



## **Board of Directors**

Thursday, 19 March 2015 at 12.30pm  
To be held in Room S20 at Gateshead Civic Centre,  
Regent Street, Gateshead  
Agenda

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Item	Business
1.	<b>Apologies for Absence</b>
2.	<b>Declarations of Interest</b>
3.	<b>Minutes</b> To approve as a correct record the minutes of the meetings held on 15 January 2015.
4.	<b>Matters Arising</b>
5.	<b>New Build and Development Update</b> Report of TGHC Director of Customers and Communities
6.	<b>Management Accounts – Third Quarter 2014/15</b> Report of TGHC Head of Corporate Services
7.	<b>5 Year Financial Forecast</b> Report of TGHC Head of Corporate Services
8.	<b>Operational Risk Register</b> Report of TGHC Head of Corporate Services
9.	<b>Date and Time of Next Meeting</b> Thursday, 21 May 2015 at 12.30pm in Room S20, Gateshead Civic Centre, Regent Street, Gateshead

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Contact: Stuart Gibson Tel: (0191) 433 5308 Date: 13 March 2015

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**(Company number: 06972673)**

Minutes of meeting of the Board of Directors held in at Gateshead Civic Centre, Regent Street, Gateshead on Thursday, 15 January 2015 at 12.30pm

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**Present:**

**Ordinary Trustees**

Brian Kelly (Chair)  
Joanne Carr  
Anne Connolly  
Paul Foy  
Hannah Shepherd

**In attendance**

Neil Bouch (TGHC Director of Customers and Communities)  
Natalie Hewitt (TGHC Head of Corporate Services)  
Phil Gallagher (TGHC Head of Investment and Development)  
Julie McCartney (TGHC Head of Neighbourhood Services)  
Stuart Gibson (TGHC Governance and Risk Officer)

**Apologies**

Linda Hitman  
Peter Mole

**1 DECLARATIONS OF INTEREST**

No interests were declared.

**2 MINUTES**

The minutes of the meeting of Keelman Homes held on 20 November 2014 were approved as a correct record.

**3 RENT AND SERVICE CHARGE PROPOSALS FOR 2015/16**

The Board received a report proposing an increase to the rents for 2015/16.

The rent increase proposed for 2015/16 is in line with the HCA guidelines of CPI + 1%. CPI in September 2014 was 1.2%, which provides for an increase of 2.2%. This is an average weekly rental increase of £1.80 at Kibblesworth (social

rent) and £2.01 for other Keelman Properties (affordable rent), based on 52 weeks rental charges.

There are no proposed increases recommended for service charges in 2015/16.

RESOLVED – (i) That the proposed rent increases for 2015/16 be approved.

(ii) That service charges are not increased for 2015/16.

#### **4 NEW BUILD AND DEVELOPMENT UPDATE**

The Board received an update on the current phases of new build activity.

Phase 1 is being delivered in partnership with Esh Construction Services and will deliver 15 new affordable units, utilising HCA grant that is being introduced by the developer.

The development at Felling Library completed during November with six 3-bed houses being provided. Affordable rents of £101.53 per week are being charged with tenancies commencing 15 December 2014.

The development at Strathmore Road completed on 12 December 2014 with two 4-bed properties being provided. Both properties were let with tenancies commencing on the 15 and 22 December 2014 and affordable rents of £120 per week being charged.

Works are continuing at the Kirkwood Gardens site, with completion of the six units on the site estimated to be in March 2015, which will ensure compliance with HCA grant conditions.

Phase 2 of the new build programme proposed to provide 29 units across two sites in the West of the borough at the former Lonnen sheltered scheme site and a cleared garage site on the Runhead Estate.

Works commenced at the beginning of June on the Lonnen site and the site is expected to complete before the end of March. The site will include a mix of social rents (14 units) and private sales (6 units).

The sales properties are being marketed via Your Move with initial asking prices of £150,000 for the 3 bed houses and £170,000 for the 4 beds. These prices have increased from what was originally factored into financial projections to reflect improvements in the market.

There have been a number of interested parties in the sales properties, although the agent has advised that feedback has been that potential buyers have indicated they want to see the properties built before committing. Additionally two potential buyers have enquired about the availability of the Help to Buy scheme in relation to these properties.

Enquiries have been made with the Homes and Communities Agency regarding registering Keelman Homes as a vendor under the Help to Buy scheme. There are no additional fees for registering to sell properties under this scheme and through the existing Service Level Agreement that Keelman Homes has with

Yorkshire Housing, they could take on the role of Help To Buy Agent, again with no additional cost to Keelman Homes.

The scheme will enable prospective buyers to access a government backed 20% equity loan to assist with the purchase. Reducing the mortgage needed to 75%. Buyers are required to pay a 5% deposit. The scheme is expected to make properties more affordable to customers looking to get on the property ladder.

The Board had previously been advised that the scheme at the Runhead Site had been deferred to be delivered in 2015, with discussions being held with both Galiford Try and the HCA to establish what grant can be achieved through the HCA's continuous market engagement process. As the initial preparatory work and planning have been achieved, the indications are that an application for this scheme would be viewed positively as a confirmed, ready to commence development.

Galiford Try has now advised that they are unable to deliver this scheme. Keelman Homes can apply for grant in its own right and the scheme could potentially be delivered as part of a package with the preferred development partner as part of the 2015-18 programme. Discussions are being held with the HCA regarding this.

Following award of grant in the 2015-18 allocation for the purchase and repair of a further 18 empty properties, work is underway to identify potential acquisitions and discussions are being held with the HCA about the possibility of commencing with purchases in advance of April 2015, subject to appropriate properties being available.

The draft contract for the Empty Homes element of the 2015-18 programme has not yet been issued but available empty properties are being identified in anticipation of the contract commencing.

The Board has been previously advised that grant has been secured to support delivery of a further 27 new build units during the 2015-18 programme. The draft contract has been received and signed and returned to the HCA.

The process of identifying further sites that can be delivered through the continuous market engagement route is ongoing, although unlike in previous rounds where indicative bids could be submitted, they require certainty and firm proposals on any additional schemes that are being proposed.

Subject to discussions with Galiford Try, the Runhead scheme is a one that Keelman Homes may submit a bid against. Similarly discussions are being held with the Council about the potential timescales for the programming of the Clasper Village and Bleach Green regeneration sites, with the intention that Keelman Homes would bid for grant to support the purchase of affordable units from the appointed developer.

Legal and procurement advice has been sought regarding the appointment and selection of a development partner. A number of developers have indicated that the sites are of a scale that would not fit with their business model and as such have excluded themselves from consideration.

The Two Castles Framework that was used to appoint Esh remains valid until December 2015 and discussions are being held with them about their capacity to deliver further works in 2015-16, once the current phase of new build concludes, which would provide some continuity and assurance around value for money as framework rates would be honoured. They have also indicated a willingness to work in partnership with both Keelman Homes and the Council's Construction Services on future developments.

A subsequent report with recommendations on the appointment of a development partner will be brought to a future board meeting.

Price Waterhouse Coopers (PWC) have been carrying out a review of development controls which will assist in identifying further risk and shaping an action plan to address any areas of concern. TGHC is receiving formal feedback from PWC next week.

- RESOLVED – (i) That the New Build and Development Update be noted.
- (ii) That Keelman Homes register with the Help To Buy scheme to increase the affordability of private sales units.

## **5 MANAGEMENT OF THIRTEEN HOUSING GROUP PROPERTIES**

The Board received a report on 30 January 2013, setting out a number of proposals to provide housing management services on behalf of others via Keelman Homes.

On 17 May 2013, the Board approved an agreement to manage properties for Tees Valley Housing and for Housing Hartlepool on 21 November 2013.

Both organisations were originally part of the Fabrick and Vela housing groups respectively. In April 2014, these groups amalgamated to become the Thirteen Housing group, which includes Erimus Housing, Tees Valley Housing, Tristar Homes, Housing Hartlepool and Thirteen Care and Support. It was agreed that the management agreement be reviewed and that one agreement was put in place to cover the Thirteen group.

Housing management services are currently being provided to 131 properties in Gateshead via Keelman Homes. A further 34 new build properties at Clavering Court are due to be handed over by March 2015.

A revised management agreement was submitted. The agreement is initially for three years and will be renewable annually thereafter subject to a satisfactory review by both organisations. The agreement can be terminated by either party with a minimum of six months written notice.

In the main, properties are being let as assured tenancies at affordable rents. All homes will be advertised through Tyne and Wear Homes and will be allocated in line with Keelman Homes lettings policy.

The management of shared ownership properties has been removed from this agreement and will be subject to further discussions with Thirteen to agree the scope of management in the future.

There are four shared ownership properties within the new Sunhill Court scheme and three at Pattinson Drive, Ryton. There will be a further 13 in Clavering Court. To date, Thirteen have been unable to secure any interest in the ones at Sunhill and are reviewing potential options to let these properties. All three are let at Pattinson Drive but not managed by Keelman.

TGHC has been managing eight intermediate rent properties at Dunston Staithes since 2009. It was intended that these tenants would move towards purchasing a share in the properties within a five year period. Unfortunately this has not been the case and currently there are four voids on this scheme. Thirteen are now looking to let two of the voids on a three year fixed tenancy at affordable rents.

Performance will be reported to Thirteen on a monthly basis on the key performance indicators and quarterly on a wider agreed set of management information.

The agreed management fee is 11% of the gross rental income (including service charge) per property per annum on commencement of the tenancy, invoiced quarterly in advance by Keelman Homes.

The Board asked if a cost benefit analysis of the 11% had been carried out. It was noted that this was still being worked on.

Thirteen also agrees to pay Keelman Homes a 10% levy on repairs carried out and any legal action undertaken by The Company as approved by the Association to cover administration costs.

It was suggested that the Board might want to have a future discussion around new business principles as well as development principles.

- RESOLVED –
- (i) That the management agreement be approved with a commencement date of 1 February 2015.
  - (ii) That the Board receive an annual review of the management agreement including details of the performance management of Thirteen properties.
  - (iii) That TGHC Board receive an update on the provision of housing management services to Thirteen Housing Group via Keelman Homes.

## **6 DATE AND TIME OF NEXT MEETING**

The next meeting of Keelman Homes Board will be held on Thursday, 19 March 2015 at 12.30pm in Room S20, Gateshead Civic Centre, Regent Street, Gateshead.



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**Title: New Build and Development Update**

**Report of: TGHC Director of Customers and Communities**

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### **Purpose of Report**

1. The purpose of this report is to:-
  - (i) Provide the Board with an update on the current phases of new build activity;
  - (ii) Seek Board approval for Keelman Homes to acquire land from Gateshead Council, to support future development activity.
  - (iii) To approve the continued appointment of Esh Construction as the delivery partner for the next phase of new build, in relation to schemes being delivered in 2015, using the Two Castles procurement framework.

### **Background**

2. Further to previous reports that have been presented to the Board regarding activity on New Build Phases 1 and 2, this report provides a further update on progress since the meeting on 15 January 2015.
3. All proposed sites and units referred to in this report have been subject to a desktop appraisal, to ensure the sites meet the strategic needs of the Council in terms of housing provision, planning requirements and housing need.
4. Additionally, all sites proposed, meet the development principles that were formally approved by board and adopted at the June 2013 meeting.

### **Update – Phase 1**

5. This phase of works is being delivered in partnership with Esh Construction Services and will deliver 15 new affordable units, utilising HCA grant that is being introduced by the developer. The sites and proposed property mix are included at Appendix 1.
6. As reported previously the new unit at 73 Marian Court, Teams completed in June 2014 and was subsequently let.
7. The development at Felling Library completed during November with six 3 bed houses being provided. The street name is Nugent Row. An open event was held in early December and was well attended with all six properties being successfully let and customers signed up the following week. Affordable rents of

£101.53 per week are being charged with tenancies commencing 15 December 2014.

8. The development at Strathmore Road completed 12 December with two 4 bed properties being provided. Both properties were let with tenancies commencing on the 15 December and 22 December and affordable rents of £120 per week being charged.
9. Works are continuing at the Kirkwood Gardens site, with completion of the six units estimated to be 27 March 2015. The scheme address is 1-6 Dunn Court in honour of a fallen soldier from the local ward. Properties are expected to be let in April, at rents of £77.59 for the 1 bedroom property and at £93.64 for the two bedroom properties.

### **Update - Phase 2**

10. Phase 2 of the new build programme initially proposed to provide 29 units across two sites in the West of the borough at the former Lonnen sheltered scheme site and a cleared garage site on the Runhead Estate.

### **Lonnen Site**

11. Works commenced at the beginning of June 2014 on the Lonnen site and the site was expected to complete before the end of March 2015. The site will include a mix of social rents (14 units) and private sales (6 units). Galiford Try have now advised that the site completion is delayed and not likely to be practically completed until late April. Due to the late completion of the 20 properties a charge of £2,400 per week will be claimed from Galiford Try in line with the penalties for late completion that were included in the contract.
12. The sales properties are being marketed via Your Move with initial asking prices of £150,000 for the 3 bed houses and £170,000 for the 4 beds. These prices have increased from those originally factored into financial projections to reflect improvements in the market.
13. There have been a number of interested parties in the sales properties, although the agent has advised that feedback has been that potential buyers have indicated they want to see the properties built before committing. Additionally two potential buyers have enquired about the availability of the Help to Buy scheme in relation to these properties.
14. Enquiries have been made with the Homes and Communities Agency regarding registering Keelman Homes as a vendor under Help to Buy scheme. There are no additional fees for registering to sell properties under this scheme and through the existing Service Level Agreement that Keelman Homes has with Yorkshire Housing, they could take on the role of Help To Buy Agent, again with no additional cost to Keelman Homes.
15. Further to Board approval at the January 2015 meeting, an application was submitted for Keelman to be registered as a Help to Buy vendor and a draft agreement for the Help To Buy scheme has been received and is currently being considered by Legal services.
16. The scheme will enable prospective buyers to access a government backed 20% equity loan to assist with the purchase. Reducing the mortgage needed to 75%.

Buyers are required to pay a 5% deposit. The scheme is expected to make properties more affordable to customers looking to get on the property ladder.

17. The new build properties are being marketed via Your Move with initial asking prices of £150,000 for the 3 bed houses and £170,000 for the 4 beds. These prices have increased from those originally factored into financial projections to reflect improvements in the market.
18. In line with requirements set out by the Charities Commission, in order to progress with sales and dispose of land as a non-exempt charity, Keelman Homes needs to:-
  - (a) *obtain and consider a written report on the proposed disposition from a qualified surveyor instructed by the trustees and acting exclusively for the charity,*
  - (b) *advertise the proposed disposition for such period and in such manner as is advised in the surveyor's report (unless it advises that it would not be in the best interests of the charity to advertise the proposed disposition), and*
  - (c) *decide that they are satisfied, having considered the surveyor's report, that the terms on which the disposition is proposed to be made are the best that can reasonably be obtained for the charity.*
19. To support the approach to sales and to ensure compliance with the above, the board at its October 2014 meeting, delegated authority to accept offers to the Managing Director (TGHC) and / or the Director of Customers and Communities (TGHC), in consultation with the Chair.
20. As there are potentially going to be other sales and shared ownership schemes going forward it is proposed to bring a sales policy to the next board meeting with a recommendation that any sales properties are progressed in line with the policy and that adherence with the policy is formally adopted as a development principle

### **Runhead Site**

21. Further to the previous board reports advising that this scheme has been deferred to be delivered in 2015, we have been discussing this scheme with both Galiford Try and the HCA to establish the level of grant can be achieved through the HCA's continuous market engagement process. As the initial preparatory work and planning have been achieved, the indications are that an application for this scheme would be viewed positively as a confirmed, ready to commence development.
22. Further to discussion with Galiford Try, they have now advised that they are not prepared to deliver the project for the agreed scheme quotation. A revised summary showing just the Lonnen Scheme is attached at Appendix 2 , which is the extent of the work that will be progressed under this phase of activity.
23. Further to the above, discussions have continued with the HCA to agree design and quality standards and to ensure local office support for a submission for grant through continuous market engagement. A grant application for £25,000 per property was submitted on 6 March. This is a higher grant request than was

originally being introduced by Galiford Try to reflect the abnormal costs associated with service diversions that have emerged on this site.

24. Subject to grant being approved through the continuous market engagement route, the scheme is proposed to be delivered as part of a package with the first phase of sites to be included in the 2015-18 programme.

### **Affordable Homes Programme 2015-2018**

25. As detailed in previous board reports, grant has been secured to support delivery of a further 28 new build units during the 2015 -18 programme. The signed contract has been received. The sites and proposed unit mix are attached at Appendix 3.
26. The process of identifying further sites that can be delivered through the continuous market engagement route is ongoing, although unlike in previous rounds where indicative bids could be submitted, at this stage the HCA require certainty and firm proposals on any additional schemes that are being proposed.
27. Following the recent functional review of Council services, a Housing Growth working group has been formed to look at strategic housing supply across the borough and the most appropriate use of sites for housing projects. Discussions are continuing with officers that attend this group to consider availability and suitability of further sites for Keelman to develop. This work is ongoing.

### **Next Steps**

28. Following confirmation of the HCA grant, work has commenced to arrange transfer of the confirmed sites to Keelman Homes and planning applications have been submitted in relation to sites that will be developed in 2015. The Runhead Scheme achieved planning last year. Planning approval was granted for Heddon View on 19 January 2015 and is expected for Malton Green in March 2015.
29. To ensure that these sites can be delivered in 2015, Board are asked to formally agree to the transfer of the sites at Runhead Estate, Heddon View and Malton Green at nil value.
30. Gateshead Council are agreeable to a continuation of the capital finance loan facility to support the next phases of development.
31. Legal and procurement advice has been sought regarding the appointment and selection of a development partner. A number of developers have indicated that the sites are of a scale that would not fit with their business model and as such have excluded themselves from consideration.
32. The Two Castles Framework that was used to appoint Esh remains valid until December 2015 and they have confirmed they have capacity to deliver further works in 2015-16, once the current phase of new build concludes. Continuing with Esh would provide some continuity and assurance around value for money as framework rates would be honoured.
33. It is proposed to continue with Esh as the delivery partner for schemes at Heddon View, Malton Green and Runhead Estate during 2015, under the above framework. Board are asked to approve the continued appointment of Esh in

relation to this next phase of development. A full financial appraisal of the schemes will be brought to the next board meeting at which time grant is expected to have been confirmed for the Runhead scheme.

34. In relation to all future phases of work, consultation with Portfolio Holder, Ward Members and local residents will be carried out in line with the procedure followed on the current schemes being delivered.
35. In relation to the next site to be delivered in 2016, work has started on the development of the proposed scheme at West Park. Early conversations with designers and pre-application planning advice suggests that 10 units will be achievable on this site and the initial proposals are to include 6 properties for affordable rent and 4 properties for open market sale. Further details will be brought to future board meetings.

### **Empty Homes Purchase and Repair**

36. As per the previous board report, the five units that were in the current programme have now completed and returned to use as affordable homes. All grant has now been drawn down and the HCA advised that the programme has concluded.
37. Following award of grant in the 2015-18 allocation for the purchase and repair of a further 18 empty properties, work is under way to identify potential acquisitions.
38. The draft contract for the Empty Homes element of the 2015-18 programme has not yet been issued but available empty properties are being identified in anticipation of the contract commencing.

### **Risk Management Implications**

39. In relation to the HCA grant for both phase 1 and 2, the final deadline for completion of the homes is March 2015. ESH have provided a programme that shows they will be completing all sites in the final quarter of 2014/15.
40. In relation to the Phase 2 sites, Galiford Try have confirmed although properties will not be available for let or sale by the beginning of April they have confirmed that they will be able to claim grant on affordable units as they will be "practically complete". As indicated above, the Runhead site will not be complete by the end of March but is to be pursued as a 2015-18 scheme and subject to a grant application through continuous market engagement and a thorough financial appraisal.
41. With regard HCA grant on all properties in Phases 1 and 2, the risk to the grant remains with the developers and not with Keelman, therefore there will be no financial risk to Keelman of the completions not being done prior to March 2015, other than the loss in rent and sales opportunities should this occur. To mitigate any rent and sales loss at The Lonnen, damages of £2,400 per week will be passed on to Galiford Try in line with the contract.

42. The grant allocation for the 2015-18 programme is in Keelman Homes name and therefore the risk of not completing unit numbers within the programme rests with Keelman Homes. Selection of an appropriate development partner with a proven track record is therefore critical to ensure that the proposed programme can be delivered within timescale.
43. A number of development principles have been established to ensure that risks of new build development are mitigated.
44. Each scheme will have its own financial model and there will be no cross subsidy between the sites.
45. Each scheme will provide a minimum projected internal rate of return (IRR) of 5%. The financial model for the Lonnen site has been recalculated to take into account the increase in build costs and the model still achieves the minimum required IRR.
46. Each scheme is expected to demonstrate a positive net present value.
47. The same principles in relation to acquisitions will continue to be applied.

### **Financial Implications**

48. These current phases of the new build programme are being financed through a combination of grant funding and capital borrowing from the council as part of the Councils ongoing Capital programme. The Council are supportive of a continuation of this loan facility to fund further new build activity.
49. Financial projections for the next phases of new build have been made on assumed grant rates and on all schemes the grant confirmed reflects what was included in the bid. Financial modelling will be revisited to take into account actual borrowing rates and revised construction costs, although some assumptions have been included in the financial forecasts to reflect these.
50. As with previous activity, detailed financial appraisals for proposed 2015 schemes will be brought to the next meeting once costs have been finalised and grant levels confirmed.
51. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes. The board will be receiving a separate report in relation to this.
52. The financial model used for all schemes includes management, repair and improvements costs as well as making an allowance for rent losses.

### **Health and Environmental Implications**

53. We will be working with both developers to ensure they fulfil their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
54. The Tyne and Wear Fire Service have agreed to fund the installation of sprinkler systems in new build properties in phase 1. The costs associated with the Lonnen have increased since the original grant was obtained and therefore have been removed from the specification. We have agreed that grant from TWFRS

can be passported to future schemes and we will look to contribute to the cost of sprinkler installations.

55. Through targeting vacant sites that have been previously cleared or currently are covered by properties that are not in use, the proposed schemes will significantly improve the local environment.

### **Equality and Diversity Implications**

56. There are no equality and diversity implications. Any accessibility issues will be considered through the design and build phase.

### **Value for Money implications**

57. Throughout the project we will be working closely with the developers to ensure value for money is being achieved on all aspects and specifications of the build.
58. Legal and procurement advice has been obtained in relation to the selection of a development partner for future phases of work to ensure value for money is achieved.

### **Consultation carried out**

59. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
60. All Councillors have received briefings on the project. A series of pre-planning consultation events were carried out in relation to the current activity and this process will be replicated on future phases.
61. All local offices have received briefings on the Keelman Homes activities up to December 2014. This will be replicated going forward to ensure all TGHC employees are aware of activity.

### **Recommendations**

62. The Board is recommended to
- (i) note the update provided and comment on how satisfied it is with the progress made to date;
  - (ii) approve the acquisition of sites at Runhead Estate, Malton Green and Heddon View at nil value;
  - (iii) approve the continued appointment of Esh Construction as the Keelman Homes delivery partner for the next phase of development, subject to scheme costs being finalised. Financial appraisals for each scheme to be delivered in 2015 will be brought to the next Board meeting.

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Contact: Phil Gallagher, Head of Investment and Development    Tel: (0191) 4336155

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### Phase 1 –Property Mix and Financial Projections

Cost Summary and financial projections

<b>Site</b>	<b>Site mix</b>	<b>Units</b>	<b>Unit Cost</b>	<b>Projected Contract Sum Cost</b>	<b>Net Cost to Keelman</b>
Kirkwood Gardens	5x2bed flats 1x1bed flat	6	£105,622	£633,735	£513,735
Marion Court	1x 1bed bungalow	1	£84,000	£84,000	£64,000
Strathmore Road	2x 4bed houses	2	£111,576	£ 223,152	£183,152
Felling Library	6x 3bed houses	6	£101,438	£ 608,628	£488,628
		15		£1,549,515	£1249,515

## Phase 2 – Rental Units

Cost Summary and financial projections based on *Affordable Rents*

Site	Site mix	Units	Cost per unit	Total Cost	IRR	NPV per unit	Cost to Keelman
The Lonnen	6x3bed 8x2bed	14	£115,817	£1,621,451	5.38%	1,697	£1341451.58

- Note that surplus, Internal Rate of Return (IRR) and Net Present Value (NPV) are all shown on a per property basis, over a 50 year period. The IRR is the rate of return expected to be received on the investment. NPV is a standard economic term which shows the present value of net cash inflows generated less the initial investment.

In relation to the 6 properties that are proposed to be made available for sale, estimated sales values are as follows:

- 2 x 4 Bed at £170,000
- 4 x 3 Bed at £150,000

These estimates have been made based valuations of similar properties and in consultation with developers, and have been independently verified by a forma valuation based on plans.

## Appendix 3 – Draft Programme for 2015-2018 - Affordable Homes Programme

Year 1 - 2015/16		Year 2 - 2016/17		Year 3 - 2017/18	
Site	Units	Site	Units	Site	Units
<i>New Build</i>		<i>New Build</i>		<i>New build –purchase</i>	
Heddon View (LES depot)	2 x 2 bed houses 4 x 2 bed Flats	West Park	6 x 3 bed houses (Rent)	Clasper (Subject to Developer Procurement)	30 Units
Malton Green	4 x 2 bed bungalows  9 x 2 bed Houses			Bleach Green (Subject to Developer Procurement)	30 Units
Runhead Estate (Subject to Grant Approval)	2x4 bed Houses 2x3 bed Houses 5x2 bed Houses				<i>(Potential for grant on both sites to be pursued through continuous market engagement following discussion with Gateshead Council)</i>
Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units

*n.b. Additional sales units to be built at West Park (subject to planning) to support financial model on this scheme.*



**Title: Management Accounts – Third Quarter 2014/15**

**Report of: TGHC Head of Corporate Services**

### Purpose of Report

1. To provide the board with an update on the management accounts for the third quarter of the financial year 2014/15.

### Background

2. The board approved the Keelman Homes budget for 2014/15 at its meeting on 16 January 2014, as part of a 5 year financial forecast.
3. The Finance Team produces quarterly management accounts which detail actual year to date charges, the budget year to date, any variances to budget and a year end forecast. This report has been included in the Appendix to this report.

### Management Accounts

4. The management accounts for the third quarter of the 2014/15 financial year are shown below:

	<b>YTD Actual (£)</b>	<b>YTD Budget (£)</b>	<b>YTD Variance (£)</b>	<b>Annual Budget (£)</b>	<b>Annual Forecast (£)</b>
Income	378,700	445,467	(66,767)	593,957	516,731
Expenditure	309,924	513,842	203,918	685,122	478,421
<b>Surplus/(Deficit)</b>	<b>68,776</b>	<b>(68,375)</b>	<b>137,151</b>	<b>(91,165)</b>	<b>38,310</b>

5. The management accounts show Keelman Homes has made a surplus of £68,776 in the third quarter, compared to the expected deficit of £68,375.
6. We are now expecting to make an overall surplus in this financial year of £38,310 compared to the budgeted deficit of £91,165 (a reduction of £129,475).
7. The decrease in the forecasted deficits (both quarter 3 and year end) is mainly due to a decrease in the cost of loan interest repayments required in year. The budget assumed that new loan financing would be taken early in the year and that two new loan repayments would be required. The new loan wasn't required to be taken out until October therefore no repayments on the new loan are required.

8. The accounts have also been impacted by the change from producing our statutory accounts under the Charities Statement of Recommended Practice (SORP) to the Housing SORP, in conjunction with our external auditors KPMG. This change in accounting policy was implemented when producing the 2013/14 statutory accounts and has an impact on the management accounts in relation to depreciation. Component accounting in relation to our fixed assets has now been implemented and this has seen a reduction in the depreciation charge and in the released grant funding.
9. Budgets will continue to be carefully monitored, with income and expenditure forecasts made on a prudent basis, until accurate trend analysis can be established.

#### **Impact on tenants**

10. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants

#### **Risk Management Implications**

11. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.

#### **Financial Implications**

12. The financial implications are contained within the report.

#### **Equality and Diversity Implications**

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

#### **Value for Money Implications**

14. Regular financial monitoring and control will ensure efficiencies are maximised and then utilised in the most appropriate manner.

#### **Health implications**

15. There are no health implications arising from this report.

#### **Environmental Implications**

16. There are no environmental implications arising from this report.

#### **Consultation carried out**

17. There has been no consultation carried out in relation to this report.

## **Recommendation**

18. The Board's views are sought as to whether it is satisfied with the financial management of the revenue budgets for the third quarter of the 2014/15 financial year.

**Keelman Homes  
Management Accounts – December 2014**

### Executive Summary

- The overall management accounts for the third quarter of the 2014/15 financial year are shown below:

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Income	378,700	445,467	(66,767)	593,957	516,731
Expenditure	309,924	513,842	203,918	685,122	478,421
<b>Surplus/(Deficit)</b>	<b>68,776</b>	<b>(68,375)</b>	<b>137,151</b>	<b>(91,165)</b>	<b>38,310</b>

- The overall surplus at the end of the third quarter is £68,776 against an expected deficit budget of £68,375, giving a positive variance to budget of £137,151.
- The original budgeted deficit of £91,165 is now expected to reduce by the year end and we are forecasting a surplus of £38,310, a variance of £129,475. This is mainly due to a decrease in the forecasted cost of loan repayments in year, due to not drawing down new loan financing until October. No repayments were therefore due on the new loan compared to the two new loan repayments that were originally budgeted for.

### Income

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Rent	269,690	307,133	(37,443)	409,511	372,068
Service Charges	2,046	2,574	(528)	3,432	2,728
Shared Ownership Rent	22,310	24,389	(2,079)	32,519	29,747
Mgmt. of other Properties	54,421	46,605	7,816	62,140	72,647
Bad Debt	(6,143)	(6,143)	0	(8,190)	(8,190)
Void Loss	(764)	(3,071)	2,307	(4,095)	(1,788)
Release of grant funding	37,140	73,980	(36,840)	98,640	49,520
<b>Surplus/(Deficit)</b>	<b>378,700</b>	<b>445,467</b>	<b>(66,767)</b>	<b>593,957</b>	<b>516,731</b>

- Rental income received for Keelman Homes properties is currently £37,443 less than the budget for the first 9 months and is forecasted to remain under budget by the year end. The reduction in rent is due to 3 of the Empty Homes Initiative properties not being let until during the third quarter. The budget assumed that all of the properties would be let for the full year. The budget also assumed that the 9 properties at Runhead would be complete and let for 3 months of this financial year. This will now not happen due to site issues, further reducing the rental income forecast.
- Service charge income is less than budget year to date by £528 and is forecasted to be £704 less than budget by the year end. This decrease is due to fewer tenants than budgeted requesting discretionary services such as the gardening scheme and community alarms, for which they must pay a service charge.
- Shared ownership rent is currently £2,079 less than budget and we have forecasted that income for the year end will remain less than budget. The budget assumed all

13 properties would be sold by the start of the year and we would receive a full year's rental income, however only 10 had been sold at the start of the year. Further sales were completed in April and July, with the final property completing in November.

7. The income for management of other properties is a management fee we receive for managing properties that belong to other organisations. The fee is based on a percentage of the net rent and is currently £7,816 greater than the budget. This is due to some properties coming under management earlier than we had forecasted in the original budget. All properties that were expected to be handed over this year in the budget have now been handed over.
8. We have kept the bad debt provision at the budgeted level, which was 2% of the annual rental income. At this point, we see no need to increase or reduce this provision, however we will continue to monitor the level of arrears and adjust this provision, if necessary, going forward.
9. Void rent loss for the third quarter has only been £764 against a budget of £2,048. We have prudently forecasted that the void rent loss will be on budget for the remaining months of the year, giving a total loss by the year end of £1,788. It is likely that voids will remain low however and high demand for the new properties should see the void rent loss be lower than the currently forecasted figure by the year end.
10. The grant funding relates to Homes and Communities Agency (HCA) funding we have received for the new build properties at Kibblesworth and for the purchase and repair of properties through the Empty Homes Initiative. All HCA funding due has now been received for both the Kibblesworth properties and the Empty Homes Initiative Properties. Due to the decision to change reporting from the Charities SORP to the Housing SORP, the period over which we release the grant funding has increased from 50 years to 100 years. This is to match the period the structure of the properties are now being depreciated over and means the level of grant funding released this year is half of the budgeted amount.

## Expenditure

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Loan Interest Repayments	102,480	276,464	173,984	368,618	203,846
Repair Costs	6,815	9,903	3,088	13,204	10,116
Void Costs	1,288	9,903	8,615	13,204	4,589
Management Fee	14,063	14,400	337	19,200	18,750
Depreciation	143,984	189,850	45,866	253,133	191,979
Legal Costs	10,173	9,225	(948)	12,300	13,248
External Audit	8,435	4,097	(4,338)	5,463	9,801
Shared Ownership sale costs	4,700	0	(4,700)	0	4,700
Bank Charges	86	0	(86)	0	115
Leasehold Service Charges	903	0	(903)	0	1,204
NNDR	895	0	(895)	0	895
Subscriptions	425	0	(425)	0	619
CDMC Services	1,800	0	(1,800)	0	2,400
Marketing	500	0	(500)	0	500
Consultancy	4,162	0	(4,162)	0	5,549
HCA Audit Fee	0	0	0	0	895
Planning Fees	7,315	0	(7,315)	0	7,315
Award Ceremonies	400	0	(400)	0	400
HCA Grant Funding Fees	1,500	0	(1,500)	0	1,500
<b>Surplus/(Deficit)</b>	<b>309,924</b>	<b>513,842</b>	<b>203,918</b>	<b>685,122</b>	<b>478,421</b>

11. Loan interest repayments are agreed amounts for the duration of the loan. The first loan repayment was made in September 2014 and a further payment is due in March 2015. When setting the budget we had forecast that the draw down on the new additional loan in 2014/15 would be made early in the year and therefore two repayments would be required in year on this new loan. The new loan was not actually drawn down until October therefore no repayments will be made in the year on the new loan. We have reduced the forecast to £203,846 taking this in to consideration.

12. Repair costs for the third quarter are £6,815, which is £3,088 under budget. We have prudently forecasted that the next 3 months will come in on budget, however as many items will still be under warranty and the properties should remain in good condition, it is possible that further savings may be made from this budget by the year end.

13. Void costs for the third quarter are £1,288, which is £8,615 under budget. This cost relates to void works at one property, 23 Moormill on the Kibblesworth Estate. We have forecasted that the next 3 months will come in on budget giving a £4,589 saving for the year. However due to the low void levels at these properties, and the general condition of the properties, further savings may be made on this budget by the year end.

14. The management fee was agreed at a price per property for The Gateshead Housing Company to manage all of the Keelman Homes properties. We have removed the management fee for the 9 properties at Runhead as they will not be completed this financial year. We have assumed the properties currently being built will be completed as per the timescales used in setting the budget and therefore the cost will be as budget.

15. The depreciation charge is £45,866 under budget and is forecasted to be £61,154 under budget at year end. This is due to the implementation of component accounting following the change to reporting under the Housing SORP. Component

accounting means that each component of a property is depreciated over its individual life, rather than the whole property being depreciated at the same rate. We have also removed any charge for the properties at Runhead as they will not be completed in this financial year. The charge for the new build currently under development is based on the anticipated build costs. Once the properties have been completed, and we know the actual final build cost of the properties, we will be able to update the figure to the exact amount.

16. In the third quarter we have incurred £8,435 of legal costs which relate to the sale of a shared ownership property, purchase of empty homes properties and land transfers for the new build sites. We are expecting further legal charges later in the year from Gateshead Council who raise Legal Services recharges to Keelman Homes twice a year. We are expecting this budget to overspend at year end.

17. As a limited company, Keelman Homes must have its accounts externally audited each year. We have accrued the cost of external audit for 2014/15 based on the budget. The exact fee will not be agreed until near year end when planning begins with KPMG for the auditing of the accounts. The budget is currently forecasting to overspend due to additional costs incurred on the 2013/14 audit. This was due to the work required for the change from the Charities SORP to the Housing SORP and costs in completing a corporation tax return for the first time.

18. In order to assist in the sales of the remaining shared ownership properties we have employed the services of an estate agent (Reeds Rains) to advertise the properties on our behalf. On completion of any sale we have to pay them a commission for that sale. During the year, the final 3 shared ownership properties at Kibblesworth have been sold and incurred commission charges of £4,000. As part of the HCA requirements on sales of shared ownership properties we must get an independent valuation of the properties every three months. Due to the delay in selling the last few properties we have had to get the properties revalued at a cost of £150. We have also had the 6 properties we are planning to sell at the current development on The Lonnen site valued at cost of £550.

19. We have also incurred some minor bank charges for making CHAPS payments that were required when Keelman Homes purchased land at The Lonnen, one of the new build sites and 16A Brearley Way, an Empty Homes Initiative property. Whilst we try to minimise using CHAPS as a payment method to avoid these extra costs it is not always possible. We have also incurred bank charges for an audit report from our bank which KPMG requested as part of the external audit

20. Three of the properties that Keelman Homes purchased as part of the Empty Homes Initiative were former Gateshead Council properties located in a low rise block, meaning we have only purchased the leasehold of the property and not the freehold. As a leaseholder, we have to pay annual services charges to Gateshead Council to cover the shared areas of the building. The current forecast is based on the estimated service charge invoice we have received. We will receive an adjusted actual service charge invoice in the following financial year once all the costs are known.

21. We have had to pay National Non Domestic Rates (NNDR) for the new build site at Felling Library. When we took ownership of the site the library building was still standing meaning we were liable for business rates until demolition began.

22. Keelman Homes has subscribed to the North East Chamber of Commerce and the Independent Housing Ombudsman during the year. Both of these subscriptions will be annual costs going forward and will be built in to any future year's budgets.
23. Due to a lack of expertise internally, we have had to contract an external company to carry out the Construction Design Management Coordinator (CDMC) role on the new build sites. The cost for The Lonnen new build site is £2,400 and we have agreed a further fee of £1,980 for CDMC at the Runhead site. As this site is unlikely to progress this year, we have excluded these costs from the forecast.
24. The new build site at the Lonnen contains 6 properties for sale. In order to promote these properties, we have paid £500 for marketing material although we don't anticipate any of the sales to complete until next financial year. We are not expecting to incur any further marketing costs this financial year. We will need to include a marketing budget in future years if we are planning any further property sales.
25. We have employed the services of Judy Mackley, a Housing Funding Consultant, on an ad hoc basis to provide advice and guidance on grant funding issues and to correspond with the Homes & Communities Agency (HCA) on our behalf. As we lack this experience and knowledge in house, we will need to build these costs in to future year's budgets as we will continue to require expert advice.
26. We were required by the HCA to carry out a compliance audit this year. The audit has been carried out on the Empty Homes Programme during September/October by an independent consultant for an agreed fee. It is likely that we will be required to carry out further audits by the HCA in future years and therefore will need to build these costs in to future budgets.
27. In the third quarter we have incurred £7,315 for planning fees in relation to new build developments that will start next financial year at Heddon View and Malton Green. Planning fees will need to be paid on all future developments and therefore we will need to build in to future years budgets.
28. Keelman Homes was nominated and won an award from the Northern finals of the Local Authority Building Control Awards, for the best social or affordable new housing development with the Kibblesworth development. Winning this award meant we were entered in to the national finals and sent representatives down to London to attend the awards on behalf of the company. The cost of attending the awards was £150 per delegate. The Kibblesworth development also made the shortlist for the Northern Silver Screen Awards, again we sent delegates to represent the company at a cost of £50 per delegate.
29. We were able to obtain grant funding from the HCA via ESH to contribute towards the cost of rebuilding 73 Marian Court. The funding had been obtained from the HCA by ESH and they agreed to pass the funding across to Keelman Homes for a fee to cover their expenses incurred in obtaining the funding.



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**Title: 5 Year Financial Forecast**

**Report of: TGHC Head of Corporate Services**

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### **Purpose of Report**

1. To make a recommendation to the Board to approve the company's budget for 2015/16 and financial forecast for the 5 year period from 2015/16.

### **Background**

2. On 16 January 2014, the Board approved the budget for 2014/15 and was asked to note the estimated budgets for 2015/16 and 2018/19.
3. Since the budget was set in 2014, there have been some changes to the forecasted activities of Keelman Homes. The company is nearing completion on a programme of new build for 2014/15, with a further programme of new build due to commence in 2015/16. In addition, Keelman Homes has now taken on the management of other properties on behalf of other housing organisations. These activities have had a financial impact and a revised budget has now been set for 2015/16 as part of revised 5 year forecast.
4. A statement showing the proposed budget for 2015/16 – 2019/20 is attached at the Appendix to this report.

### **Proposed Budget - Income**

5. The income received into Keelman Homes is mainly the rental income for the properties. We have estimated the income based on the 2014/15 rents with an assumed annual rent increase of 2.2%.
6. The 5 year model assumes a scheme of 28 New Build properties in 2015/16, followed by 10 New Build properties in 2016/17 (6 rental and 4 sale). It is also assumed that there will be 6 Empty Homes developed per year, from 2015/16 to 2017/18.
7. Service charges have been assumed for the bungalows at Kibblesworth only, as the mix of properties for other new build schemes is not yet confirmed.
8. The shared ownership rental income is based on the current percentage of each property that has been sold. We have assumed that no staircasing will occur at any of these properties and rental income will increase by 2.2% annually. However, if any staircasing did occur the income will be treated as exceptional

income and held in reserve for future sales, therefore, this is not included in the budget. We have assumed that all future new build schemes will not contain any shared ownership properties.

9. The income for the management of other properties is based on all of the properties where we currently have management agreements in place. We earn an 11% management fee on rental income and it is assumed that there will be an annual rent increase of 2.2%.
10. The release of grant funding relates to the Homes and Communities Agency grant received for the Kibblesworth development and grants expected to be received for the Empty Homes and New Build properties going forward. Due to the change from reporting under the Charities Statement of Recommended Practice (SORP) to the Housing SORP, the period over which we release the grant funding is now 100 years. This is to match the period that the structure of the properties is being depreciated over.
11. We are currently assuming a 2% provision for bad debt and a 1% provision for voids.
12. Sales surplus in 2015/16 is from 6 properties at The Lonnen. These properties are currently under construction and it is assumed that they will all be completed and sold by the end of 2015/16. Sales surplus in 2017/18 is for 4 properties that are forecast to be built at West Park during 2016/17.

#### **Proposed Budget – Expenditure**

13. Employee costs are now included in the forecast in relation to the new Finance Manager who will be seconded to Keelman Homes from TGHC. Recruitment is also currently under way for a Keelman Homes Lead Officer. It is assumed that Keelman Homes will pay both these salary costs. An inflationary increase of 2.5% has been applied to salaries in future years.
14. The current loan repayments have been included at 6 monthly periods in line with the loan repayment schedule agreed with Gateshead Council. For the new loans required to fund the future New Build programme, we have based the repayments on the anticipated loan drawdown dates and the likely interest rate at this time, which has been provided by the Treasury Management Team at Gateshead Council.
15. The repairs and voids expenditure has been based on a prudent estimate of £150 per property for both repairs and voids. The properties will still be in warranty for part of the period and therefore repair costs may be less. An inflationary increase of 2.5% has been applied to future years.
16. The management fee has been budgeted for as an annual cost of £200 per property, as per the management agreement with TGHC. This management agreement will expire at the end of December 2015 and will be reviewed in advance of its expiry. It has been assumed that the base fee will remain at £200 per property per year for the purposes of the 5 year forecast; however an inflationary increase of 2.5% has been applied to future years.
17. Depreciation of the properties has been calculated based on component accounting, in-line with the Housing SORP requirements. Component accounting

means that each component of a property is depreciated over its individual life, rather than the whole property being depreciated at the same rate. The depreciation charge for New Build properties is based on the anticipated build costs.

18. Legal costs have been based on the 2014/15 forecast, with an inflationary increase of 2.5% for future years.
19. As a private limited company Keelman Homes must have its accounts externally audited each year. We have based the cost on the fee paid for the 2013/14 audit with an inflationary increase of 2.5% for each year. The 2014/15 fee is still to be confirmed.
20. In order to assist in selling properties at The Lonnen and West Park we have included costs for marketing and estate agents fees. These are assumed to be £1,750 per property.
21. Three of the properties that Keelman Homes purchased as part of the Empty Homes Initiative were former Gateshead Council properties located in a low rise block, meaning we have only purchased the leasehold of the property and not the freehold. As a leaseholder, we have to pay annual services charges to Gateshead Council to cover the shared areas of the building. The current forecast is based on the service charge invoice we have received for 2014/15, with an inflationary increase of 2.5% for future years.
22. To support the grant funding bids it has been necessary to hire some external consultancy services. It is expected that this will continue in the future. Costs have been based on the 2014/15 forecast, with an inflationary increase of 2.5% for future years.
23. During 2014/15 a number of other miscellaneous costs have been incurred, including bank charges, Construction Design Management Coordinator (CDMC) services, planning fees and subscriptions. It is expected that costs such as these will continue to be incurred in future years, so these have been built into the budget.

### **Proposed Budget – overall**

24. The overall budget position shows a surplus of £41,521 in 2015/16. The surplus is due to the sales income from the 6 properties at The Lonnen. Any delays on the sale of these properties beyond the end of 2015/16 would have a significant impact on the financial position in 2015/16.
25. The 5 year forecast shows that the company will make a deficit the following year (2016/17), but will produce a surplus from 2017/18 onwards. The reserves held by Keelman Homes will cover the deficit incurred during 2016/17.

### **Impact on tenants**

26. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants

### **Risk Management Implications**

27. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.
28. Progress on the sale of properties at The Lonnen will be closely monitored to reduce the risk of these slipping into the next financial year.

### **Financial Implications**

29. The financial implications are contained within the report and appendix.

### **Equality and Diversity Implications**

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

### **Value for Money implications**

31. Regular financial monitoring and control will ensure efficiencies are maximised and then utilised in the most appropriate manner.

### **Health implications**

32. There are no health implications arising from this report.

### **Environmental implications**

33. There are no environmental implications arising from this report.

### **Consultation carried out**

34. There has been no consultation carried out in relation to this report.

### **Recommendations**

35. The Board is asked to:
  - approve the revenue budget for 2015/16
  - note the estimated budgets for 2015/16 to 2019/20.

Budget	5 Year Forecast				
	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
<b>Income</b>					
Rent	531,266	718,791	798,393	838,933	857,390
Service Charges	2,982	3,047	3,114	3,183	3,253
Shared Ownership Rent	36,545	37,349	38,171	39,011	39,869
Management of other properties	78,184	79,904	81,661	83,458	85,294
Bad Debt	-10,625	-14,376	-15,968	-16,779	-17,148
Void Loss	-5,313	-7,188	-7,984	-8,389	-8,574
Release of grant funding	56,040	58,320	59,520	59,520	59,520
Sales Surplus	208,000	0	61,702	0	0
	<b>897,078</b>	<b>875,848</b>	<b>1,018,611</b>	<b>998,937</b>	<b>1,019,604</b>
<b>Expenditure</b>					
Staff and Overheads	-102,500	-105,063	-107,689	-110,381	-113,141
Loan Interest Repayments	-391,863	-451,615	-470,819	-466,364	-461,908
Repair costs	-17,835	-23,639	-26,168	-27,816	-28,511
Void costs	-17,835	-23,639	-26,168	-27,816	-28,511
Management Fee	-25,215	-31,834	-34,891	-37,088	-38,015
Depreciation	-248,556	-269,498	-280,807	-280,807	-280,807
Legal Costs	-13,579	-13,919	-14,267	-14,623	-14,989
Audit Fee	-5,673	-5,815	-5,961	-6,110	-6,262
Marketing & property sales	-10,500	0	-7,000	0	0
Leasehold Service Charges	-1,230	-1,261	-1,292	-1,325	-1,358
Consultancy	-5,688	-5,830	-5,976	-6,125	-6,279
Misc Fees & Charges	-15,083	-15,460	-15,846	-16,243	-16,649
	<b>-855,557</b>	<b>-947,572</b>	<b>-996,885</b>	<b>-994,698</b>	<b>-996,430</b>
<b>Surplus/(Deficit)</b>	<b>41,521</b>	<b>-71,724</b>	<b>21,725</b>	<b>4,240</b>	<b>23,174</b>



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**Title: Operational Risk Register**

**Report of: TGHC Head of Corporate Services**

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**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: -

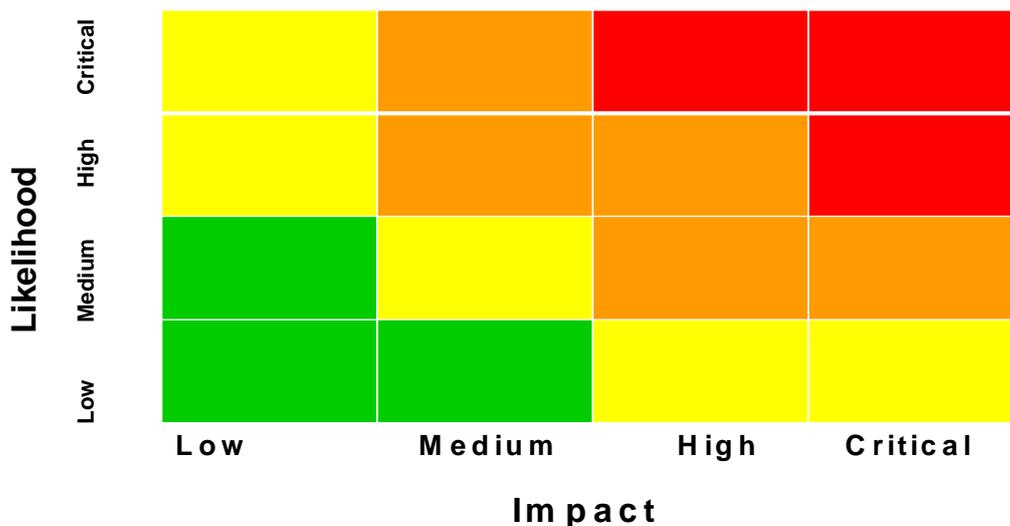
**Likelihood**

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

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 £100,000 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

Risk No	Risk	Likelihood	Impact	Owner	Residual Likelihood	Residual Impact
<b>Communications</b>						
COM1	Communication Issues	2	4	Ian Clarkin	1	3
COM2	Reputation tarnished if scheme outcomes not delivered	1	3	Ian Clarkin	1	2
<b>Development</b>						
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
<b>Finance</b>						
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
<b>Housing Management</b>						
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
<b>Human Resources</b>						
HR1	HSE Breach by Contractor	1	4	Jennifer Aston	1	4
<b>ICT</b>						
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
<b>COMMUNICATIONS</b>									
COM 1	<b>Communication issues</b> 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	<b>Reputation tarnished if scheme outcomes not delivered</b> 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
<b>DEVELOPMENT</b>									
DEV1	<b>Statutory Authority Risks (gas, water, electric, telecom etc)</b> 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

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	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	<b>Programme slippage</b> 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	<b>Project Management on site</b> 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	<b>Party Wall Risks</b> 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

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DEV5	<p><b>Security risks to properties, site and compound</b> 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><b>Achieving agreement on estate layout / traffic management / road names</b> 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><b>Scheme Appraisals not being accurate</b> 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	<b>Delay or inability to supply materials part way through programme</b> 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	<b>Environmental problems on site e.g. unknown contamination</b> 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	<b>Loss of Key Records</b> 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
<b>FINANCE</b>									
FIN1	<b>Budget issues - cost overrun</b> 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	<b>Financial impact from Contractor(s) failing</b> 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	<b>Cash Flow</b> 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	<b>Properties Left Unsold</b> 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	<b>Grant requirements fail to be met</b> 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

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FIN6	<b>Collection of Shared Ownership Charges</b> 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	<b>Inaccurate rent and service charge provision</b> 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
<b>HOUSING MANAGEMENT</b>									
HM1	<b>Cost of providing Housing Management Services to Other Landlords exceeds income from Landlords</b>	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	<b>Failure to deliver Housing</b>	Management agreement and SLA in place for	2	2	Julie McCartney	Complete all tenancy and estate	March 2016	1	2

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	<b>Management Services to Other Landlord Properties</b>	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	<b>Termination of Other Landlord Management Agreement</b>	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
<b>HUMAN RESOURCES</b>									
HR1	<b>HSE breach by contractor</b> 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

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<b>ICT</b>									
ICT1	<b>Failure to identify and implement ICT requirements</b> 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