



NPV/Financial Viability of Stock

13 July 2017

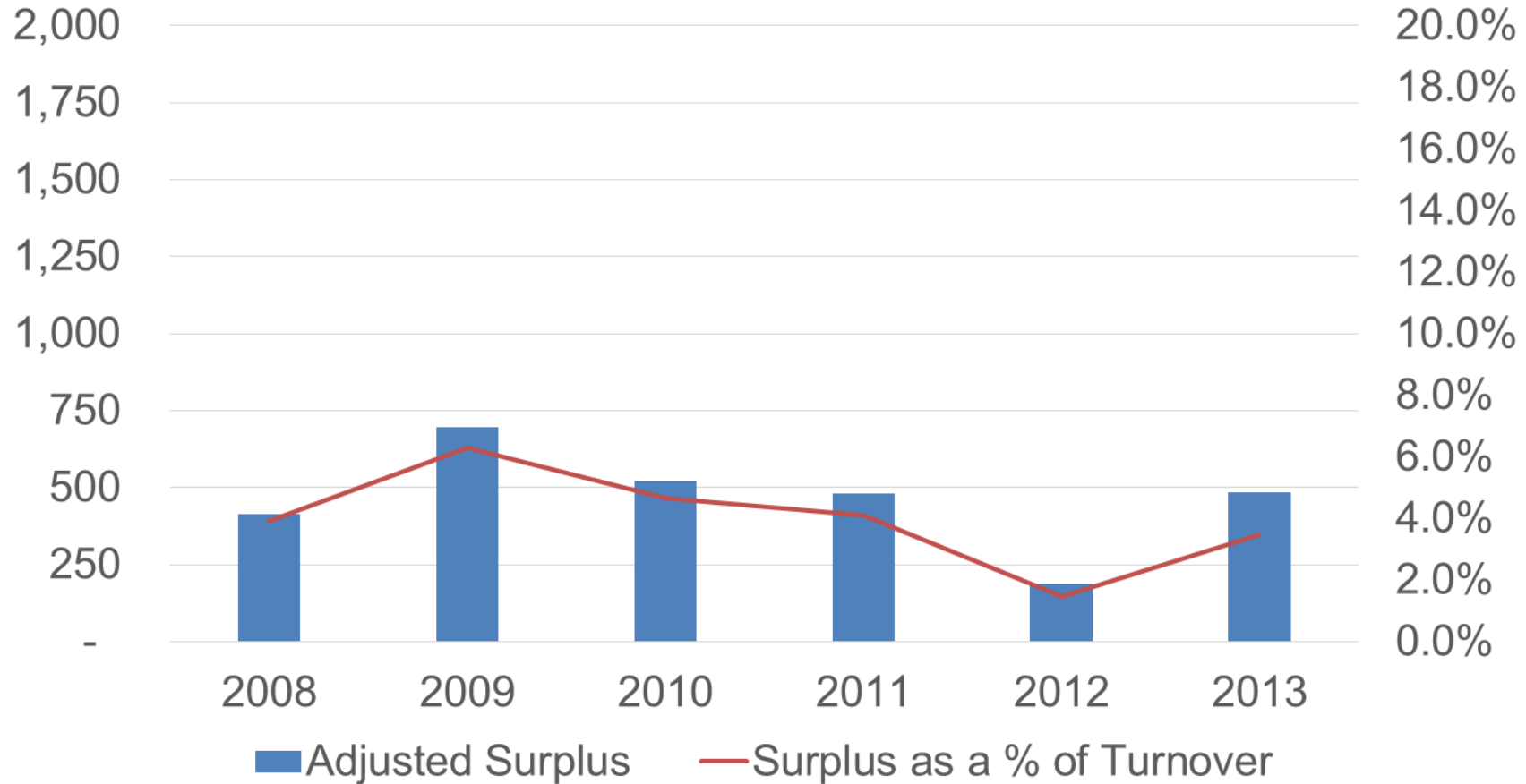


So who are we...

- Cardiff Community Housing Association
 - Traditional, Developing, Community Based
 - Formed in 1996 but history goes back to 1976
- Caroline Lewis
 - Development Director
 - 9 years
- Mark Potter
 - Director of Finance and ICT
 - 5 years



CCHA Financial Performance



So what was going on during this period

- WHQS catch up – revenue intensive elements
- Long term void backlog 30/40 properties
- Knock down/Rebuild Programme – 4 properties
- Completed an extensive development programme
- Start of the financial crash



So what was going on during this period

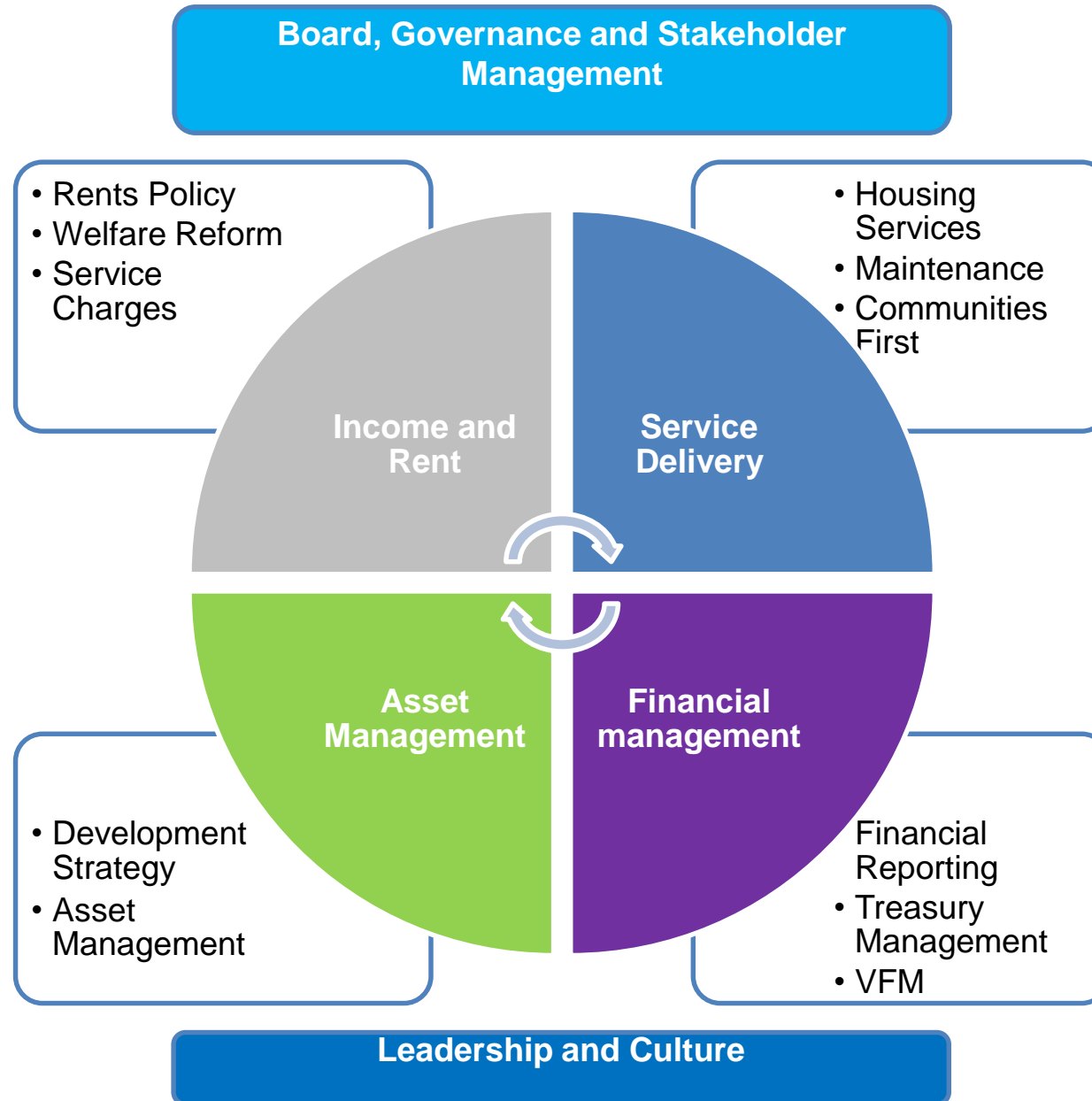
- Old rent policy biased towards 3 bed houses with cheaper 1 and 2 bed flat rents
- All 1 and 2 bed flats were making a loss
 - Guess what we were building?
- Used NPV for new build but not for maintenance
- SORP 2014 initially valued properties at EUVSH not cost



New financial Strategy Required

- Clearly couldn't keep doing what we had always done
- Interest rates would rise one day (?)
- Needed to improve profitability
 - Increase income
 - Reduce costs
- Reduce voids
- Increase housing supply





WG Delivery Outcome Heading

- We build and renovate homes to a good quality
- We repair and maintain homes in an efficient, timely and cost effective way
- We build good quality housing which is sustainable and meets the long-term needs of the area



Corporate Plan

- **Tenants are happy with their homes**
 - build housing of excellent quality, design, location and sustainability
 - deliver an efficient and effective responsive repairs service
 - ensure that the long-term maintenance of our homes is affordable and can be delivered
 - upgrade existing housing that has reached the end of its useful life
 - relet properties to a good standard and keep empty homes to a minimum



Corporate Plan

- **Our partners see us as an effective and innovative business**
 - effectively plan and performance-manage to ensure delivery of our aims
 - pursue improvement and innovation with the help of our internal and external partners
 - control costs to provide VFM and affordability
 - seek new, innovative opportunities and partnerships
 - be open about our plans, accountabilities and responsibilities
 - have an effective information, communication and technology platform to support the actions of the business



Financial Challenge

- **Issues**
 - Need to increase the surplus
 - Higher quartile cost for maintenance
 - Growing backlog of maintenance issues
- **Solution**
 - Use asset management to scope the problem
 - Approach is to either programme the work or remove the problem



What is Asset Management?

- Looking after and making best use of the housing stock and achieving value for money
- The Asset Management Strategy should:
 - Be part of the business planning process
 - Ensure long term sustainability of the housing stock
 - Provide a framework to manage stock proactively and support business plan objectives
 - Cover a 30 year timescale whilst providing a framework for medium term plans



The Strategy

- The AMS ensure that:
 - homes are maintained in a condition that is acceptable to current and prospective tenants.
 - the condition of homes complies with legal and regulatory requirements.
 - that homes and other assets continue to generate an acceptable level of income.
- To plan for maximising the financial performance of the assets.
- To enable prioritisation of investment within the constraints of the resources available.



Asset Performance

- Fundamental to the Strategy is a performance assessment for all the assets
- The assessment looks at
 - Financial performance of the asset
 - Current and projected demand for the asset in its current use
 - Housing management issues
 - Community sustainability issues



We build and renovate homes to a good quality

- Financial Viability as part of AMS
 - Implemented 2 appraisal models
 - Linked the Asset and Development Appraisals by analysing all work on a Net Present Value basis
 - Investment Panel to make informed decisions
 - Internal Hurdle Rate for New Build Schemes



Asset Performance

- The aim is to clarify assets into categories for example:
 1. Asset performing satisfactorily
 2. Asset performing satisfactorily but with the potential for improved performance
 3. Asset not performing satisfactorily
 4. Change of use / disposal agreed for the Asset



Asset Data – The Model

- The spreadsheet looks at the following years:
 - 1 and 5 years historically
 - 1, 5, 15 and 30 years into the future
- Future costs at today's pricing for income and cost
- Planned profiled over 30 years
- Model split between income and expenditure
- Income based on 16-17 rents
- Service Charge included



Asset Data

- Expenditure split as follows:
 - Management Spend
 - Cyclical
 - Reactive & Voids Maintenance
 - Other Maintenance
 - Non housing costs
 - Loan Interest
 - Service Charge
 - Planned Maintenance



Asset Data

- Planned expenditure is assumed to occur when replaced showing the cash outlay and not the accounting treatment where depreciation takes place over time
- The costs are profiled from the planned maintenance model at today's costs
- Other costs are not inflated



NPV Model

Maintenance Option Appraisal

<p>Method of Property Selection: [Redacted] 3 Aberdovey Street</p> <p>A01003</p> <p>Tenancy Type: general New Property Type: H3</p> <p>NPV Figure (4,164.48) NPV Cat. c. -5-3k</p> <p>Disposals Cat. Complete Disposal Appraisal</p>	<p>Please complete coloured cells. Only when the cells have turned green should this form be passed on.</p> <p>Desirable location? [Redacted] Easily lettable? [Redacted] Tenant looking to move and on waiting list? [Redacted] Tenants consulted? [Redacted]</p> <p>Officer: [Redacted] Date: [Redacted] Manager Authorisation: [Redacted] Date: [Redacted] Director Authorisation: [Redacted] Date: [Redacted]</p>										
<p>Category of Works: Damp-proofing Complete if other:</p> <p>IBS Order no: [Redacted]</p> <p>Proposed Spend (inc vat) 10,000.00 Revised NPV Total (14,164.48)</p> <p>Actions to be taken</p> <p>Authority to Proceed: No</p> <p>Investment Panel: Go to Investment Panel Level of Sign Off: N/A</p> <p>Tender required: formal Tender</p>	<p>Scenario - Increase Rent/Revised Tenancy</p> <p>Increase Rents [Redacted] Brief supporting reason for decision:</p> <p>Current Rent Proposed Rent</p> <table border="0"> <tr> <td style="text-align: center;">Revised Information</td> <td style="text-align: center;">Possible Actions to be taken</td> </tr> <tr> <td>NPV Cat.</td> <td>Authority to Proceed:</td> </tr> <tr> <td>Disposal Cat.</td> <td>Investment Panel:</td> </tr> <tr> <td>NPV</td> <td>Level of Sign Off:</td> </tr> <tr> <td>NPV with workings</td> <td>Tender required:</td> </tr> </table>	Revised Information	Possible Actions to be taken	NPV Cat.	Authority to Proceed:	Disposal Cat.	Investment Panel:	NPV	Level of Sign Off:	NPV with workings	Tender required:
Revised Information	Possible Actions to be taken										
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NPV with workings	Tender required:										



NPV Model

Disposal Appraisal

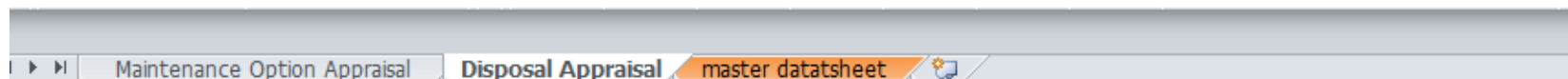
Property Address:	3 Aberdovey Street
UPRN:	A01003
Tenancy Type:	general
New Property Type:	H3
Mortgage:	NO
Mortgage Provider:	-
NPV Figure	(4,164.48)
NPV Cat.	c. -5-3k
Disposals Cat.	possible

Market Value Jan 10	125,000.00
Adjusted +/-% to MV	
Revised Market Value	125,000.00
Net Book Value	64,903.18
Decant Costs	
Other Sale Costs	
Costs of Sales	64,903.18
P/L on Sale before RG	60,096.82
P/L on Sale after RG	14,158.78
Recycled Grant -	45,938.04
Free cashflow	79,061.96

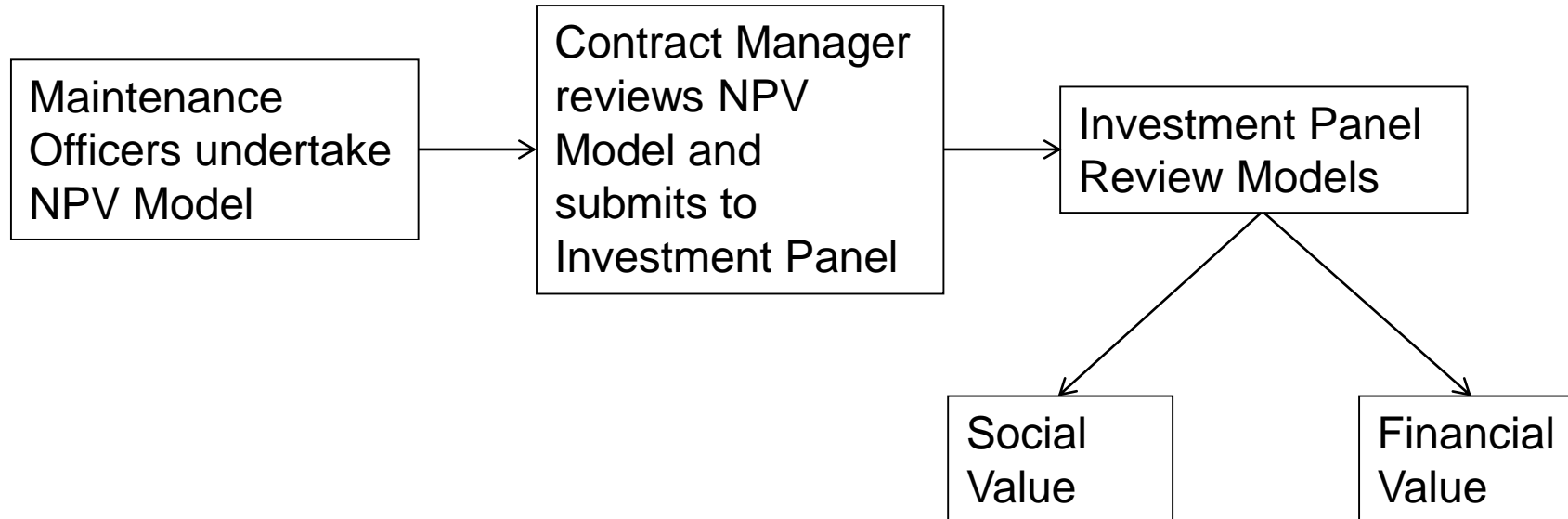
Director of Customer and Community Services - Recommendation:

Reasons for the above decision:-

Please complete coloured cells. Only when the cells have turned green should this form be passed on.



Decision Tree



Social Value

- Examples of Social Value as follows:
 - Properties that are rarely void/low turnaround
 - Properties where tenants pay rent regularly
 - Location and property type
 - Free from long term maintenance other than immediate identified works
 - WHQS compliant and future works programmed as per the SCS and life cycle
 - Not part of a street strategy
 - Personal/Health issues



Summary NPV Models

- 2847 Properties in stock
- Still undertaking calculations and reviewing surveys but believe our total number of ‘watch’ properties are under 5%

No of Properties Reviewed via Model	No of Properties Reviewed by IP	No of Properties awaiting next IP	No of Properties Presented to the Board	No of Properties Sold	No of Properties awaiting Disposal
90	59	7	9	4	5
3%	2%	0.28%	0.31%	0.14%	0.17%

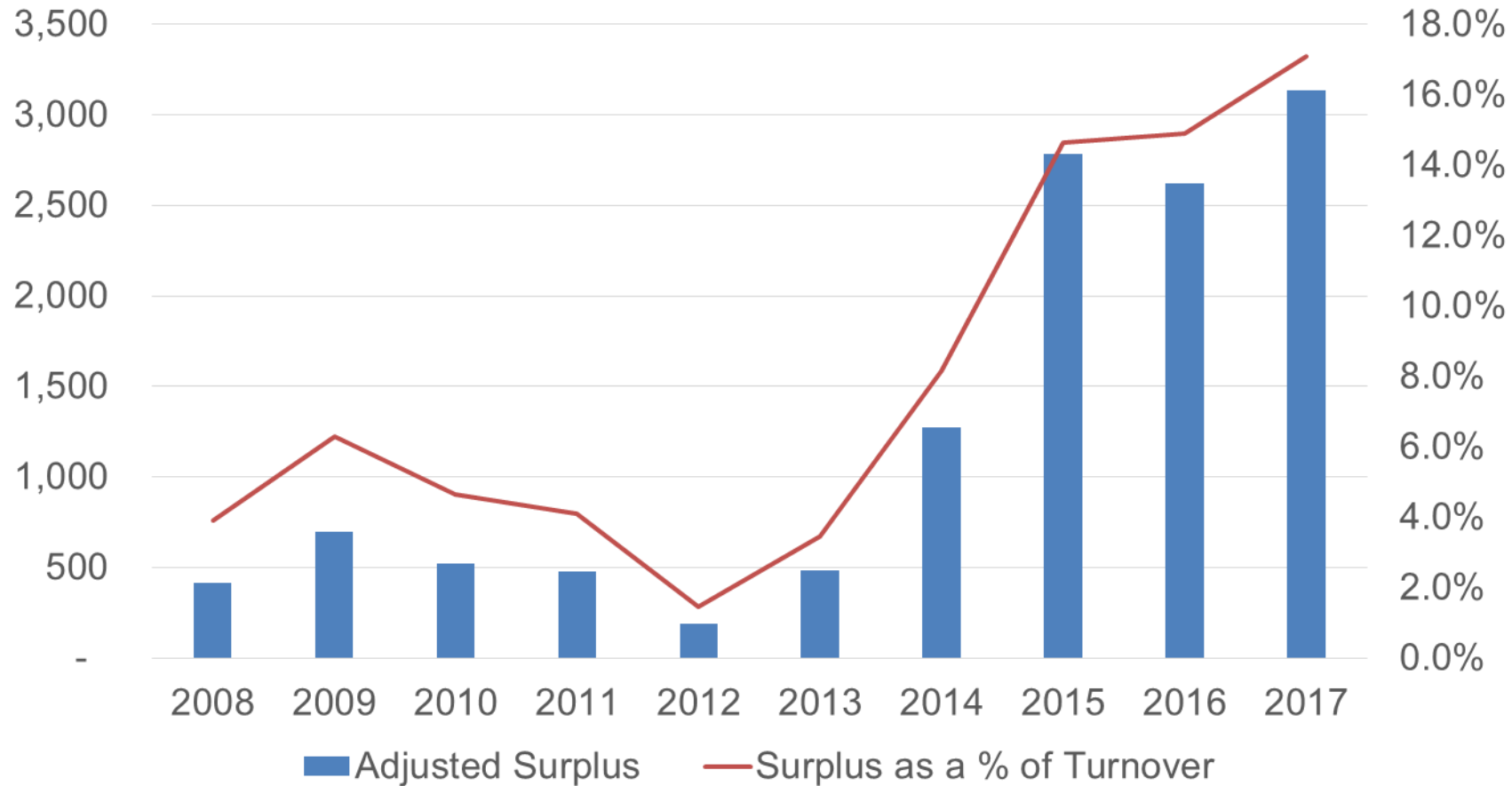


What Did We Get Right

- Linked 30 Year Financial Forecast to the Asset Management System
- Annual Budget comes off the 30 year financial forecast
- Made the 30 Year Financial Forecast Real
- Plan to sell/recycle 10 properties per year
- Reduced voids
- Improved profitability



CCHA Financial Performance



What did we get wrong

- Commenced in 2013 but were still doing the modelling in 2014
- Data inconsistencies (Links to A&L Registers)
- We didn't initially have a measure for social value
- We didn't initially have an approach to streets/estates



Future Work

- Fully analyse all stock and create a Red, Amber, Green Matrix
- RAG Matrix will identify inspection period and whether further works should be carried out prior to the NPV model taking place
- Investigating software options to try and join up appraisals e.g. SDS or Capita/IBS
- Looking for software to 'stand up on its own', reduce reliance on individuals
- Software should be live



Future Work

- Accurate and efficient decision making
- Prevent incorrect decisions



Learning Points

- Don't get overly fixated with the modelling
 - Don't seek perfection and take years to achieve it
- You need staff to operate in real time
 - Look forward not back
 - Tomorrow's investment decision is more important than yesterdays
- Get Board and staff buy-in
- Social value is difficult to measure



Any questions?

