



Board of Directors

Thursday 19 January 2012 at 12.30pm

To be held at Keelman House, Fifth Avenue Business Park,
Team Valley, Gateshead, Tyne and Wear

Agenda

Item	Business
1.	Apologies for Absence
2.	Declarations of Interest
3.	Notes of Meeting of Keelman Homes held on 4 October 2011 (Pages 2-5) Attached
4.	Matters Arising
5.	Proposed Rent Increase for 2012/13 (Pages 6-8) Report of TGHC Director of Corporate Services
6.	Kibblesworth Development Finance Update (Pages 9-12) Report of TGHC Director of Corporate Services
7.	Kibblesworth Development Update (Pages 13-15) Report of TGHC Director of Corporate Services
8.	Rent to Buy Leases (Pages 16-19) Report of TGHC Director of Corporate Services
9.	Operational Risk Register (Pages 20-30) Report of TGHC Director of Corporate Services
10.	Date and Time of Next Meeting Thursday 17 May 2012 at 12.30pm at Keelman House, Fifth Avenue Business Park, Team Valley, Gateshead
11.	Exclusion of the Press and Public

Contact: Stuart Gibson Tel: (0191) 433 5308 Date: 12 January 2012



(Company number: 06972673)

Minutes of meeting of the Board of Directors held at Keelman House, Fifth Avenue Business Park, Fifth Avenue, Team Valley, Gateshead on Tuesday 4 October 2011 at 2pm

Present:

Ordinary Trustees

Brian Kelly (Chair)
Anne Connolly
Peter Mole
Hannah Shepherd

Co-optee

Bob Harrison

In attendance:

Bill Fullen (TGHC Chief Executive)
Jon Mallen-Beadle (Company Secretary and TGHC Director of Corporate Services)
Neil Bouch (TGHC Director of Customers and Communities)
Sarah Thompson (TGHC Head of Finance)
Stuart Gibson (TGHC Governance and Risk Officer)

Apologies:

Richard Armitage
Paul Foy
Linda Hitman

8 DECLARATIONS OF INTEREST

No interests were declared.

9 MINUTES

The minutes of the Board Meeting of Keelman Homes held on 12 May 2011 were approved as a correct record.

10 DRAFT TRUSTEES REPORT AND FINANCIAL STATEMENT

The Board received the draft trustees report and financial statements for the financial year 1 April 2010 to 31 March 2011. This is the first year trading activity which has taken place within Keelman Homes and therefore, these are the first audited accounts. This report details the principle activities of Keelman Homes for the financial year 1 April 2010 to 31 March 2011 and highlights the future activities.

The Draft Financial Statements show total funds in the balance sheet at £6.3m. This includes the land value and the first tranche of grant received from the Homes and Communities Agency.

The financial activities during the year show that the funds carried forward were £5,449. Income was mainly through rental and service charge income as well as investment income through investing the charity's cash balances in short term deposits.

Expenditure relates mainly to depreciation charges on fixed assets which are new properties and a fee for the art project being undertaken at the Kibblesworth site. The charity has also paid the management fee to The Gateshead Housing Company for the management of the properties.

The accounts have been audited by KPMG as external auditors. The trustees' report and financial statements will be presented to the Annual General Meeting which will be held on 10 November 2011.

RESOLVED – That the draft Trustees Report and Financial Statements be approved and the Chair be authorised to sign the representation letter.

11 KIBBLESWORTH DEVELOPMENT FINANCE UPDATE

The Board received an update on the financial element of the Kibblesworth development.

The total cost of the Kibblesworth development is forecast to be £9.3million. This is being funded through a grant from the Homes and Communities Agency of £4.8million and a loan from the Council of £4.5million.

The original budget and funding for the scheme and the updated budget was submitted.

The original budget has been amended to detail the expected spend on Kibblesworth. The contingency has been reduced due to spend required on asbestos removal which was not known at the pricing of the scheme.

Delays in the scheme have caused the cashflow forecast to be amended. A revised expected cashflow was received from Keepmoat in April 2011 to assist with cashflow management.

The first tranche of HCA grant was received in April 2010 – this was 75% of the overall £4.832m. A total of £3.624m was received by Keelman Homes

on 1 June 2010. As detailed in a previous update in June 2010, this money was invested in appropriate short term deposits in line with the expected payment schedule.

These grant monies have been utilised over the first year of the scheme to cover the costs of Keepmoat's invoices.

The charity drew down its first tranche of the loan of £1.5m from Gateshead Council on 27 May 2011. This again was initially invested in short term deposits, before being utilised to cover Keepmoat's invoices.

Following the completion of Phase 1 of the Kibblesworth development the full tranche of Phase 1 funding has been drawn down. Therefore, the 25% balance was received in September and this consisted of £550,000. This will be invested over the short term in a one month investment account.

A contingency of £234,940 is included in the budget to deal with any unforeseen areas of expenditure.

The TGHC Director of Corporate Services is taking actions to ensure that surplus balances generate interest at no risk to the underlying capital received.

RESOLVED – (i) That the information be noted.

(ii) That the Board receive an updated Risk Register at its next meeting.

12 KIBBLESWORTH DEVELOPMENT UPDATE

The Board received an update regarding the progress on site and any issues that have come to light since the previous update on 12 May 2011.

A summary of progress made to date on each of the phases was submitted.

In addition, Keepmoat have now opened their show home, Rednile has been appointed to carry out the consultation relating to the Public Art and a Kibblesworth Community Day fun day took place on 1 October 2011 as part of the Art Consultation and to help promote greater community cohesion.

The programme onsite is currently running about 19 weeks behind the contract programme. All utility problems caused by the bad weather around Christmas have now been resolved.

Keepmoat and TGHC Housing Management are in regular contact with affected tenants on an individual basis regarding the current phases. General feedback from the tenants has been received saying how impressed they are now that they can see the site developing across the wider area.

RESOLVED – (i) That the information be noted.

- (ii) That future reports include an appendix of all the feedback from tenants.
- (iii) That the Board receive details of the areas that the two residents that have bought houses in Kibblesworth are from.

13 UK HOUSING AWARD

The Board was informed that The Gateshead Housing Company has been shortlisted for a UK Housing Award for the Excellence in Housing Finance and Development for Kibblesworth Regeneration.

The submission focused on how the housing company set up Keelman Homes and accessed funding from the Homes and Communities Agency and Gateshead Council.

The awards ceremony will take place on 9 November 2011 in London. It is proposed that a trustee attends the ceremony accompanied by a TGHC Officer.

The Board will receive an update at its next meeting as to whether or not it has been successful.

- RESOLVED – (i) That the information be noted.
- (ii) That the Chair attend the ceremony with a TGHC senior officer.
 - (iii) That details of the award be publicised.

14 DATE AND TIME OF NEXT MEETING

To be agreed.

15 EXCLUSION OF THE PRESS AND PUBLIC

The press and public were excluded from the meeting during consideration of the remaining business.



Title: Proposed Rent Increase for 2012/13

Report of: TGHC Director of Corporate Services

Purpose of Report

1. To seek approval of the proposed increase to the rents for 2012/13.

Background

2. The rent and service charge setting policy was approved by the Board of Directors at a meeting on 21 January 2010 and a subsequent update on 12 May 2010.
3. The rent and service charge setting policy details that the initial rent period for an assured tenancy must be in place for a minimum of 12 months. Properties let during 2011/12, will not see a rent increase in April 2012.
4. The rents for the properties let in 2010/11 and to be let in 2012/13 will be increased in line with the provisions within the rent and service charge setting policy which allow for rents to be increased by inflation plus a maximum of 1%. We will undertake the rent increase in line with the guidelines as set out by the Homes and Communities Agency as they are within the parameters provided for in our rent and service charge setting policy.

Proposed increase

5. The rent increase has been proposed in line with the HCA guidelines of RPI + 0.5% and is included in the Appendix. RPI in November was 5.2%; this provides an increase of 5.7%, which is an average weekly rental increase of £4.22.
6. Currently there is no proposed increase in service charges for 2012/13.

Impact on Tenants

7. The impact on tenants is in relation to the increased rents and service charges which will be charged which are detailed within the Appendix. TGHC's rent and income team are available for support and advice to tenants who may have difficulty paying.
8. The rent and service charge setting policy details the reviews in relation to the rents and service charges and also provides tenants with the means to appeal any decisions made in relation to their rents and service charges.

Risk Management Implications

9. The risks associated with the setting of rents and service charges are included within the risk register for the new build project. The Rent and Service Charge Setting Policy will ensure that rents are set at a level to reduce the risks associated with setting incorrect rents.

Financial Implications

10. The Rent and Service Charge Setting Policy has financial implications in relation to the income to be received by Keelman Homes – the rents have been set initially at a level that will ensure we can cover the costs of the loan and also to ensure that these are not substantially higher than current rents paid for similar properties in the Gateshead area.

Health Implications

11. There are no direct health implications arising from this report.

Value for Money Implications

12. There are no Value for Money implications arising from this report however, this increase compares favourably with the average expected Council increase.

Equality and Diversity Implications

13. There are no equality and diversity implications with this report.

Consultation Carried Out

14. We advised tenants at the outset of their tenancy that they would not see an increase during 2011/12. We will be advising all tenants of the 2012/13 increase in writing where appropriate with 28 days notice

Recommendation

15. The Board is recommended to approve the proposed rent increases for 2012/13.

Kibblesworth Rent Increase Calculation

Rents have been increased by 5.7%. Therefore, the rents have been set as follows for the varying types of properties:

<u>Property Type</u>	<u>2011/12 Rents 52 weeks</u>	<u>2012/13 Rents 52 Weeks</u>	<u>Weekly increase</u>
2 bed	£69.15	£73.09	£3.94
3 bed	£72.89	£77.05	£4.15
3 bed corner house	£74.24	£78.47	£4.23
4 bed	£80.50	£85.09	£4.59
5 bed	£84.45	£89.27	£4.81
2 bed bungalow	£67.01	£70.83	£3.82
2 bed wheelchair bungalow	£69.72	£73.69	£3.97

Average weekly increase = £4.22.



Title: Kibblesworth Development Finance Update

Report of: TGHC Director of Corporate Services

Purpose of Report

1. To provide the Board with an update on the financial element of the Kibblesworth development.

Background

2. The total cost of the Kibblesworth development is forecast to be £9.3million. This is being funded through a grant from the Homes and Communities Agency of £4.8million and a loan from the Council of £4.5million.

Summary

3. The original budget and funding for the scheme and the updated budget is detailed in the table below.

	Original budget £	Amended Budget £
Funding		
Loan from GMBC	4,500,000	4,500,000
HCA Grant	4,832,000	4,832,000
Forecast Expenditure		
Contractor Build Costs	8,170,000	8,435,060
Contractor Contingency	500,000	234,940
Management Fee	450,000	450,000
Other Adhoc Costs	212,000	212,000
Surplus / (Deficit)	NIL	NIL

4. The original budget has been amended to detail the expected spend on Kibblesworth. The contingency was reduced due to spend required on asbestos removal which was not known at the pricing of the scheme. However, this has not been further reduced since the previous report.
5. A revised cashflow for the project to update on actual costs is included in the Appendix to the report.

Detailed Funding Summary

6. The first tranche of HCA grant was received in April 2010 – this was 75% of the overall £4.832m. A total of £3.624m was received by Keelman Homes on 1 June 2010. As detailed in a previous update in June 2010, this money was invested in appropriate short term deposits in line with our expected payment schedule.
7. These grant monies have been utilised over the first year of the scheme to cover the costs of Keepmoat's invoices.
8. We drew down our first tranche of the loan from Gateshead Council on 27 May 2011. The first tranche we drew down was £1.5m. This again was initially invested in short term deposits, before being utilised to cover Keepmoat's invoices.
9. We completed Phase 1 of the Kibblesworth development and therefore, drew down the full tranche of Phase 1 funding; the 25% balance of £550k was received in September. This was utilised to cover the costs of Keepmoat's invoices.
10. We have emailed the Council on 9 January 2012 to submit a 30-day notice of the draw down of the second tranche of loan. We have requested to draw down £1.5m which we will initially invest in short and medium term deposits.

Detailed Expenditure Summary

11. To date we have paid Keepmoat £5.4m out of the expected total of £8.4m, this includes the payment outstanding at the beginning of January 2012 of £343k.
12. We have also paid Gateshead Council £6.3k to deliver the art work at the site and Kibblesworth School £2.5k to deliver a mural for the site.

Impact on tenants

13. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and that any spare resources are appropriately utilised.

Risk Management Implications

14. The risk of interest rate fluctuations has been removed by fixing the interest rate when the loans are taken out.
15. The attached forecast shows that we will maintain a positive cashflow throughout the life of the development.

Financial Implications

16. The financial implications are contained within the report and Appendix, a contingency of £234,940 is included in the budget to deal with any unforeseen areas of expenditure.

Equality and Diversity Implications

17. There are no equality or diversity implications arising from this report.

Health Implications

18. There are no direct health implications arising from this report.

Value for Money implications

19. The preferential loan terms and conditions represent value for money for Keelman Homes. The interest payable on the loan will be set at a fixed rate equivalent to the Council's consolidated rate of interest at the time the loan is drawn down. The first loan drawn down was fixed at 4.86%.

Environmental Implications

20. There are no direct environmental implications arising from this report.

Consultation carried out

21. None directly for this report.

Recommendations

22. The Board is asked to note
- (i) the revised cashflow forecast for the Kibblesworth development;
 - (ii) the actions taken by the Director of Corporate Services to ensure that surplus balances generate interest at no risk to the underlying capital received.

Appendix

	£	2010/11				2011/12				2012/13				2013/14				Total
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	
Actual Income																		
HCA Grant	4,832,000	3,624,000						550,000	440,000			218,000						4,832,000
Loan	4,500,000				1,500,000				1,500,000			1,500,000						4,500,000
Investment - returns			1,480,000	3,795,000	2,790,000	700,000	1,150,000	350,000	200,000	600,000	550,000	50,000	154,000	600,000	700,000	100,000		13,219,000
Interest Receivable			3,151	1,250	11,154	1,549	3,241	457										20,801
	9,332,000	3,624,000	1,483,151	3,796,250	2,801,154	2,201,549	1,153,241	900,457	2,140,000	600,000	550,000	1,768,000	154,000	600,000	700,000	100,000	-	22,571,801
Actual Spend																		
Investments		-2,969,000	-1,000,000	-3,000,000	-2,000,000	-1,450,000		-200,000	-1,300,000			-1,300,000						-13,219,000
Loan Repayment												-51,914		-51,538		-51,162		-154,614
5% Management Fee	450,000														-450,000			-450,000
Other Costs	212,000				375	6,311		137	2,550							-48,013		-57,386
FHM Contingency	234,940														-234,940			-234,940
FHM	8,435,060	-650,123	-475,067	-805,693	-723,364	-759,694	-984,765	-703,771	-864,913	-724,849	-540,153	-416,775	-226,464	-559,429				-8,435,060
	9,332,000	-3,619,123	-1,475,067	-3,805,693	-2,723,739	-2,216,005	-984,902	-906,321	-2,164,913	-724,849	-540,153	-1,768,689	-226,464	-610,967	-684,940	-99,175	-	-22,551,000
Actual Cumulative Cashflow																		
	-	4,877	12,961	3,518	80,932	66,476	234,815	<u>228,951</u>	204,038	79,189	89,036	88,347	15,883	4,916	19,976	20,801	20,801	20,801



Title: Kibblesworth Update

Report of: TGHC Director of Corporate Services

Purpose of Report

1. To provide the Board with an update regarding the progress on site and highlight any issues that have come to light since the previous update

Background

2. The Airey properties are a system built property type with a reinforced concrete frame and concrete slab external cladding. Structural surveys at Kibblesworth have highlighted defects in the reinforced concrete frame compromising the structural integrity of the properties.
3. Following an options appraisal of the houses and the area overall, along with consultation with the residents, it was decided that the best option was demolition and reprovion of new homes that were suitable for modern living.
4. Extensive consultation has been carried out with the tenants and the wider area through out the process. Planning Permission for the new properties was achieved 15 January 2010 and the approved constructor ("Keepmoat") started on site on 29 March 2010.

Summary

5. The table below summarises the progress made to date on each of the phases

Phase 1	5	Fully Occupied
Phase 2a	15	Fully Occupied
Phase 2b	20	Fully Occupied
Phase 3a	15	Construction is nearly finished with the first completion just before Christmas. The next handovers are due mid-January
Phase 3b	9	Demolition is now underway

Phase 3c	8	Demolition will commence once phase 3b demolition is complete
Phase 4	9	Currently occupied with existing residents and decanted residents from phase 3
	81	

6. In addition to this:

- Keepmoat have sold two houses and four are under reservation.
- The brief for the Public Art has gone to various local artists and their responses were due back 22 December 2011. These are to be reviewed and then discussed.
- The Open Space Consultation will start early in 2012.

Impact on Tenants

7. All tenants who have requested to continue to live in Kibblesworth have been given priority.
8. Across Phase 3 there are eight unallocated properties which will be advertised through HomeChoice and allocated in line with the local lettings plan.

Financial Implications

9. So far Home Loss payments have been made to 88 tenants, this equates to £413,600 less any outstanding debt to the Housing Company and the Council. Disturbance payments of £32,199 have also been made to pay for out of pocket moving expenses. These payments are made by the Council. Some tenants have moved into temporary decant properties, some have moved into completed units and some have moved permanently offsite.
10. Within the above figures nine tenants have been able to claim twice due to being in a temporary decant property for over 12 months.
11. The cumulative value of works carried out by Keepmoat to date is £5,445,483 this is inclusive of the latest valuation number 20. All valuations will be paid less 5% retention. It has been agreed to release half of the allocated retention at completion of each phase, with attributed balance being released after 12 months. So far we have released £87,447 from the retention for earlier completed work.
12. We have agreed a maximum contract value of £8,435,060. This figure may however still change due to addition or omission of specified items.

Risk Management Implications

13. The programme onsite is currently running about 17 weeks behind the contract programme.

Value for Money Implications

14. Regular meetings are held between TGHC and Keepmoat to ensure value for money is achieved on all solutions.

Equality and Diversity Implications

15. There are no equality and diversity implications directly arising from this report.

Health implications

16. Keepmoat are aware that dust and noise have the potential to health implications. This is mitigated by the site being part of the 'Considerate Constructor Scheme' which monitors these and other matters.

Consultation Carried Out

17. Keepmoat and TGHC Housing Management are in regular contact with affected tenants on an individual basis regarding the current phases.
18. General feedback from the tenants has been received saying how impressed they are now that they can see the site developing across the wider area.
19. During the construction of Phase 3 and the new sewer works, due to the intensive and disruptive nature of the works, there has been a number of complaints from the residents of Greenford, these have been monitored and dealt with as they have occurred.

Recommendation

20. The views of the Board are sought as to whether they are satisfied with the progress made to date.



Title: Rent to Buy Leases

Report of: TGHC Director of Corporate Services

Purpose of Report

1. To provide the Board with an update on the Rent to Buy leases and to consider the options available to the Board in relation to these leases.

Background

2. There are 13 Rent to Buy homes being built on the Kibblesworth development during 2012. These are programmed to be completed by October 2012 and marketing of these properties is likely to start in April 2012.
3. The Rent to Buy scheme enables purchasers to rent before they buy. Prospective purchasers will be assessed on their eligibility for the scheme and must demonstrate that they can afford and sustain rent payments but are also able to save towards a deposit for the future purchase.
4. Prospective purchasers wanting a Rent to Buy property will initially rent their home as an assured shorthold tenant; this can be up to a maximum of 5 years. During this period they will be expected to save a deposit towards the partial purchase of a share in the property. The minimum share they can initially purchase is 25% and then they can staircase (add to their shares) in tranches of a minimum of 10%.
5. When a share of the property is purchased then the tenant becomes a shared owner and signs a lease for their property. They then pay rent on the unpurchased percentage of the property.
6. The Kibblesworth development site is classed by the Homes and Communities Agency as a Protected Area. This means that the area is exempt from the Right to Acquire. The HCA want the Protected Area policy to still deliver Shared Ownership (in Kibblesworth this would be Rent to Buy) within these areas but it aims to ensure that low cost home ownership in difficult to replace areas is retained for the benefit of local people.
7. A key aspect of this legislation for the Rent to Buy properties is that the leases issued must contain certain clauses to retain the properties as 'shared ownership' for future purchasers.

Summary of the clauses

8. The Rent to Buy leases must contain conditions: -
 - To enable the shared owner to acquire at least 80 per cent of the total shares of the equity in the property.
 - That where the lease enables the shared owner to acquire more than 80 per cent of the shares in the property and the shared owner wishes to sell those shares the shares must be sold to the landlord or its nominee and,
 - That the sale must be at market value as prescribed in the Regulations
9. Therefore, there are effectively two schemes which could be offered to within the Rent to Buy lease.
10. The first scheme offered by the HCA is that the shared owner is only allowed to purchase up to 80% then the landlord retains 20% ownership.
11. One aspect of this scheme is that the landlord can take, as the law presently stands, possession proceedings under the Housing Act 1988 if the shared owner defaults on the rent on the unpurchased portion.
12. The problem with this option is that, if the shared owner is only allowed to purchase up to 80%, then as there is reluctance on many mortgage lenders to lend moneys on properties where there are restrictive covenants, especially when it is this type, the shared owner may have difficulty securing a mortgage and purchasing their first, or any subsequent, percentages.
13. The second scheme offered by HCA is for the shared owner to be permitted to purchase more than 80% with the proviso that there is a mandatory obligation on the Landlord to re-purchase the lease at the market value if the shared owner wants to sell up, or to nominate a housing association or registered provider to do so, thereby keeping it in perpetuity in the social housing arena.
14. If the landlord can not afford to purchase from its own Recycled Capital Grant Fund (RCGF), or they can not find a party to nominate, or they can not raise the money through a private loan, then there is a possibility that they can apply to the HCA for grant funding.
15. Here the landlord can still take, as the law presently stands, possession proceedings under the Housing Act 1988 if the shared owner defaults on the rent on the unpurchased portion though this will not apply once the 100% is obtained.
16. In addition to this, because the property is in a protected area the leaseholders can never enfranchise (i.e. purchase the freehold) even if they actually to purchase up to 100%.

Next Steps

17. A decision needs to be taken as to whether Keelman Homes should offer the properties to a maximum equity share of 80% or up to 100%.
18. It is proposed that officers of The Gateshead Housing Company on behalf of Keelman Homes Board undertake more detailed meetings with lenders to

determine whether they would be willing to provide mortgage products for shared owners if they could only obtain a maximum of 80% share.

19. This information should then be used to make a decision as to whether Keelman Homes offer the Rent to Buy properties based on an 80% or 100% equity share.

Impact on Tenants

20. The decision on whether to allow prospective shared owners to purchase either 80% or 100% equity share will have a significant impact on shared owners as they may be restricted on the mortgage product they can obtain.

Financial Implications

21. Keelman Homes would be required to repurchase properties if scheme two was approved where shared owners could purchase 100% of the shares of the property. Therefore, funding would need to be found at such a time in the future should shared owners wish to sell the property.
22. There could be financial implications associated with the repurchase of the property, although at the present time these are unknown.

Risk Management Implications

23. The risk of allowing shared owners to only purchase a maximum of 80% equity shares may restrict the availability of funding options for shared owners and therefore, may reduced the desirability of the properties. This may mean that there is a greater risk of the properties being void for longer periods of time.
24. The risk of allowing shared owners to purchase up to 100% of the equity shares will fall on Keelman Homes as they will have a mandatory obligation to repurchase the property if the shared owner wishes to sell. Therefore, funding would need to be available to fund this repurchase.

Value for Money Implications

25. There are no Value for Money implications arising from this report; however, the decision taken on which lease to offer will have implications on the use of the future capital receipts from the sale of these properties.

Equality and Diversity Implications

26. There are no equality and diversity implications directly arising from this report.

Health implications

27. There are no direct health implications arising from this report.

Consultation Carried Out

28. Consultation has been carried out with Gateshead Council's legal section and the HomeBuy agents Isos to obtain further advice and information relating to this report.

29. It is proposed that further consultation is carried out with mortgage lenders to discuss the suitability of offering either product.

Recommendation

30. To approve that officers of The Gateshead Housing Company meet with lenders to discuss their products in more detail.
31. To approve a special meeting in March 2012 to agree the findings of these meetings and approve the lease to be offered with the Rent to Buy scheme.
32. To receive a future report on the marketing strategy for the Rent to Buy properties.
33. To receive a future report on the proposed rents and valuations for the Rent to Buy properties.



Title: Operational Risk Register

Report of: TGHC Director of Corporate Services

Purpose of Report

1. To seek approval of an updated New Build Operational Risk Register.

Background

2. The Board, at its meeting on 21 January 2010, approved its first Operational Risk Register. This was based on a traffic lighting system with likelihood and impact scored from one to ten.
3. Price Waterhouse Coopers carried out a review of TGHC's risk management processes during 2010 and a number of actions were agreed.
4. One of these actions was to completely review TGHC's operational risk register and a revised format including a revised scoring process was agreed.
5. In order to ensure consistency, the New Build Operational Risk Register for Keelman Homes has been reviewed and produced in the new format.

Operational Risk Register

6. Operational risks are those which are encountered during the day to day running of the company.
7. The updated register has been split into individual service areas within each directorate.
8. The following four scale matrix has been used for impact and likelihood: -

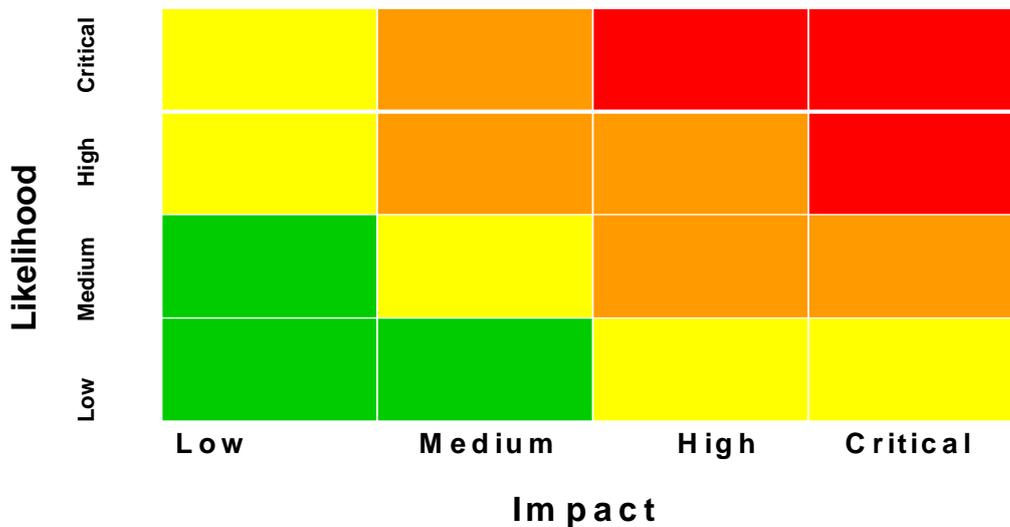
Likelihood

Scoring	Definition	Timing of occurrence
4	Almost certain	Less than 3 months
3	Likely	3 – 6 months
2	Moderate	6 – 12 months
1	Unlikely	In excess of 12 months

Impact

Scoring	Definition	Example of impact
4	Critical	Total service loss for significant period Fatality Financial loss over £200,000 Government / Council intervention
3	High	Significant service disruption Major/disabling injury Financial loss over £50,000 Adverse national media coverage
2	Medium	Service disruption Loss time injury Financial loss over £25,000 Adverse local media coverage / lots of service user complaints
1	Low	Minor service disruption / short term inconvenience Minor injury Financial loss under £25,000 Isolated service user complaints

9. The following four scale matrix demonstrates how the risks will be assessed using a traffic light system: -



10. The Operational Risk Register has been reviewed and the only update is to the risk around Intermediate Rent Management where the likelihood has increased from a 2 to 3 and the following future action added: -

- Meetings to be held with Isos – Homebuy agents – to obtain more understanding of the requirements for the marketing and management of Intermediate Rent properties – March 2012

11. The Operational Risk Register is attached at the Appendix to this report and the update is highlighted in red.

Impact on tenants

12. Failure to deliver on certain operational risks identified could have a significant impact on tenants.

Risk Management Implications

13. The risk management implications are identified throughout this report.

Financial Implications

14. There are no financial implications directly arising from this report.

Equality and Diversity Implications

15. There are no equality and diversity implications arising from this report.

Value for Money implications

16. Efficient and effective control measures in place should reduce significantly the likelihood and impact of the risks occurring.

Health Implications

17. The successful completion of the new build properties will have a positive impact on the health and wellbeing of the residents.

Consultation carried out

18. It has not been necessary to carry out any consultation when compiling this report. However, consultation has previously been undertaken with other ALMOs at a more advanced stage with new build.

Recommendations

19. It is recommended that
 - the Operational Risk Register be approved;
 - the Risk Register be reviewed and monitored periodically by the TGHC Governance and Risk Officer and updates be presented to the Board for approval.

Keelman Homes – New Build Operational Risk Register

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	<p>Budget issues - cost overrun If the budgets overrun then the company may not be able to complete the project/build as there would be no funding available. There may need to be changes in the specification part way through the build if money were to become tight. Company may not be able to pay contractors.</p>	<p>Budgets are closely monitored on a regular basis. Any changes to specification which will increase costs are fully discussed and costed and agreed before they are commenced.</p>	2	4	Sarah Thompson		
	<p>Financial impact from Contractor(s) failing Keelman Homes could lose funding if schemes are not completed in line with the milestones as agreed with the HCA. Keelman Homes could lose any advances paid to contractors. Schemes may be undeliverable if contractor goes bankrupt / into administration</p>	<p>Robust procurement process for new build contractors. Early consideration of any risks associated with specific contractors or potential contractors for each scheme. Company ensures that Insurance and Collateral Warranties are in place for each contractor.</p>	2	4	Sarah Thompson		
	<p>Failure to implement financial changes in timescale Failure to implement financial changes will hinder the project's ability to be completed in a timely</p>	<p>Robust estimates built into feasibility and detailed costings. Considering / revising estimates at critical milestones. Financial changes reviewed regularly to ensure that they can be</p>	2	4	Sarah Thompson		

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	manner or to budget. If financial changes are not implemented in timescale then the project will overrun incurring more costs.	accommodated in timescales.					
	Statutory Authority Risks (gas, water, electric, telecom etc) The utilities all need to be available to be used by the tenant prior to the new build project and prior to the tenant moving in. The costs of providing the ability to use these utilities need to be built into the budget for the schemes.	Discussions held with all utility companies prior to the project being drawn up to ensure that all utilities can be provided and to ensure any costs associated with these are built into the budgets.	2	4	Peter Smith		
	Party Wall Risks Future risk of claims from Third party of Subsidence etc	Legal advice followed and Party Wall Act is invoked. Photographs taken of all adjacent properties prior to commencement of works on site	2	4	Peter Smith		
	Programme slippage Failure to deliver new homes on time	As part of a robust procurement procedure this is addressed by checking the contractor's track record	2	4	Peter Smith		
	Grant requirements fail to be met Company could lose funding if schemes are not completed in line with the milestones as agreed with the HCA.	Detailed legal advice on grant agreement prior to signing. Checks in place via pre contract and post contract project plan to ensure conditions precedent are met.	2	4	Peter Smith		
	Reputation tarnished if project outcomes not delivered	Effective project management of schemes. All PR co-ordinated within the context of	2	4	Ian Clarkin		

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	Reduced customer satisfaction, if delivery delayed this may impact on future HCA funding	schemes so expectations clear and realistic					
	Cash Flow Cash flow needs to be managed to ensure that TGHC can pay the contractor and repay the loan. Once built, the cash flow needs to be managed to ensure the rents cover the costs associated with managing the houses	Cash flow forecasts are carried out monthly. Estimates of the monthly income produced. Cash flows amended in line with changes in the expected completion dates of the houses.	2	4	Sarah Thompson		
	Project Management on site Late delivery of project	Regular monthly site meetings to manage the project and focus on any issues that affect the programme	2	3	Jim Charlton		
	Environmental problems on site e.g. unknown contamination Delays in delivering the development and increased cost of the scheme.	Early site investigation - desk top and on site.	2	3	Jim Charlton		
	Security risks to properties, site and compound Loss due to vandalism and theft. Impact on neighbouring residents in the area.	As part of a robust procurement procedure this is addressed by checking the contractor's track record when they are on site. Materials or tools not stored with a resale value on site.	2	3	Jim Charlton	Contractor to visit local schools to explain the risks on a building site and site compounds. Whilst in contractors possession security risk is with contractor. Possible delay	Ongoing throughout the project

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
						impact.	
	Design and development issues with neighbouring houses May cause friction between the new tenants and the existing occupants in the area	Addressed as part of the planning process. Also through independent Communication by TGHC with the local residents	2	3	Peter Smith	Minimise disruption to local residents and involve them in the design development and any environmental improvements linked with the development	Before Planning Submission and ongoing throughout the project
	Inaccurate rent and service charge provision Rent and service charges set too low could lead to costs outweighing income received. This may restrict the repairs/ improvement works that can be carried out at these properties	Detailed costings and business plans are produced before the schemes are considered	2	2	Sarah Thompson		
	Failure to specify and agree ICT requirements If ICT development does not receive agreed accurate requirements for ICT changes the housing management system will not be able to manage the new properties successfully.	Change control documents are created for agreement of project team. No development will take place until complete and agreed.	1	4	Mark Birch		
	Extra cost of ICT changes exceeds budget Changes to ICT systems for New Build have not	Consultation with Finance to ensure funds available.	1	4	Mark Birch		

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	featured in any ICT budget setting to date.						
	Failure to implement ICT changes in timescales Assessment of ICT requirements has not been considered in relation to timescale setting for the project.	Change control documents feature timescales for work required. Any timescale issues known prior to development taking place.	1	4	Mark Birch		
	HSE breach by contractor Injury to operative or visitor to site, damage to possessions	Appropriate Health and Safety procedures built into contracts and monitored. Risk is transferred to contractor (other than reputational)	1	4	Roberto D-Emidio		
	Contractor or sub-contractor going into administration Delay on completion of scheme, additional costs may be incurred	Financially sound contractors on the tender list. There is sufficient retention to ensure additional cost of transfer of work to new contractor can be covered.	1	4	Peter Smith		
	Communication issues Reputation of company tarnished and working relationships with existing tenants affected.	Effective communications strategy identifying key stages and agreeing appropriate form of communication.	1	4	Ian Clarkin		
	Achieving agreement on estate layout / traffic management / road names Resulting in delay or making the development unworkable	Would be addressed as part of the planning process. Also through independent Communication by TGHC with the local residents	1	4	Peter Smith		
	Delay or inability to supply materials part way through programme Delay on completion of scheme, additional costs	Alternative suppliers for all materials. Do not nominate supplier or produce passing risk to contractor. Robust tender process.	1	3	Jim Charlton		

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	may be incurred.						
	Board Approval All relevant decisions need Board approval as per the company's memorandum and articles of association otherwise there could be a delay in completion of the work	Keelman Homes Board meets quarterly and governance arrangements are in place to react to any urgent business Training on roles and responsibilities	1	3	Stuart Gibson		
	Intermediate Rent Management Need to ensure we provide clear and appropriate advice to tenants in a timely and consistent manner. Need to ensure systems and processes are in place to effectively manage Intermediate Tenancies	Specific advice to be sought so that clarity is obtained on the Rights of Occupiers and obligations on the Landlord are known and employees have appropriate training.	2 3	2	Sarah Thompson	Meetings to be held with Isos – Homebuy agents – to obtain more understanding of the requirements for the marketing and management of Intermediate Rent properties.	March 2012
	Specified ICT requirements may exceed current system capability Requirements for New Build may exceed what current systems are capable of providing	Change control documents analysed to assess requirements. Changes will be implemented that are possible.	1	2	Mark Birch		
	Labour shortage Resulting in delay in completing the scheme	Fixed cost tender price passes risk to contractor. Robust tender process.	1	2	Jim Charlton		

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	Managing Decants Where a programme of decants is required this will need to be managed effectively to ensure we deliver vacant possession of the site to the contractors. This will prevent any delay to the start of works and reduce risk of incurring additional costs	A decant programme is developed taking into account tenants needs and choices. A lead officer is identified to liaise between tenants and Home Choice and provide support to assist tenants to find suitable rehousing. Project teams will monitor progress this.	1	2	Julie McCartney		
	Failure to implement new working practices across the business Resulting in Keelman Homes tenants getting an inferior service compared to Council/TGHC tenants	All policies between TGHC and Keelman Homes are consistent. There is a management agreement in place between TGHC and Keelman Homes for delivery of services.	1	2	Jon Mallen-Beadle		
	Risk of not following policy when selecting an applicant for a property. (Reputation, complaints, ombudsman)	Lettings shortlist audits / Training and procedures for lettings team	1	2	Jackie Armstrong	Annual Internal audit to overview effectiveness of controls	Next Audit tbc November 2011 results expected December/Jan 2012
	Delays in process of letting homes impacting on performance on void rent loss and average relet times, and on ability to rehouse quickly those in need	Monitoring of relet times. Measuring impact of increase in direct lets. Targets for rehousing Urgent Homeless cases. Urgent voids identified with repair partner.	2	1	Jackie Armstrong	Annual performance report will highlight areas for concern.	Working group set up (Julie McCartney lead officer) to look at delays, first meeting November 2011

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale for implementation
	<p>Managing new types of tenancy and new rights e.g. Assured Tenancies and Assured Shorthold Tenancies</p> <p>Need to ensure we provide clear and appropriate advice to tenants in a timely and consistent manner.</p> <p>Need to ensure systems and processes are in place to manage Assured and Assured Shorthold Tenancies effectively</p>	<p>Specific advice to be sought so that clarity is obtained on the Rights of Tenants and obligations on the Landlord are known and employees have appropriate training.</p>	1	1	Kevin Johnson		
	<p>Incorrect advertising of properties, leading to customers bidding/not bidding as they would have if correct. Could lead to complaints, or need to re-advertise + delay.</p>	<p>Lettings Officers visit and photograph properties and prepare advert information.</p> <p>Draft property newspaper circulated for approval</p>	1	1	Jackie Armstrong	Sub regional plans to implement new publishing system	April 2012