

FINAL DRAFT
ASSET MANAGEMENT STRATEGY

ASSET MANAGEMENT STRATEGY - OVERVIEW

The Atlantic Housing Group (AHG) has a diverse and expanding housing stock and seeks to respond to increasingly pressing and diverse housing and community needs.

Over the years the Group has refined its mission, objectives and business plans. These are expressed in a Board document "Strategy, Drivers and Influences 2004/05", the latest version of which was approved in June 2004.

Our Current Mission

The Atlantic Housing Group aims to be an outstanding landlord and service provider. In order to do this we direct our energies towards:

- Providing high quality affordable housing, care and support services.
- Exploring growth opportunities to expand our geographical operation and in turn in achieving increased efficiencies and savings in overheads.
- Delivering services in a way which benefits not only our tenants and service users but helps create communities where people really want to live.
- Providing exceptional customer service by ensuring consistent involvement of customers and other stakeholders at all levels of decision-making.
- Pursuing our growing track record of working with private developers in the provision of affordable housing for home ownership and for rent.

Achieving our Goals

AHG works in a changing and competitive environment. Unlike many other organisations, however, AHG does not seek solely to survive – it aims to prosper and develop in the interests of today's and tomorrow's tenants and users. This requires the Group to be focused and driven and to have a multi-faceted approach. This approach is delivered through five major corporate objectives:

- To enhance our role as a significant community stakeholder and to recognise and respond to the diversity of the communities we serve.
- To secure the financial viability of the Group.
- To improve and develop core services.
- To expand, maintain and improve our housing stock.
- To ensure that the Group is seen as a "preferred" employer by both existing and potential employees.

The Asset Management Strategy

This Asset Management Strategy looks at the housing and related assets of the Group and these include:

- Houses, flats and bungalows
- Garage sites
- Open spaces and play areas.

The Objectives of the Asset Management Strategy

The Asset Management Strategy seeks to ensure that:

- The stock is well maintained and meets local and national standards.
- The Group's planned maintenance and improvement programmes are evidence based and integrated into the business plan of the Group.
- Obsolescence is identified early and plans put in place to alter the use of, dispose of or improve obsolescing stock.
- Ancillary assets such as garage sites and open space make a maximum contribution to housing provision and the quality of life on estates.
- Estates are adapted/remodelled to cope with current and future demands.
- A regeneration approach is taken on estates where multiple issues arise.
- The Strategy is the subject of targeted consultation.
- It is based on well-evidenced judgements on current and future supply and demand for affordable housing.

The Asset Management Strategy is:

- **DRIVEN BY** the Group's mission and corporate objectives.
- **INFORMED BY**
 - the Group Development Strategy
 - the Group Sustainability Strategy
- **DELIVERED BY** maintenance and development strategies and policies
- **INFLUENCED BY** Equality and Diversity strategies

The Strategy has been formulated by reference to the following:

Demographics

- Census data
- Tenant surveys
- Demand data
- Homefinder monitoring data

Stock Condition

- Stock condition survey
- WPS maintenance and improvement data
- Modern standards for sheltered and supported housing

Customer Feedback

- Tenants' Inspection Panels
- Repairs satisfaction data
- STATUS survey
- Complaints

The Overall Framework

- Decent Homes Standard
- Local and Regional Housing Strategies

Financial Issues

- Group Business Plan

ASSET MANAGEMENT STRATEGY - MEETING CORPORATE OBJECTIVES

The role of an asset management strategy is to ensure that the ownership of land or property meets the overall corporate objectives of the Group, either in part or in whole. The strategy involves a rolling review of our assets which will help determine future investment, whether by maintenance and improvement, redevelopment, or disposal.

The corporate objectives agreed by the Board in June 2004 are:

- To enhance our role as a significant community stakeholder and to recognise and respond to the diversity of the communities we serve.
- To secure the financial viability of the Group.
- To improve and develop core services.
- To expand, maintain and improve our housing stock.
- To ensure that the Group is seen as a “preferred” employer by both existing and potential employees.

Source: Strategy, Drivers and Influences 2004/05.

Within each of these headings are a number of actions the Group will take to achieve the objective. This strategy has action points which comply with these objectives.

A key objective of an asset management strategy is to identify those properties that are at risk and prepare action plans to deal with them before they become financial liabilities. Asset management is not just a maintenance issue, but is very heavily linked to demand (both current and future), new developments, and finance. The strategy helps identify and manage risk. Periodic reviews of the asset management strategy will ensure that the Group complies with the Housing Corporation Regulatory Code which requires us to be viable, well governed, and well managed. It will also provide comfort to the funders who will see that we take a long-term view of our assets and not compromise our long-term financial viability.

The asset management strategy has significant links with other strategic objectives including;

- Strategy, Drivers and Influences 2004/05. This states our mission and the corporate objectives.
- The Development Strategy. There is little point in producing more of the same types of property in locations which are ultimately difficult to let, or expensive to maintain or manage.
- Sustainable Development. This strategy, yet to be completed, covers sustainability in terms of not only new developments but also relating to tenancies, communities, and buildings.
- Maintenance strategy/policies.
- Equality and Diversity Strategy. Our stock must fulfil our objectives in relation to meeting housing need across the whole community.

In general new housing is expensive to build, costly to alter and maintain, and mostly immovable. Its life span is often longer than changes in demand, aspirations, and changes in legislative requirements which can sometimes occur over very short periods of time. It is important that the Group reviews its assets to ask two key questions;

- (i) Do they further our corporate objectives?
- (ii) Can we afford the property now and is it a sound investment for the future?

We must be neither complacent or sentimental about our assets. We may have owned the property for years, but if it is no longer achieving its objectives then its life is limited. Housing is littered with examples of stock with low demand or which is not fit for purpose and now too expensive to do anything with leading to a spiral of decline. In many cases organisations did not even see it coming. In all of this, however, we must be mindful of our responsibility to our tenants, many of whom have been long-term customers and may be with us for the rest of their lives. Though we will take hard decisions, we will always be compassionate in our actions. This strategy looks at:

- Housing and demographics
- Stock condition and future investment
- Stock option appraisals
- Resident involvement
- Financial impact of the strategy

The strategy concludes with a set of Action Plans. Each section is not mutually exclusive as findings in one may affect actions in another. The strategy pulls together the many factors affecting our holdings and will help inform future policy decisions of the Group.

THE FIRST EIGHT YEARS

Eastleigh Borough Council transferred its entire housing stock to Eastleigh Housing Association in March 1996 under the Large Scale Voluntary Transfer arrangements. Its total stock holding at that time was 4,352 homes all within the Borough. As part of the transfer agreement, the Group had finance in place to undertake refurbishment schemes to the existing stock to bring it up to a modern standard. The aim was to complete these works within 5 years, although this was not specified in the transfer document itself. All the works were completed by March 2001.

The Council also adopted a policy to use all of the money raised by the sale of its stock for housing purposes. It was estimated at that time that 450 new properties could be built in the five years after transfer with the proceeds and that the nascent Housing Association should play a major part in the provision of the new housing.

All proceeds, from Right-to-Buy sales, net of the purchase price paid by the Group, are paid over to Eastleigh Borough Council. The proceeds have, to date, been ring fenced to provide new social housing although recently some of the money has been used to fund disabled facilities grants.

In development terms, the Group competes with several well established and traditional housing associations operating in the area. Opportunities for capital grant from the Housing Corporation has been severely restricted over the years and the Group has relied heavily on Local Authority Social Housing Grant from the Borough and using its own borrowing capacity to provide rental property in the area. During the first 5 years the Group developed 466 new properties but lost 380 through right-to-buy sales, giving a net gain during the period of 86 properties. Given all the factors both internal and external a net increase, albeit it very modest in number, was a creditable achievement.

Development Completions 1996/7 to 2003/4

<u>Year</u>	<u>New-build</u>	<u>Rehab</u>	<u>Total</u>	<u>RTB</u>	<u>Net Gain</u>
1996/7-1998/9	142	84	226	231	-5
1999/2000	89	71	160	75	+85
2000/2001	43	37	80	74	+6
2001/2002	40	202	242	56	+186
2002/3	51	58	109	25	+84
2003/4	150	30	180	21	+159
Total	515	482	997	482	+515
2004/5 (est)	210	8	218	25	+193

Relying on one local authority area in which to operate; one tenure, or one category of social housing makes the organisation vulnerable to external changes which can have a dramatic impact on consistent long-term growth. As can be seen from the following table, over time the Group has increased the number of areas in which it operates. It has also increased its stock in other tenures, most notably supported and market rental properties.

Development by Area 1996/7 – 2002/3

<u>Year</u>	<u>Eastleigh</u>	<u>Winchester</u>	<u>Fareham</u>	<u>Test Valley</u>	<u>New Forest</u>	<u>Southampton</u>	<u>Other</u>	<u>Total</u>
1996/7-1998/9	200	0	6	1	8	2	-	226
1999/2000	95	44	1	6	-	1	13	160
2000/2001	36	0	35	-	-	9	-	80
2001/2002	39	36	1	-	2	135	29	242
2002/3	49	12	10	-	5	33	-	109
2003/4	118	1	2	-	4	36	19	180
Total	546	93	55	7	19	216	61	997
RTB	482							482
Net gain	64	93	55	7	19	216	61	515
2004/5 (est.)	122	25	16	-	5	46	4	218
Net gain	186	118	71	7	24	262	65	733

Being accepted into new areas and competing with existing partners has not been easy. The market rental properties have not relied on any capital grant, but has demonstrated our commitment to finding funding solutions. A number of supported housing schemes have been developed by the Group and have enhanced our reputation. These are often considered by other players to be more difficult to develop, time-consuming and in many respects, more risky. In a short space of time we have been recognised as an organisation which provides imaginative and innovative solutions to housing issues and this had a considerable impact on enhancing our reputation. By the end of 2003/04 we had achieved preferred partner status with Eastleigh, Southampton, New Forest, Winchester, Fareham, and Arun, and had stock in two other local authority areas. The total stock holding for the Group at 31 March 2004 was over 5000 units.

The Housing Corporation published "Reinventing Investment" in Autumn 2003. This will restrict the number of developing associations/consortia to a significantly smaller number in an effort to gain economies of scale. We have seen a number of consortia form throughout the South in a very short space of time. The Group became a founding member of the Sapling Consortium comprising of initially 3 LSVTs and 2 other associate members. For 2004/06 the consortium has been allocated £42m of which the Group's share is £14m.

Progress on Refurbishment

Prior to transfer a stock condition survey was completed in 1995/96. Although no timetable was set for the completion of the refurbishment objectives, the general consensus was that five years was a reasonable timescale for what was a very large programme. All the works were completed by March 2001.

As at 31 March 2004 the following work had been carried out:

Major Works: PRC refurbishment	57 dwellings
Pre-war houses: refurbishment (external)	77
(internal)	263
(full)	40

Post-war houses: improvements

Cavity wall insulation	803 dwellings
Central heating installation	434
Kitchen and Bathroom replacement	1085
Boiler replacement	562
The installation of PVCu double glazing	690
Jarvis Fields redevelopment	4

The fact that so much recent investment has taken place is reflected in the results of the stock condition survey, completed in April 2004. New plans are being drawn up to ensure that future stock investment enables the Group to meet Decent Homes Standard by 2010.

HOUSING DEMAND AND DEMOGRAPHICS

Demand for housing stock in particular locations or of particular types can change over relatively short periods and certainly well within the lifetime of a building. One of the best examples of this phenomenon is that of bedsits which were built in large numbers in the 1970s and 1980s where demand has collapsed for all but a relatively small client group. While the area in which we operate does not have any major problem with abandonment or foreseeable large scale economic decline, demand both now and in the future will have a bearing on future developments and future stock investment.

PRESENT DEMAND

There are two main sources of information to help us assess present demand and, in turn, these may also help indicate future demand trends.

i) Homechoice

Eastleigh Borough Council, in conjunction with its partner RSLs, introduced a choice based letting system known as Homechoice in April 2002. The administration of the web site, including advertising all vacant properties from other RSLs, is undertaken by Eastleigh Housing Group. Applicants are divided into 3 categories: URGENT, NEEDING and WANTING. A lettings plan is agreed each year to ensure a mix of applicants from each category and that tenants requesting a transfer have a reasonable chance of achieving this. Under the system applicants "bid" for vacant properties rather than being allocated them as and when vacancies arise. This has proved useful in giving a much more accurate indication of demand for the various types of property that are available.

Historically, one of the main indicators of housing need used by local authorities has been the overall size of the waiting list. This is a very crude measure as there is little differentiation between those actively trying to seek social housing and those sitting on a waiting list as a fallback for their preferred tenure or a particular property to become available. The result can be a perceived demand for certain types of accommodation when, in fact, refusal rates are high leading to longer re-let times and, in some cases, difficult-to-let estates. This is best exemplified by the shift in demand for sheltered housing covered below.

The following table shows the total waiting list as at 31 March 2003 broken down into urgent, needing and wanting bands.

General Needs

	Total	Urgent	%	Needing	%	Wanting	%	Vacancies during 2002/03	Ratio Applicant: Vacancy	Average Bids per Vacancy
1 bed	1431	38	3	1055	74	338	23	53	27:1	59-95
2 bed	1024	59	6	633	62	332	32	104	10:1	10-107
3 bed	506	21	4	327	65	158	31	43	12:1	20-52
4 bed	113	7	6	65	57	41	37	7	16:1	10-16

Demand appears quite healthy ranging from a ratio of applicant to vacancy between 10:1 and 27:1. The average number of bids per vacancy range from 10 through to 107. On this basis there would appear to be little concern over demand for accommodation overall, though there

are some area variations. Vacancies for all one-bedroom property are low compared to the overall number of applicants but see the section below. The demand for two-bed flats ranges between 10 bids in Fair Oak through to 43 bids in Eastleigh. The demand for two-bed houses is significantly greater at a minimum of 51 bids in Bursledon through to 107 bids in Eastleigh. The average bids for 3-bedroom property in West End is 20 through to a maximum of 52 bids in Bishopstoke. Overall the areas with the highest demand are Eastleigh, Chandlers Ford, and Bishopstoke.

Whilst it is too early to get any comprehensive trend analysis accurately to estimate future demand from Homechoice to date, there is one area which may be able to give us some early indicators. Below is a table showing the number of new applicants from 1 April 2002 to 31 March 2003 excluding those in the urgent band.

General Needs New Entrants 1 April 2002 – 31 March 2003

	Needing	% of Total List	Wanting	% of Total List	Vacancies per Annum	Total Stock
1 bed	1055	74	269	19	53	904
2 bed	374	36	251	24	104	1207
3 bed	139	27	135	26	43	1525

93% of applicants for one-bedroom property have expressed that need for one year or less. This is a very high figure and for such a demand to appear in such a short space of time may indicate the volatility of this group. One-bedroom flats are only suitable for a maximum of 2 people and we may make some assumption:

- Single people or couples are finding it difficult to enter the owner/occupied or private rented sector.
- One-bedroom property does not allow for any household formation or growth without the need for a transfer at some time.
- Those in the urgent band often have other life challenges to deal with and if these are not solved by housing alone, this frequently involves housing management time in resolving them.

The figures are significantly different for two-beds and three-beds where the percentage of new entrants represents between 53% and 60% of the total number of applicants, but of these around one third are in the needing band.

Sheltered

	Total	Urgent	%	Needing	%	Wanting	%	Vacancy	Ratio Applicant: Vacancy	Average Vouchers per Vacancy
1 bed	332	0	0	102	31	230	69	87	4:1	2-8
2 bed	18	0	0	15	83	3	17	37	1:2	6-18

The situation in relation to property let solely to older people is, however, quite alarming. The table above shows the total number of applicants broken down by banding for the year ending 31 March 2003.

During the year 124 properties were available for this group with a total list of only 350 applicants. Overall, that amounts to a ratio of a little under 3 applicants to one vacancy. Within the figures, however, there is no one in the urgent band which is traditionally those who are homeless and/or need to move very quickly. Nearly two thirds of the total list are those who are in the wanting band and are normally already adequately housed. They in turn are able to pick and choose vacancies as they arise, often waiting longer periods for a suitable vacancy to arise. The lowest number of bids received for a vacant property was 2, though in some cases this has resulted in even those 2 refusing the property. This rises to a maximum of 18 bids for the two bungalows which became vacant in Fair Oak during the year. If the waiting list were to remain static, it would take a little over 3 years for all need to be met, assuming there were no refusals for any vacancies.

Again, looking at the number of new entrants during the year on the following table we can see that of the 332 people on the waiting list for 1-bed accommodation, 231 of them, ie over two thirds joined in the last year. The number of vacancies at 87 per annum, is far higher than the number of new entrants of 73 in the needing band and, therefore, more likely to accept vacancies. This further underlines the declining demand for older persons accommodation.

Sheltered New Entrants 1 April 2002 – 31 March 2003

	Needing	% of Total List	Wanting	% of Total List	Vacancies 2003/04
1 bed	73	22	158	48	87
2 bed	4	22	3	17	37

ii) Voids

Much of what is contained in the previous section is mirrored by our voids performance.

	Void Rent Loss	Relet Times
General Needs	.52%	2.1 weeks
Sheltered	2.14%	3.2 weeks
Market Rental	9.92%	
Supported		

In terms of general needs the void rent loss of .52% and the re-let time of 2.1 weeks is a good performance and mirrors the healthy demand we have from Homechoice. Market rental performance must be closely monitored. In the last year we disposed of under-performing units and will consider doing so in the future.

Though Homechoice should, in theory, eliminate any refusals as people are choosing a property, in reality there is a small percentage of refusals in general needs, though this rises significantly for sheltered accommodation. We will monitor the reasons why bidders refuse accommodation so that we can identify any trends and assist in deciding any future action, whether this is by reducing the number of properties of particular types or investing in them to make them more attractive.

FUTURE DEMAND

Though it is too early to identify any longer-term trends through the Homechoice system, we can start to make some assumptions on likely levels of future demand. These can be conveniently broken down into demographics and aspirations.

i) Demographics

Over the next 20 years the demographic profile of Eastleigh Borough is expected to change as shown by the table below.

Eastleigh Forecast	Population					Population change between 2001-2021	
	2001	2006	2011	2016	2021		
Total Population	116420	120436	124592	128890	133337	16917	
Ages 0-14	21640	21115	20897	21073	21565	-75	
Ages 15-29	20775	21679	22580	22872	22540	1765	
Ages 30-54	42691	42397	42919	43063	42724	33	
Ages 55-79	26454	29904	32382	35567	39433	12978	
Ages 80+	4851	5332	5803	6334	7075	2224	

Source: Hampshire County Council

These predictions assume a population growth rate of 3.5% per 5 years. Historically, the population growth in Eastleigh has been around 8.5% every 5 years. Overall the population is predicted to rise by 16,917. The majority of that growth is in the 55-79 age group and 80+, both of which will grow by about 50%. If national trends are replicated in the area then the majority of new households will be single. Marriage rates are declining and there will be more mature singles (ie 30+) and mid-life separated households, many of whom will have children with whom they will want and need to remain in contact. It is also likely that the number of single older households will increase. Hampshire County Council has also estimated the number of new dwellings required in Eastleigh as shown in the table below.

Eastleigh Borough Dwelling Requirements

Existing Dwellings 2001	48287
Required Dwellings 2021	72178
New dwellings required due to increase in population	12422
New dwellings required due to lifestyle change	11469

If recent historic household formation continues, and older people traded down into smaller properties releasing larger family houses, the additional dwelling requirement would be 12,422. However, because of changes outlined above, and changing aspirations outlined below, then 11,469 dwellings would be needed in addition to this figure.

Countrywide Surveyors was commissioned by the Group to carry out an analysis of social housing demand within Eastleigh in late 2000. Taking into account deprivation statistics, void rates, population changes, housing need, housing demand and existing social housing provision, they concluded that long-term demand for social housing within Eastleigh was likely to remain strong. The strongest demand for accommodation was located within Eastleigh,

Chandlers Ford and Bishopstoke with slightly lower demand expected within the parishes, with the exception of Hedge End.

From the evidence of demographic predictions, it would be tempting to assume that we have little to worry about in terms of long-term demand. While this may be true for the majority of general needs stock, the same cannot be said of older persons housing.

While many people may have little realistic choice on whether to move into social housing, rising expectations on the quality of accommodation will have some impact on future maintenance investment. Though demand could be seen to be high, turnover rates on some property will need to be monitored which may trigger a longer-term stock option appraisal on certain types of property in certain locations.

ii) Aspirations

Aspirational changes can happen over relatively short periods of time reflecting the general social, political, and economic climate at the time. These changes will certainly be well within the lifetime of the properties we own and manage. Aspirations may be looked at in two ways firstly, reflecting existing households and, secondly, in terms of new household formation.

Existing Households

The number of people living in owner-occupied property is 83.7% in Eastleigh which is well above the national average. Owner occupation is at its highest in the 35-59 age group representing 89% of all people and by 2021 these households will form the majority of the population change found in the 55+ population. Though there is no readily available empirical evidence, historically the majority of entrants into older persons accommodation have been existing social housing tenants. Usually they are downsizing as their families have grown and left home, releasing larger accommodation for families in the process. Neither this traditional group of new sheltered entrants or older owner occupiers, who have significant amounts of equity, are likely to enter the sector because;

- Most sheltered housing is one-bed or smaller and aspirations on space standards have increased dramatically.
- With 84% owner occupation in the area, older people are more likely to purchase an alternative property if they decide to move.
- Social policy through strategies such as community care and supporting people emphasise care delivery in people's existing homes rather than the need to move to more institutional forms of provision.
- The perception of age has changed dramatically during the last generation. While in the 1960s being 65+ may have been seen to be old, with increasing life expectancy one would not be seen as particularly old until 80+.

From the evidence we have from both Homechoice and our own void performance indicators, we are already starting to experience some difficult-to-let issues in older persons housing and that is in stock that is in a good condition and in areas which may be generally perceived to be attractive. There is little doubt that this situation can only get worse. The Group has already re-designated one sheltered estate to extra-care to complement its existing two extra-care estates. On one of the extra-care estates during a refurbishment, one wing was turned into an experimental dementia wing of 19 units and early indications are that demand is high. Within the action plans arising out of implementing the strategy (see later chapter) further consideration will be needed on the future of older persons accommodation generally.

New Household Formation

Demand for accommodation by single households is likely to continue to increase. The temptation here would be to create more one-bedroom accommodation but, like bed-sits before them, it is an inflexible form of housing which is likely in the long-term to become more difficult-to-let. It does not meet the needs of household growth as overcrowding occurs soon after children are born; it does not meet any access to children requirements of separated households; or the aspirations of single people of additional space for either visitors or the increasing trend of working from home. One-bed property is not likely to be seen as a home for life but merely a short term home during one's housing life. Being mindful of this the Group is reluctant to build one-bed units under its development strategy, except in supported housing schemes.

RENT v HOME OWNERSHIP

The aspiration of home ownership in the UK is one of the highest in Europe. House price inflation during the last 5 years has been running nationally and locally at 92% over the period. In 1999 the overall average house price in Eastleigh was £99,886 rising to £191,971 by Apr-Jun quarter in 2004. This has been due to an increasing population leading to higher demand; low rates of house building leading to lower supply; and very low interest rates making borrowing relatively cheap. Buy-to-let has increased significantly fuelling demand still further and may be at saturation level, evidenced by a depression of rent levels we find in our market rented portfolio. This has led us to review that portfolio to ensure it remains financially viable and periodic reviews will continue and is contained in the Action Plan.

Higher property valuations have also impacted on our right-to-buy sales since transfer.

<u>Right-to-Buy Sales</u>	
1996/97 – 1998/99	231
1999/2000	75
2000/01	74
2001/02	56
2002/03	25
2003/04	21

As we can see during the first 4 years from transfer, sales were running at around 75-100 per annum. This dropped in 2002/03 to 25 and in 2003/04 to 21. Though the number of applications has remained fairly stable at about 57 per annum, valuations of a typical three-bed house in the area is now around £157,500. Even with a maximum discount of £38,000 off the valuation, and assuming a 10% deposit by the purchaser, this would still require a mortgage of £676 per month (as at May 2004) on a standard variable mortgage rate. With a rent of around £350 per month there is little financial incentive to purchase other than the expectation of continued capital growth.

It is difficult to predict what will happen in the housing market longer-term though we do know:

- In 2003 first time buyers accounted for only 29% of loans for house purchase falling from 38% in 2002 and the long-term average of about 50%.
- Interest rates may increase in the medium-term but it is not thought likely that they will rise to much above 5%.

- If buy-to-let remains at its present level, this will continue to impact on the rental income from our market rented portfolio by depressing rent or rental growth. If there is a subsequent shake-out of the buy-to-let market because of interest rates and/or depressed rents, this will increase the supply of properties on the market although it is questionable as to how it will affect long-term values.
- Housing supply is increasing in the South and there is every indication that the ODPM will force local authorities to speed up and increase planning approvals. Whether this halts the continuing house price inflation or leads to a drop in prices remains to be seen.

From our perspective a greater proportion of development activity on low cost home ownership initiatives will help meet demand and also diversify our business activity.

STOCK CONDITION AND FUTURE INVESTMENT

Residents of the Group's housing stock should be able to expect good quality homes to live in. Well maintained housing leads to;

- Greater tenant satisfaction
- Property that is cheaper to use
- Providing a sense of home
- Reduced transfer requests and therefore lower void rates and lower management costs
- Better health both physical and mental.

The Group has a stock condition survey which was completed in April 2004. It was based on 100% sample with an actual access rate of 80%. This gives it a statistical reliability of 95% with a plus or minus 2% variation. It gives us an up-to-date picture of our stock which will act as a base line to drive future investment strategies.

The key findings of the survey were that the housing stock is in good order. However, a number of components are at the end of, or have outlasted, their expected serviceable life and this results in the need for a continuation of our existing planned maintenance programmes.

Following a 100% stock condition survey carried out over the last 12 months by Michael Dyson Associates a report was published in July 2004 and comments as follows:-

"We would assess the overall condition of the housing stock as good. There is a large number of post 1945 constructed dwellings and flats within the asset register which contributes to a favourable stock composition and this is complimented by benign climatic conditions. We also believe that the influence of the tenants on the housing stock has been generally favourable."

The Report carries on by stating that:

78% of properties roofs have concrete tiles
15% of properties roofs have clay tiles
69% of properties external walls are pointed brickwork
25% of properties external walls are rendered
90% chimneys constructed in brickwork
74% fascias and soffits are in PVCu
91% gutters and downpipes are in PVCu
91% of our properties windows are double glazed PVCu.

"This shows that there has been a pro-active approach to planned maintenance."

Existing and imminent Decent Homes failures show as a peak in expenditure in the first few years while urgent repairs and renewals are carried out. On completion on this programme, Decent Homes failures will have been eliminated, however a jump in planned maintenance expenditure must be expected after this date to ensure that components are renewed in accordance with their residual lives and hence preventing a re-emergence of a Decent Homes failure backlog.

In Atlantic Housing Group's stock it was noted that there are currently 454 properties forecast to fail Part A (fitness) largely on account of lighting, heating and ventilation, food preparation, and bathroom facilities. If this is compared with the planned maintenance and catch-up repairs this compares very well with the number of kitchen replacements forecast over the next five years running at circa 200 kitchens per year; the number of bathrooms running at circa 100 properties per year; and the number of boiler replacements running at circa 170 properties per year over the first 5 years.

Under the disrepair criteria (Part B of the standard) there are 688 properties currently failing. These again relate to major cost headings within future major repairs in that the majority of the failures relate to roof coverings, chimneys, boilers again, external doors and wall finishes.

Part C of Decent Homes refers to modernity and identifies 6 criteria to test the dwellings against stock. These are kitchen layout, kitchen age, bathroom space, bathroom age, noise insulation and adequacy of communal areas. A property has to fail 3 of the 6 tests in order to fail on its own merit. This would indicate why there is an extremely low level of failures under this section with Atlantic Housing Group's housing stock standing at a mere 5 properties.

The final part of the Decent Homes Standard is Part D Thermal Comfort. It must be noted that the level of insulation required to meet Part D of Decent Homes is significantly lower than current Building Regulations. For a property with gas fire central heating it is only necessary for the property to have 50mm of loft insulation or cavity fill insulation in order to pass the standard. Atlantic Housing Group's Affordable Warmth Strategy will enhance the level of thermal efficiency within their dwellings, and significantly improve the results under the Decent Homes Standard. None of the properties are failing through inefficiency of the heating systems reflective of the proactive heating replacement programme. However, 116 properties do fail thermal comfort on account of their levels of insulation. These will not necessarily correspond with the properties identified as having a lower SAP rating for the reasons already described above. Storage heaters require a greater depth of loft insulation and cavity fill insulation where it is possible to be installed and therefore properties with higher SAP ratings could fail the Decent Homes Standard ironically on account of the unequal method of ascertaining decency according to heating type.

Preliminary analysis shows that existing programmes are currently targeted and that the required level of spend can be sustained by existing business plans. Nevertheless, some refinement of programmes is needed and in the period September-November 2004 we will publish revised programmes for consultation.

More detailed reports on the findings of the stock condition survey will be reported to the Boards along with proposed actions for future investment.

The objectives of the planned maintenance programmes are to:

- Meet the Decent Homes Standard by 2010, though this is subject to not investing in low demand properties where its life is finite.
- Agree a programme of planned maintenance which will be published and available to tenants as reflects our local "decent homes plus" standard
- Agree standards and implementation methods of refurbishment of existing stock through consultation.
- Identify those properties where high investment is needed and carry out a stock option appraisal before confirming whether the works will be carried out.

- Use our knowledge of demand to identify the types of stock or areas where no amount of additional investment will guarantee the long-term letability of the property.
- Monitor the effectiveness of planned maintenance in increasing the life of the stock and achieving tenant satisfaction levels.
- Keep the database up-to-date as works are carried out.
- Achieve a ratio of 60%:40% of planned to responsive repairs which will be monitored monthly.

The stock condition survey will inevitably lead to some redevelopment or property disposal in the medium-to-long-term. We will be mindful, however, that there may need to be some interim reinvestment to comply with our obligations under the tenancy and other strategies such as affordable warmth.

There may be some estates eg existing sheltered where some improvements may be needed in an effort to create a demand. Any proposals to decommission sheltered (other than re-designate it to extra-care) will take a long time to achieve and will be politically sensitive and likely to attract significant adverse publicity. Creating this demand may be a medium-term measure but this will maximise rental income and result in the asset being sweated before being considered for an alternative use.

STOCK OPTION APPRAISALS

Changes in strategic objectives or demand for housing, and analysis of the stock condition survey will lead us to undertake a stock option appraisal on some of our assets. Most of our property is likely to remain in good condition and in high demand, while other stock may be somewhat poorer in condition but can be improved with appropriate levels of investment. This will leave us with some stock where the long-term future use needs to be considered. This may lead to either alternative use, alternative management, redevelopment, or outright disposal.

As we have stated before, the Group is a long-term investor in property and communities and very careful consideration is needed at the development stage on the appropriateness of procuring additional stock. In some cases we will, however, invest in property which does not give a good financial return by either capital or revenue subsidy where this fulfils our objectives and effectively acts as a loss leader.

When undertaking an option appraisal we will:

- Consider alternative uses for the property. Each use will be subject to a cost benefit analysis in steering us to the most appropriate solution.
- Consult with residents and ensure that their comments are carefully considered as part of the decision making process.
- Re-house and compensate residents for the loss of their home in line with our compensation policy.
- Consult the local authority on preferred alternative uses.
- Consider offering the management of the property to another provider. The Group has a long and good record in partnership working with a range of voluntary and statutory bodies and many act as our managing agents.
- Ensure we comply with our contractual and legal obligations under the transfer document if the property was transferred from EBC.
- Consult with the Housing Corporation and local authority where Social Housing Grant was provided and there may be some recycled Social Housing Grant arising at the point of disposal.
- Consider swapping stock with other RSLs where stock rationalisation would result in more efficient use of management and maintenance resources.

Redevelopment of Existing Estates

The Group has adopted a comprehensive consultation procedure for redevelopment.

FINANCIAL IMPACT OF THE STRATEGY

One of the five corporate objectives is for the Group to maintain its financial viability. With a significantly increased development programme, the Group has revised its business plan and will look to increase its borrowing capacity to £150m.

As part of the review the total cost of the stock condition survey is estimated to be £190m for all maintenance expenditure over the next 30 years and this has been included in the borrowing requirement. To achieve a more even spend the initial stock condition survey results may be reprogrammed in the light of local data on component lifetimes. This does not, however, conflict with our obligations to meet the Decent Homes Standard by 2010. Where a stock option appraisal is carried out leading to either redevelopment or disposal of an existing asset, it is anticipated that this will result in a saving on expenditure.

During 2003/04 a full review of the Group's market rental portfolio was carried out. This resulted in the disposal of 5 houses in Gosport. A similar exercise will be carried out in 2005/06 to ensure that the portfolio continues to perform. This target date may be brought forward for some properties if there is evidence of poor void performance, high rent arrears, or difficulties in providing good housing management services or where capital values may suggest disposal.

Periodic reviews will be undertaken to assess the costs of maintenance and housing management for particular types of stock or in particular areas. This evidence will include the cost of day-to-day, cyclical, and planned maintenance and identifying those properties with the greatest void loss, highest arrears and longest re-let times. The review will look at identifying whether this is a short-term phenomena or whether there is a long-term issue on the estate which requires a full stock option appraisal.

Supporting People Funding

The Group developed a range of accommodation-based and floating support services using Transitional Housing Benefit which became Supporting People Grant in April 2003.

The Group received £1.3m in Supporting People Grant in 2003/04. This is broken down into £497k block gross, £598k block subsidy and £205k unpooled rent income for sheltered estates.

The total amount of Supporting People grant payable nationally is some £1.8 billion and was significantly higher than originally forecast by the ODPM. Supporting People Grant is administered at County level. In April 2004 the level of grant was not subject to an inflationary increase despite the Group's direct costs, most notably, increased staffing costs following the cost of living increase from April 2004. The net effect amounts to a cut in real terms to the Group's income. The Supporting People teams will be undertaking reviews of each aspect of our service, and 4 out of 5 have already been reviewed. The remaining services will be reviewed during the next year. Contracts are in place for all services for an initial period of 3 years.

Though we are confident that the service we provide is good and so far this has been recognised by the reviews that have taken place, funding under this regime is very vulnerable. The supported housing management team must ensure that the hard PIs such as arrears and voids are kept to an absolute minimum to protect these monies. At the end of the 3-year

period contracts will be reviewed and if the service provided does not fit in with the strategic needs within the County, funding may be withdrawn. Performance in this area will be reviewed on a quarterly basis by the Board of Fernhill Care Limited on behalf of the Group. It is fair to say that some difficult decisions will need to be made long term in relation to this funding.

The vulnerability of supported housing projects is exemplified by the recent decision of the Home Office to terminate its contract with Southampton City Council for the housing of asylum seekers. The contract was terminated with just 3 months notice ending on 16 July 2004. The Group runs a successful refugee floating support service housing clients from the City Council Asylum Seeker service. The withdrawal of the contract will, clearly, reduce the pool of potential clients though this will not happen immediately. The future of the stock used in this service will be subject to an option appraisal in the coming year.

RESIDENT INVOLVEMENT

In early 2003 the National Housing Federation carried out a tenant satisfaction survey using its standard STATUS questionnaire. It sampled 2022 tenants and covered satisfaction levels on a range of issues including the property, the service, and the local environment. The results of the survey were extremely flattering about the service provided by the Group. The downside is that there was very little that could be extracted from the results to prompt any widescale review of service. The only areas where dissatisfaction is low are in supported housing and services to leaseholders. As a result, two Business Improvement Groups have been set up to work with tenants on identifying how services can be improved. The results of these discussions will be reported to the Tenants' Consultative Group.

Where the Group is considering redevelopment or disposal of assets currently occupied by tenants, the Board has approved a consultation procedure for redevelopment. This procedure has been discussed and agreed with EBC as the mechanism for consultation up to and including formal consideration of any planning application.

The Group also recognises the key role tenants can play in providing additional evidence of problems associated with an area. Though these may initially manifest themselves as being areas with high transfer requests, voids, arrears, neighbour nuisance and perceived as difficult to manage, tenants may be able to provide greater insight into issues affecting the area. This may include poor property and estate design, security, physical condition, sustainability issues such as social and recreational facilities, health, transport, and education. To ensure that the Group addresses estate improvement in a holistic manner it has appointed a Neighbourhoods Manager to work with tenants and ensure that work by the Group through maintenance, refurbishment, or redevelopment proposals ties in with work by other bodies such as local authorities, health, and transport providers and, where appropriate, advocate that external bodies' priorities should change to meet local needs. These issues will link to the Group's sustainability strategy.

IMPLEMENTING THE STRATEGY

Overall responsibility for implementing the strategy lies with the Services Director. Its implementation requires significant financial resources and the provision of maintenance and refurbishment services. The role of the Finance Director and Director of Wessex Property Services are also crucial in ensuring the strategy is delivered.

An action plan will be prepared each year outlining a range of tasks to be completed. These will be assigned to specific members of staff.

PLANNED MAINTENANCE

There has been considerable attention paid to the stock since transfer with the main elements of the programme being as detailed below:-

<u>PLANNED MAINTENANCE PROGRAMMES</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Yrs 6 to 10</u>	<u>Yrs 11 to 15</u>	<u>Yrs 16 to 20</u>	<u>Yrs 21 to 25</u>	<u>Yrs 26 to 30</u>	<u>Totals</u>
Window Replacement	190,000	195,000	154,000	176,500	220,933	1,104,665	1,104,665	1,104,665	1,104,665	1,104,665	6,459,758
Roof Replacement & Chimneys	272,805	272,805	272,805	272,805	272,805	1,364,025	1,364,025	2,364,025	2,364,025	2,364,025	11,184,150
Fascia/Soffit/Guttering/Soil Vent Pipe	143,000	145,000	145,000	199,232	199,232	1,183,260	1,183,260	1,183,260	412,467	1,183,260	5,976,971
Kitchen & Bathroom Replacement	903,325	903,325	903,325	903,325	903,325	4,516,625	3,153,588	3,246,774	2,765,845	3,046,676	21,246,133
Communal refurbishment	215,000	165,000	178,000	178,000	212,243	875,000	875,000	875,000	875,000	875,000	5,323,243
Communal decorations	20,000	20,000	20,000	20,000	20,000	100,000	100,000	100,000	100,000	100,000	600,000
External Decorations	284,919	284,919	284,919	284,919	284,919	1,424,595	1,424,595	1,424,595	1,424,595	1,424,595	8,547,570
OAP Decorations	82,000	82,000	82,000	82,000	82,000	410,000	410,000	410,000	410,000	410,000	2,460,000
Garage Decorations	11,021	11,021	11,021	11,021	11,021	55,105	55,105	55,105	55,105	55,105	330,630
Porch Replacement	5,350	5,350	5,350	5,350	5,350	26,750	26,750	26,750	26,750	26,750	160,500
Insulation (Loft & Cavity Wall)	30,000	30,000	30,000	30,000	30,000	65,000	0	0	0	0	215,000
Asbestos register (set-up & support)	40,000	16,380	17,035	17,716	18,425	94,888	97,734	100,644	103,766	105,251	611,839
Heating & Boilers	238,798	238,798	238,798	238,798	238,798	1,193,990	1,193,990	1,193,990	1,193,990	1,193,990	7,163,940
Electrical	299,625	299,625	299,625	299,625	299,625	1,498,126	1,498,126	1,498,126	1,498,126	1,498,126	8,988,755
COSTS PER PERIOD	2,735,843	2,669,223	2,641,878	2,719,291	2,798,676	13,912,029	12,486,838	13,582,934	12,334,334	13,387,443	
TOTAL COSTS											79,268,489

RESPONSIVE MAINTENANCE

The group achieves a 60:40 ratio of spend between planned and responsive maintenance. Current trends indicate that the active planned maintenance programme has led to a reduction in responsive repair costs through a reduction in job content rather than the number of jobs.

The responsive repair service provides:

- A freephone telephone number for customers to report repair faults
- Approximately 40,000 individual repair jobs per year
- A priority system carried out to strict timescales:-

i	Priority 1 (Emergency)	attend within 4 hours
ii	Priority 2 (Urgent)	attend within 24 hours
iii	Priority 3-6 (Routine)	attend within 5-20 days
- An appointment system to all customers for either a morning or afternoon appointment.
- A comprehensive void property repair and safety check service, bringing empty properties back into a lettable condition within 7 working days.

The cost of the responsive maintenance service is in the region of £2,500,000 pa which is approximately £510 per property.

CYCLICAL MAINTENANCE

This is work carried out in regular cycles to prevent premature breakdown of a component.

Listed below are typical cyclical works carried out by the group:

ACTIVITY	CYCLICAL INTERVAL
• Gas servicing	Annual
• Electrical testing	5 yearly
• Elderly/disable person decoration scheme	One room every 3 years
• External painting and repairs	5 years
• Internal decoration communal areas	7 years
• Garage repair and painting	5 years
• Lifting servicing	Annual
• Legionella Testing	Annual
• Ground Maintenance	
- Grass cutting	14 cuts per year
- Hedge cutting	twice a year
- Weed and moss control	twice a year
- Summer and winter bedding	twice a year
- Garage area	once a year
- Tree pruning	once a year
- Communal footpath survey	once a year
- Path edging	every third year
- Leaf clearance	three times a year
• Estate caretaking service	Weekly
- General needs health and safety checks	Weekly
- General needs to hostel and sheltered	4 times a year
- Sweep and mop floors	weekly/monthly
- Window cleaning	
- Bulk rubbish clearance	

The cost for this service is in the region of £1,250,000 per annum which is approximately £255 per year per property (including caretaking).

MANAGING THE MAINTENANCE SERVICE

All maintenance work for Atlantic Housing Group is carried out by Wessex Property Services, the contracting arm of the group.

Having its own property services company the group can expect:

- A high level of service and customer care
- Work carried out within defined timescales
- A multi-disciplined workforce, committed to providing a first class product
- To get the work completed 'Right first time' for the customer
- Work carried out at a time to suite the customer
- Work to be carried out in a safe and proper manner, for themselves and the customer

- A shared vision of equality and diversity
- Procurement of only the best products at very competitive prices
- Provision of a saving on V.A.T to group owned companies
- Savings on group maintenance budgets
- Converting of profits back to the group for the benefit of the customer.

To ensure Wessex Property Services achieves the aims of the group. Wessex Property Services regularly:

- Benchmarks costs and performance both locally and nationally
- Monitors performance monthly and report to tenant group and board members
- Encourages competition in the open market place
- Asks our customers how Wessex Property Services performed, doing this by:
 - i Postal survey
 - ii Telephone survey
 - iii Direct communication

ASSET MANAGEMENT PROPOSALS ALREADY UNDERWAY

Some earlier work on asset management led to a number of projects being started which are now underway. These were as a result of a number of factors being identified such as high void rates, high transfer requests reflecting unpopular estates, poor demand, and/or high maintenance costs. Work continues on these projects and they can be summarised as follows:

i) The Gardens – proposals were drawn up in consultation with tenants and local residents to redevelop The Gardens Estate in central Eastleigh, demolishing 159 existing properties and providing 151 new homes in their place. Of these, 32 will be sold on the open market to help subsidise the project and assist in some tenure diversification in the area. The total cost of the project is £16.5m financed by the Group, the local authority, the Housing Corporation, and sales proceeds. Work commenced in November 2003 and is due to be completed by July 2006.

The project was frustrated by an application from some local residents to have part of the site designated as a Village Green. The results of a public inquiry went in our favour though a further application to have a footpath designated right of way is a further frustration. As a fall-back position the Group will be submitting a revised planning application to achieve this objective.

ii) Older Persons Bungalows – as outlined in the section on Demand, the Group is experiencing a low demand for one-bed bungalow property for older people. The Group owns a total of 336 one-bedroom bungalows. These are built to very low densities and many will fail the Decent Homes Standard in terms of size, especially in relation to the kitchen. The Group has already identified a number of sites where redevelopment would be appropriate. A number of planning applications have been submitted and to date 23 bungalows have been granted planning permission for redevelopment. It has been a difficult process achieving these permissions and most have received very adverse publicity. There is an agreed consultation procedure for redevelopment which compensates people for the loss of their home and the Group gives full assistance in identifying properties and arranging for moves. This programme will continue with a focus on consultation on specific estates from September 2004 onwards.

lii) The Group owns 722 garages on various sites throughout the Borough. In many cases the garages are not used for the parking of vehicles but as storage areas. Many of the sites also act as magnets for anti-social behaviour.

A number of these sites have been identified as being suitable for redevelopment. Again, there has been local opposition. In some cases this is because of perceived difficulty of access or overlooking issues both of which are fully considered during the planning process. Some concerns have been raised about the impact of additional parking in nearby streets, despite the low level of use for the parking of vehicles. The Group has also carried out a survey of 1,000 tenants which shows car ownership overall is at less than 1 per household.

iv) Sheltered Schemes – the increasing unpopularity of sheltered schemes nationally is mirrored in the low demand experienced by the Group locally. The Supported Housing team is currently undertaking a review of all sheltered estates to identify longer term trends and identify proposals for the long term future use of each estate. If demand continues to decline, which is likely, some decommissioning in the long term may be needed. In the short term

some limited investment may be needed to ensure that income is maximised to protect the Group's finances.

In March 2003, Laburnum House was re-designated as an extra-care scheme. Some works are currently being undertaken to upgrade the facilities to cope with the additional care needs of residents.

Derby House, a block of 15 bedsits and 6 self-contained flats in central Eastleigh, was proving almost impossible to let. As a result the Group has decommissioned this scheme and over time residents have been offered more appropriate alternative accommodation. The Group is currently looking at alternative uses for this scheme but, because of the size of accommodation, this is proving difficult.

Fair Oak Court was de-commissioned some years ago and converted into two self-contained blocks of flats.

ACTION PLAN

ACTION	METHOD	LEAD	WITH	BY WHEN	COMMENTS
Identify housing demand by area	Identify waiting list under urgent, needing, and wanting bands and compare to average number of voids each year	LA	LW	End of Sept 2004	Included in Homechoice summer newsletter. Work with EBC on monitoring information
Identify demand by size of property	Compare waiting list under urgent, needing, and wanting bands and compare with average number of voids per annum	LA	LW	End of Sept 2004	
Monitor reasons for refusal	Reflect from bidders refusing property	LW	GB	Quarterly report	Added to quarterly reporting statistics
Identify properties and areas with high void rates	From Homefinder and financial returns	LA	LW	Monthly reports	
Assess level of transfer requests by area and type of property	From Homefinder statistics	LW		End of Sept 2004	To help identify any unpopular estates which may need a stock option appraisal or work by neighbourhood manager
Assess demand for each sheltered estate	Analyse void times, numbers on waiting list under urgent, needing, and wanting bands	KH	LL/LW	Nov 2004	
Analyse market rental portfolio to identify any difficult-to-let or difficult-to-manage estates		TJ	LA/SD	September 2004	
Analyse stock condition survey and: <ul style="list-style-type: none"> • Identify and agree planned maintenance programme • Identify properties requiring high reinvestment • Identify homes failing the Decent Homes Standards 	From suggested timings by Michael Dyson Associates moderated to fit finance	TA	TH/LA/PF	Sept 2004	Survey is currently being analysed and validated by Group staff.
	From stock condition survey figures	TA	PS	Sept 2004	
	From stock condition survey	TA/PS	SC	Sept 2004	
• Identify poorly insulated	From stock condition survey	TA	SC/	March 2005	

properties • Check cost of reinvestment required in low demand properties identified by housing management	Results from Demand studies to be compared with stock condition costs	TA/PS/LA	Powergen	?	
Complete evaluation of sheltered estate to decide on long-term proposals	Using "Assessing Low Demand" booklet from ODPM and tenants' surveys	KH	LL	Nov 2004	
Identify estates which have high management costs	Estimates of time spent by staff on dealing with property or tenant issues	LA	LEMs/PF	?	
Carry out stock option appraisal on refugee housing	Discuss with Southampton City Council	LL	PS	End of July 2004	Initial approval completed. Currently assessing demand for floating support. Long-term exit strategy end of Oct 2004.
Carry out stock option appraisal on Atlantic House, Boscombe	Discuss with local authority	LL	PS	End of Aug 2004	
Closely monitor Supporting People contracts and ensure PIs are excellent	Monthly monitoring with staff	LL	PS	Monthly	
Start to prepare contingency plans for services if Supporting People funding is withdrawn	Formal discussions with local authorities under the guise of Supporting People reviews	LL		Summary by March 2005	
Identify estates with a poor reputation and prepare proposals for their long-term future	From housing management staff and by neighbourhood manager in discussion with local residents	LA/PF		Ongoing	We need a priority list of estates for PF to start working on
Agree standards for refurbishment of existing stock	Through BIG improvement group/TCG/Forum	TA	PF/LA	September 2004	We have a development brief and void standards and it is good practice to have similar standards for refurbishment work
Prepare programme for	From stock condition survey	TA	LA/PF/	?	Where improvement works are

improvement works and agree with residents			TCG/ Forum		not time constrained, residents can be given an option of deciding on their priority
Determine long-term future of Derby House	Consultation with EBC and other potential providers	LL	KH/PS	End of July 2004	
Prepare disposal of assets policy for Board	Board report	PS	BN	September 2004	