DTLR

[www.odpm.gov.uk](http://www.odpm.gov.uk)

**A Decent Home: The revised definition and guidance for implementation**

Published by the Office of the Deputy Prime Minister – June 2002

[www.odpm.gov.uk](http://www.odpm.gov.uk)

**Construction Procurement Guidance**

No 2 – Value for Money in Construction Procurement

Published by the Office of Government Commerce

[www.ogc.gov.uk](http://www.ogc.gov.uk)

**Race Equality and Public Procurement: a guide to meeting the duty to promote race equality**

Published by the Commission for Racial Equality - 2003

## CHAPTER 8

### Our Methodology

In the Spring of 2002 the Housing Corporation commissioned housing consultancy Trimmer CS to prepare two self assessment frameworks for use by the boards of housing associations. The frameworks cover asset management and probity in construction procurement. The two documents are designed to assist board members and senior executives of housing associations in assessing compliance with the Housing Corporation's Regulatory Code introduced in April 2002.

We commenced our work by undertaking a literature review covering both subjects. Much of the literature we studied is referred to in the Useful Publications section. We met with a number of Housing Corporation officers at their head office to collect together their recommendations of useful publications and sources.

The next stage of our preparation for writing these frameworks was to meet with regulation and other staff from the Housing Corporation in their different field locations throughout the country. These meetings were designed to gather information on:

- Current concerns about housing association performance in asset management and procurement.
- Nominations of examples of best practice.
- An overview of practice in all parts of the country.
- Suggested "trigger" questions which could usefully be recommended to boards of housing associations.

Our research team then met with a number of the housing associations suggested by the Housing Corporation staff we had met. At this stage we were able to test the overall framework, together with the key questions which are now included in the framework. We also tested the information we had been given about current practice, and gained a better understanding of how different boards of housing associations might use the frameworks.

Running in parallel with these specific research operations we regularly met with a steering group which assisted in the development of the concepts to be included in the framework. The composition of the steering group changed during the course of the project, and different experiences and views were brought to bear to widen the scope of review given to the frameworks as they were being developed. We also met and discussed the project with the asset management Policy Advisor to the National Housing Federation. The NHF shared with us a pre-publication draft of their guide to asset management, and we worked together to try to avoid discrepancies between the two publications.

A number of drafts of the frameworks were produced, and tested with a number of reviewers. When the framework was close to completion a series of "road testing" events were organised, where five housing association boards agreed to review the framework and apply it to their own association. Each event was facilitated by a team drawn from the Housing Corporation and Trimmer CS. We are grateful for the co-operation and valuable comments received from this road testing exercise.

The authors of this framework are Greg Trimmer, Managing Director of Trimmer CS, and Norman Kidston, Associate Manager with Trimmer CS. This version was prepared in March 2003. © Trimmer CS and The Housing Corporation 2003.

## CHAPTER 9

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William Sutton Trust  
Sovereign Housing Association  
Magna Housing Group  
Central and Cecil Housing Association  
Plus Group  
Touchstone Housing Association

## APPENDIX

### A SUMMARY OF THE DECENT HOMES STANDARD

#### Government Policy

The Government has made a national commitment that every public sector home in England should reach a "decent standard" by 2010. The definition of the standard has taken some time and has been developed through at least three versions. The current housing policy of the Government is heavily focussed on the Decent Homes commitment, and housing associations are expected to develop strategies showing how they will achieve the target.

By decent, the Government means a home that is wind and weather tight, is warm and has modern facilities.

The standard should be seen as a credible minimum standard that all associations should be able to meet by 2010. In order to meet the standard a homes must meet the following four criteria:

- **Meets the current statutory minimum standard for housing.** Currently the fitness standard, (as defined under section 604 of the Housing Act 1985). This requirement constitutes the minimum deemed necessary for a dwelling house to be fit for human habitation. For instance a dwelling should have a bath or shower and wash hand-basin with hot water and cold water.

From 2004, the Government intends to replace the Fitness Standard with the Housing Health and Safety Rating System, (HHSRS) which will assess health and safety hazards in the home.

- **It is in reasonable state of repair.** Dwellings which fail to meet this criterion are those where either: one or more of the key building components are old and, because of their condition, need replacing or major repair; (i.e. those which, if in poor condition could have an immediate impact on the integrity of the building, such as external walls and central heating boilers) or two or more of the other building components, (such as kitchens and central heating distribution system) are old and need replacing or require immediate major repair.
- **It has reasonably modern facilities and services.** A dwelling is considered not to meet this criterion if it lacks three or more of the following facilities; a kitchen which is 20 years old or less; a kitchen with adequate space and layout; a bathroom which is 30 years old or less; an appropriately located bathroom and WC; adequate noise insulation and adequate size and layout of common entrance areas for blocks of flats.
- **It provides a reasonable degree of thermal comfort.** The thermal comfort criterion requires programmable central heating systems or electric storage heaters, together with varying levels of insulation depending on the energy source used for space heating. For gas fired central heating, 50 mm of roof insulation is required. The standard also requires cavity walls to be insulated, if there are cavity walls which can be insulated effectively

For more information see:

**A Decent Home: The revised definition and guidance for implementation;**

[www.odpm.gov.uk/information/dhg/definition/index.htm](http://www.odpm.gov.uk/information/dhg/definition/index.htm)



