



Title: Operational Risk Register

Report of: TGHC Head of Corporate Services

Purpose of Report

1. To seek approval of an updated 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 Operational Risk Register for Keelman Homes was reviewed and produced in the new format, which was approved by the Board in January 2012.
6. Previous operational risk registers that have been presented to the Board have related specifically to the Kibblesworth New Build Programme.
7. The Kibblesworth programme is now complete and Keelman Homes is now involved in a number of new developments. As a consequence, it was necessary to comprehensively review the operational risk register going forward.

Operational Risk Register

8. Operational risks are those which are encountered during the day to day running of the company.
9. The following four scale matrix has been used for impact and likelihood: -

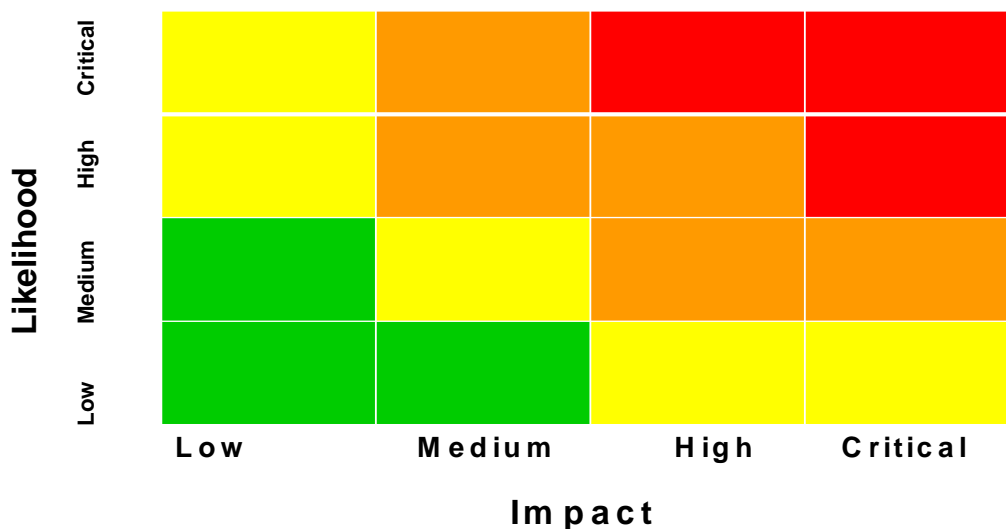
Likelihood

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

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



11. The Operational Risk Register has been comprehensively reviewed and the updated register is attached at the Appendix to this report.

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 new build schemes and homes to rent 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.

Recommendations

19. It is recommended that the updated Operational Risk Register be approved.

Keelman Homes Risk Register (As at March 2015)

Almost Certain				
Likely			1	
Moderate	1	2	2	8
Unlikely		3	3	4
	Low	Medium	High	Critical

Likelihood

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Risk No	Risk	Likelihood	Impact	Owner	Residual Likelihood	Residual Impact
Communications						
COM1	Communication Issues	2	4	Ian Clarkin	1	3
COM2	Reputation tarnished if scheme outcomes not delivered	1	3	Ian Clarkin	1	2
Development						
DEV1	Statutory Authority Risks (gas, water, electric, telecom etc.)	2	4	Jim Charlton	2	4
DEV2	Programme Slippage	2	4	Jim Charlton	2	4
DEV3	Project Management on site	3	3	Jim Charlton	3	3
DEV4	Party Wall Risks	2	3	Jim Charlton	2	3
DEV5	Security risks to properties, site and compound	2	3	Jim Charlton	2	3
DEV6	Achieving agreement on estate layout / traffic management / road names	1	4	Jim Charlton	1	4
DEV7	Scheme Appraisals not being accurate	1	4	Phil Gallagher	1	3
DEV8	Delay or inability to supply materials part way through programme	1	3	Jim Charlton	1	3
DEV9	Environmental problems on site e.g. unknown contamination	1	2	Jim Charlton	1	2
DEV10	Loss of key records	1	2	Phil Gallagher	1	2
Finance						
FIN1	Budget issues – cost overrun	2	4	Natalie Hewitt	2	4
FIN2	Financial impact from contractor(s) failing	2	4	Natalie Hewitt / Phil Gallagher	2	4
FIN3	Cash Flow	2	4	Natalie Hewitt	2	4
FIN4	Properties left unsold	2	4	Natalie Hewitt / Phil Gallagher	1	3
FIN5	Grant requirements fail to be met	2	3	Jim Charlton	2	3
FIN6	Collection of Shared Ownership charges	2	1	Janice Adams	2	1
FIN7	Inaccurate rent and service charge provision	1	2	Natalie Hewitt	1	2
Housing Management						
HM1	Cost of providing Housing Management Services to Other Landlords exceeds income from Landlords	1	3	Julie McCartney	1	3
HM2	Failure to deliver Housing Management Services to Other Landlord Properties	2	2	Julie McCartney	1	2
HM3	Termination of Other Landlord Management Agreement	2	2	Julie McCartney	1	2
Human Resources						
HR1	HSE Breach by Contractor	1	4	Jennifer Aston	1	4
ICT						
ICT1	Failure to identify and implement ICT requirements	1	4	Andrew Curtis	1	3

Keelman Homes – Risk Register

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
COMMUNICATIONS									
COM 1	Communication issues Reputation of company tarnished and working relationships with existing tenants affected.	Effective communications strategy to identify key consultation requirements and appropriate forms of communication. Keelman Homes Website now available with link to all Keelman Homes Board meeting papers.	2	4	Ian Clarkin	Further development required in relation to Keelman Homes website and communications strategy	December 2015	1	3
COM 2	Reputation tarnished if scheme outcomes not delivered Reduced customer satisfaction, if delivery delayed this may impact on future HCA funding	Effective project management of schemes. All PR co-ordinated within the context of schemes so expectations clear and realistic. Resident and member consultation at the outset and regular updates provided through press releases once works have commenced on site. 'Considerate Contractor' policy sought from each contractor agreement	1	3	Ian Clarkin	Further development required in relation to Keelman Homes communications strategy and PR policy to be developed	December 2015	1	2
DEVELOPMENT									
DEV1	Statutory Authority Risks (gas, water, electric, telecom etc) The utilities all need	Design and Build Commission on new build schemes with utility connections being explicit in the contract	2	4	Jim Charlton	The controls focus on maintenance of current systems and preventative measures rather than	Ongoing throughout each project	2	4

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
	to be available to be used by the contractor during the build project and prior to the tenant moving in. The cost of providing the ability to use these utilities needs to be built into the budget for each scheme.	documentation as Contractor responsibility. Discussions held with all utility companies prior to any 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. Considered on an individual scheme basis				significant changes, therefore the residual score remains the same.			
DEV2	Programme slippage Failure to deliver new homes on time	Programme reviewed and managed through regular monthly contractor meetings and site meetings. As part of a robust procurement procedure this is addressed by checking the contractor's track record	2	4	Jim Charlton	Continue to monitor each scheme on an individual basis	Ongoing throughout each project	2	4
DEV3	Project Management on site Late delivery of a project	Regular monthly site meetings to manage a project and focus on any issues that affect the programme	3	3	Jim Charlton	Continue to monitor on an individual scheme basis	Ongoing throughout each project	3	3
DEV4	Party Wall Risks Future risk of claims from third parties for 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	3	Jim Charlton			2	3

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
DEV5	<p>Security risks to properties, site and compound Loss due to vandalism and theft. Impact on neighbouring residents in the area.</p>	<p>As part of a robust procurement procedure this is addressed by checking the contractor's track record when they are on site.</p> <p>Materials or tools not stored with a resale value on site.</p> <p>Site compounds are secured overnight.</p>	2	3	Jim Charlton	Work with police and local housing office to address issues of vandalism on site	Ongoing throughout each project	2	3
DEV6	<p>Achieving agreement on estate layout / traffic management / road names Resulting in delay or making the development unworkable</p>	<p>Addressed as part of the planning process and through independent communication by TGHC with local residents.</p> <p>Key stakeholders for each scheme to be identified</p>	1	4	Jim Charlton	Key contacts within the Council and with partners to be identified at the outset of the scheme	Implemented on an individual scheme basis	1	4
DEV7	<p>Scheme Appraisals not being accurate Risk that inaccurate initial scheme appraisal will slow down, stop or make new developments unaffordable or a risk to the overall Keelman Homes Business plan.</p>	<p>All schemes run through a business model which has been benchmarked with other developing Registered Providers.</p> <p>Assumptions clarified around management, investment and repairs costs have also been benchmarked.</p> <p>Guiding principles for investment outcomes</p>	1	4	Phil Gallagher	As this is an emerging market, further investigation of available business models and benchmarking tools is to be undertaken.	September 2015	1	3

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		agreed at Keelman Homes Board in relation to minimum IRR, Positive NPV and no cross subsidy between sites.							
DEV8	Delay or inability to supply materials part way through programme Delay on completion of scheme, additional costs may be incurred.	Alternative suppliers for all materials. Suppliers are not nominated allowing alternatives to be used and passing the risk to the contractor. Robust tender process in place for all schemes.	1	3	Jim Charlton		Ongoing throughout each project	1	3
DEV9	Environmental problems on site e.g. unknown contamination Delays in delivering the development and increased cost of a scheme.	Early site investigation - desk top and on site. Remedial measures identified and built into the project plan	1	2	Jim Charlton		Ongoing throughout each project	1	2
DEV10	Loss of Key Records Risk of loss of key records such as property deeds and building plans etc.	All documentation retained both electronically and backed up via Council Network systems. Hard copies also retained and stored at Civic Centre offices	1	2	Phil Gallagher		Ongoing	1	2
FINANCE									
FIN1	Budget issues - cost overrun If the budgets overrun then the company may not be able to complete the project/build as	Budgets are closely monitored on a regular basis. Capital Finance is being provided through Gateshead Council and	2	4	Natalie Hewitt	New Keelman Homes Finance Manager now appointed to assist in developing long term forecasting and refresh financial	June 2015	2	4

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	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.	regular cash flow projections are provided. Properties being built in line with current building regulations and specification is finalised at the earliest stage. Extensive site investigation to identify any unexpected or additional costs.				procedures.			
FIN2	Financial impact from Contractor(s) failing Keelman Homes could lose grant 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	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. Sufficient retention to ensure cost of transferring works to a new contractor can be met.	2	4	Natalie Hewitt / Phil Gallagher	Continue to monitor on an ongoing basis	Ongoing throughout each project	2	4
FIN3	Cash Flow Cash flow needs to be managed to ensure that TGHC can pay the loan repayments and	Cash flow forecasts are carried out on a monthly basis and aligned with the Keelman Business Model.	2	4	Natalie Hewitt	Continue to monitor on an ongoing basis	Ongoing throughout each project	2	4

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	manage its financial commitments.	Cash flows amended in line with any changes to the projected programmes. Regular bank reconciliations are undertaken.							
FIN4	Properties Left Unsold If properties remain unsold there is a financial risk that Keelman Homes will not be able to meet its customer expectations and financial liabilities	Independent valuation based on market sales for each scheme and property. Promoted through use of local lettings agent and Rightmove. Considered as part of initial project appraisal. Built into individual scheme business model and aligned with overall Keelman Homes business model.	2	4	Natalie Hewitt / Phil Gallagher	Further development of exit strategies for unsold properties required. Keelman Homes to subscribe to Help to Buy Scheme to maximise opportunities for making sales properties affordable to first time buyers.	June 2015	1	3
FIN5	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.	Current schemes are Design and Build with contractors introducing their own grant and owning the risk. 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	3	Jim Charlton	From 2015 the HCA grant will be bid for by Keelman Homes and therefore the risk will transfer to them. Legal advice to be taken on how this will be built into future contractual arrangements	March 2015	2	3

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
FIN6	Collection of Shared Ownership Charges Income may be reduced if accounts are not created and managed in line with the lease agreement	Policy and income management procedure developed Monthly monitoring of income collected	2	1	Janice Adams	Develop arrears escalation policy within Northgate to help monitor collection	September 2015	2	1
FIN7	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. Individual scheme forecasts are aligned with the overall Keelman Homes 5 year Business Model. Rent setting and service charges are reviewed each year in line with HCA Guidelines.	1	2	Natalie Hewitt	Further development required to look at long term forecasting Rent setting and service charge policies to be reviewed in line with overarching Council rent setting and service charge policy	June 2015	1	2
HOUSING MANAGEMENT									
HM1	Cost of providing Housing Management Services to Other Landlords exceeds income from Landlords	Business monitoring in place to assess cost effectiveness Management fees and SLA set at full cost recovery rate Termination notice built into the management agreement	1	3	Julie McCartney	Carry out annual cost benefit analysis and report to Board as initial set up costs are now reducing.	May 2015	1	3
HM2	Failure to deliver Housing	Management agreement and SLA in place for	2	2	Julie McCartney	Complete all tenancy and estate	March 2016	1	2

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
	Management Services to Other Landlord Properties	Thirteen and the Empty Homes Programme. Regular monitoring meetings in place with internal and external stakeholders Performance reported monthly and quarterly to landlords Dedicated Housing Officer to manage the properties Main procedures and policies in place				management procedure guides Carry out annual review of management agreement, SLA and fees and report to Board Report performance to the Keelman Homes Board on a 6 monthly basis			
HM3	Termination of Other Landlord Management Agreement	Six month termination notice built into management agreement Regular monitoring meetings in place Monthly and quarterly performance reporting	2	2	Julie McCartney	Report performance to the Keelman Homes Board on a 6 monthly basis Carry out annual review of management agreement, SLA and fees and report to Board	Review to be carried out on an annual basis	1	2
HUMAN RESOURCES									
HR1	HSE breach by contractor Injury to operative or visitor to site, damage to possessions, risk of contamination or infection.	Appropriate Health and Safety procedures built into contracts and monitored. Risk is transferred to contractor (other than reputational)	1	4	Jennifer Aston	Continue to monitor on an ongoing basis	Ongoing throughout each project	1	4

Risk No	Risk	Controls	Likelihood	Impact	Owner	Future Actions	Timescale	Residual Likelihood	Residual Impact
ICT									
ICT1	Failure to identify and implement 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.	Procedure now in place for the update of new properties within the Housing Management System. Training provided to key employees to be cascaded to all relevant employees.	1	4	Andrew Curtis	Review of procedures to be carried out in order to assess any changes required to existing system and where any improvements can be made	September 2015	1	3