

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED (the 'Company')**

Confidential	
For Information	
Board Report 31 March 2016	
Report title:	Chief Executive's Report
Authority for decision:	The Board has ultimate responsibility for monitoring the performance of the Company.
Recommendations:	It is recommended that the Board note the contents of the report.
Regulatory/legal requirements:	None.
Business Plan link:	Keeping abreast of performance initiatives within the organisation, and external development affecting social housing.
Equality Impact Assessment/comment:	Equality and diversity issues are taken into consideration.
Resident consultation:	N/A
Resource implications/VFM statement:	Keeping up to date on the latest developments in social housing is important for shaping the business. Improved performance will help the Company to achieve its VFM objectives.
Risk:	Failure to engage with the external housing sector could have an adverse effect on the Company in keeping abreast of developments within the sector. There is also reputational risk if performance fails to improve across the Company.
Appendices:	0
Total number of pages including appendices:	4
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1. CHIEF EXECUTIVE & CHAIR OF THE TMO BOARD'S DIARIES

Chief Executive

During January I met with Jonathan Cowie the new Chief Executive of CityWest Homes to look at strengthening our working relationship and to see if we have any opportunities to work together.

I also accompanied Councillors Press, Mackover and Marshall on a tour of Grenfell Tower and the Hidden Homes. They were impressed overall with the work we have done here.

The Executive Team, the Chair and I enjoyed an excellent afternoon and lunch with the KCTMO Senior Citizens Annual Party, which was attended by 200 residents and a great time was had by all.

Finally at the end of February I attended a lunch at the House of Lords to launch a new apprentice scheme for young people looking to work in housing and we will look to see how applicable this type of scheme is for our company.

Chair

The Chair and I along with the Fund Raising Group (Staff) visited Full of Life, the current TMO charity. They showed us around and spoke to us about how they will be spending the money we have raised so far for them, which to date is over £3,000.

The Chair has carried out a number of 1-1s with TMO Board Members and she has found this to be a really useful and has appreciated the time Board members have taken to enable it and looks forward to this continuing.

The Board

As part of the actions from the Board away day in November we have asked Radojka Miljevic of Campbell Tickell to carry out a piece of work on Board size and composition. As RBKC is a key partner, and has a right to nominate up to four appointees on our Board, they would need to agree to any changes in the current composition. The idea is for Radojka and I to meet with Cllr. Roc Fielding-Mellon and Laura Johnson to explore their appetite for change after Easter. This would give Radojka time to do some research and to review trends in Board size and composition, examining in particular trends in LSVT Boards (because they are a sister model to ALMOs), trends in ALMO Boards, and their experience of RP Boards. As we are a Tenant Management Organisation, she will also be specifically looking at how the sector of tenant-led organisations are responding to this issue. She would be looking to have this completed by mid-April to discuss with the Board in May so that any changes being proposed by the Board are consulted with the members (if so desired) and presented to the annual general meeting in September (with the voting commencing in August 2016).

The Chair has confirmed a running theme in her 1-1s with other members of the Board, which is a desire for another Board-only session to look at the Board's effectiveness. Considering the current timescale, it is suggested that this might be better left to the June away-days to be able to accommodate the time required to

have a productive session. Another option would be to hold this session on a Saturday with the expectation everyone attends however, this makes it quite difficult to organise.

We currently have The Lansbury in Teddington booked for the Board Away Days on Friday 10th June and Saturday 11th June which would give us time to consider Board size discussion and effectiveness session.

In the next few weeks we are trialling a facility with staff which will enable Board members to receive Board and Committee papers electronically, as well as share comments and information. If this is successful we will be providing Board members with tablets and the ability to use this facility. This would signal the end of the paper packs that we currently issue.

In addition with the new website which is currently in the planning stage, we are looking to provide a dedicated space with secure access for Board members to be able share information and comments, with a forum facility for discussing Board only matters.

2. PARKING

The new parking arrangements will go live at the end of April. The existing parking account holders were required to accept the new terms and conditions before their new permits were issued. An extensive communications exercise has been undertaken ahead of going live to help ensure that residents understand the new rules. Some estates are having acute problems with illegal parking; these will be targeted as a priority by the civil enforcement officers before scheduled patrols begin across all the included estates. Excluded estates will continue to be monitored with the option of including them in the traffic management orders if requested and/or required.

3. CUSTOMER FIRST CRM PROJECT

The Customer First CRM project is progressing well. Eleven work flows have now been completed and are being tested. The work flows will ensure collaborative and consistent services are achieved through a joined up approach across the whole of the TMO and Repairs Direct. Two staff have been seconded into trainer roles and a programme of training has now commenced. A further 30 super users have been identified across the business. The first phase of the project will improve the monitoring of customer interactions and business processes. This will provide a monitoring tool for management and staff.

4. EARL'S COURT YOUTH CLUB

A potential business offering has arisen for the TMO to deliver a youth engagement programme at the Earl's Court Youth Club.

Earl's Court Youth Club (ECYC) has been delivering generic youth services since late 1979. The Youth Club works with young people between the ages of 9-19 years and up to the age of 25 years with a disability. The aim of the Youth Club is to provide a safe and welcoming environment for young people of all abilities and

backgrounds to come and enjoy a wide selection of activities aimed at promoting personal, social and educational development. The Youth Club is funded by RBKC.

In June 2015, the Chair of the Trustees of the Youth Club, Roy Amlot QC, approached the Head of Resident Engagement to ask that the TMO take over the management of the staff of ECYC and deliver the youth service at the Club with effect from 1 May 2016. This would be initially for 1 year. At present the Youth Club delivers a Junior programme (9-13s) and a Senior programme.

There is a possibility that the contract could be extended beyond the initial one year period, depending on future funding and the TMO's performance.

5. FIRE AT ADAIR TOWER UPDATE

The fire at Adair Tower on 31st October 2015 broke out in a flat on the third floor causing significant damage and disruption to the residents living in the tower. The fire was started as a result of arson and the Police have arrested the alleged perpetrators and investigations are ongoing. The TMO has worked closely with the Police including the agreement to the provision of additional police patrols around the area to deter further incidents.

Tenants were relocated initially into emergency bed and breakfast placements and then the majority were relocated into temporary decant properties awaiting return to their flats at Adair Tower. Work in the damaged flats and lift lobby area is now virtually complete and tenants have moved back into their homes, have been relocated or are awaiting relocation to other properties in the borough. One resident is unable to return to their home due to ill health (not related to the fire).

Following the fire the TMO undertook fire risk assessments of both Adair Tower and Hazlewood Tower and completed the resulting actions identified.

The TMO/Council has been served with two Enforcement Notices as a result of the London Fire Brigade's (LFB) investigation and post-fire audit of Adair Tower and their subsequent audit of Hazlewood Tower (identical design and construction). One Enforcement Notice covers Adair Tower and the second covers Hazelwood Tower. The two towers were built in the early 1960s to the same design having two separate communal staircases – one being a designated means of escape staircase for use by anyone evacuating in the event of a fire or emergency and the other being the main accommodation staircase.

The key matters raised in the Enforcement Notices relate to the installation of self-closing devices on all flat entrance doors and the requirement to review the protection to each staircase and ventilation to the lobbies to ensure that the staircases are not affected by smoke and are available for use by residents and attending fire crews.

The TMO has agreed with the Council to fit self-closers to all flat front doors within both Adair and Hazelwood Towers and the fitting programme is due to commence shortly. Inspections will be carried out on all flat doors to assess the need to either fit the new self-closing devices and new door hinges or whether the whole door assembly and frame needs to be replaced. Residents will be sent a letter to request

an appointment for the inspection shortly. It is hoped that the work to fit the self closer and hinges can be done at the same time as the inspection.

Further, a specialist fire engineering consultancy has been appointed to undertake investigations and make recommendations for any necessary remedial action, improvements which are required to meet the LFB's requirements. A senior consultant has spoken to the LFB's Fire Safety Team Leader to clarify her requirements, has visited the site and carried out initial inspections of both blocks. Their full report has now been received and reviewed by the Executive. The proposed works which will include the boarding of the decorative open panels onto the accommodation staircase on each floor are to be costed before obtaining agreement from RBKC to go ahead.

The Health & Safety Manager provides regular updates to the LFB on progress with meeting the requirements of the Notices at the regular bi-monthly liaison meeting.

6. HEALTH & SAFETY UPDATE

The TMO Health & Safety Committee acts as a Group committee and meets on a bi-monthly basis. The Committee consists of staff members from Asset & Regeneration, Neighbourhood, Homeownership and Health & Safety and Office Services teams as well as senior Repairs Direct managers and staff representatives, and considers the following matters:

- Accidents and violent incidents;
- Fire safety and Fire Risk Assessments;
- Workplace health and safety;
- Health and safety KPIs;
- New or amendments to health and safety policies.

In the year from April 2015 to the end of January 2016 there were 26 reported accidents of which 7 were reported by staff and 19 by residents. The majority of accidents were trips, slips and falls with a small number being related to furniture or fittings falling onto victims. Two of the accidents were related to the fire at Adair Tower where 2 residents reported smoke inhalation and were admitted to hospital (both were released the same day).

In the same period there were 22 violent incidents reported ranging from verbal abuse by residents to staff and other residents to threatened and actual attempts of physical violence.

For the year to January 2016 KPIs are reported as follows:

- Gas servicing - % of properties with valid Landlords Gas Safety Certificate – 100% (Target 100%);
- Water quality (inspection & sampling) - 85% (Target 100%). Low result due to the difficulty in uploading certificates held by contractor. 100% compliance expected by the end of Q4;
- Electrical testing (% of homes with a valid certificate) - 96% (Target 100%)

The programme of comprehensive Fire Risk assessments is undertaken by our retained fire consultant with follow up and low level assessments being undertaken by Health & Safety team staff but due to long term sickness although the comprehensive programme is up to date with 283 assessments completed in the

year to date, the low level programme has been suspending awaiting the return to full fitness of the officer responsible.

Thirteen fires have been reported since 1st April 2015 – this includes Adair Tower. Of the remaining twelve ten were minor fires involving no injuries, one caused significant damage to property within a dwelling but no injury and in the final fire the elderly resident was admitted to hospital for several days with smoke inhalation.

The Committee has also reviewed and amended the Asbestos Policy and Asbestos Management Plan, the Gas Safety Policy and the Water Quality Policy.

A Health and Safety Audit undertaken by the RBKC Audit Team has just concluded with a rating “substantial assurance” awarded.

Work to identify an on-line self-assessment package for display screen workstation assessments has been undertaken and procurement of the preferred software is being progressed currently.

7. LOWERWOOD COURT

On 11th February 2016, RBKC Cabinet approved proposals brought forward by the TMO to lease the car park at Lowerwood Court for commercial development into a workspace office with auxiliary exhibition spaces and a café.

The car park is unlike other parking sites previously considered for conversion to commercial use, being laid out as a multi-storey car on ground, 1st and 2nd floors. Whilst its layout and structural constraints make the site unsuitable for residential conversion, it attracted considerable interest from commercial developers and the resulting agreement will see the developer invest in excess of £6m in the building, including using an internationally-renowned architect to design a new façade.

The site will then be used to provide ‘high-end’ workspace offices, hosting start-up enterprises, creative industries and venture capital. Full details of the lease are subject to commercial confidentiality but Board Members should note the rent agreed is at a high level and will substantively increase the value of the entire HRA commercial portfolio.

This will mean that a partially derelict space which is currently subject to recurrent anti-social behaviour, including serious gang activity, is comprehensively regenerated by a third party, offering substantive new HRA income over a long-term lease arrangement.

Moreover, as part of our agreement, the lessee has further offered to provide an enterprise support programme, by which local residents will be mentored and supported to establish businesses in partnership with RBKC’s Economic Development team.

8. GOVERNANCE –GROUP STRUCURE

In 2013 the TMO set up Repairs Direct, a wholly owned subsidiary established to provide a repairs service for RBKC. At that time formal agreements covering the operating arrangements between the TMO and Repairs Direct were put in place.

From a corporation tax perspective, Repairs Direct is considered to be a trading entity as its activities are being carried out with a view to making a profit and are therefore taxable. The trading argument is further supported by the agreements between the TMO and Repairs Direct as there is nothing to clarify what happens to any surpluses or losses generated in Repairs Direct.

In previous years, the TMO has been treated as non-trading and hence not taxable for all years from 31 March 2004 to 31 March 2013 in respect of the monies received through its management agreement from the Council (on the grounds that these transactions with the Council lacked the necessary degree of commerciality to amount to trading). This was on the basis that the budgets required approval from the Council and would be prepared based on the Council's Housing budget, which supports the contention that the TMO did not have the same risk and rewards as a normal commercial entity. Additionally the Memorandum of Association restricts how funds can be applied.

The new MMA makes it clear that the relationship between the TMO and the Council is somewhat different from that in the original agreement with clauses (MMA Volume 1 Chapter 5 section 10) making it clear that any surplus made "*may be used by the TMO for any purpose permitted by the TMO's constitution*" and staff employed by the TMO (with the exception of those originally transferred from the Council) will be employed under terms and conditions as decided by the TMO. The new MMA supports the fact that the TMO activity is considered akin to a commercial entity taking risks and rewards.

On this basis the corporation tax computations for both the TMO and Repairs Direct covering both 2013/14 and 2014/15 have been recalculated. The TMO return for 2013/14 has been split between the periods of trading and non-trading with the trading status change applied from the commencement of Repairs Direct on 1st September. The recalculated returns and the use of group tax relief have resulted in significant tax savings and £70k tax repayable over both years as set out below:

	2013/14 £	2014/15 £	Repayable £
TMO paid	26,087.40	56,844.49	
TMO payable	-	14,405.40	
TMO repayable	26,087.40	42,439.09	68,526.49
Repairs Direct paid	-	1,764.60	
Repairs Direct payable	-	-	
Repairs Direct repayable	-	1,764.60	1,764.60

These assumptions have been based on the current group structure and the tax payable based on tax losses within Repairs Direct being used to offset the TMO profits. However as the taxable profits in Repairs Direct increase this position will change and higher tax will be paid. It is for this reason a more tax efficient group structure is being considered. This will be presented to the Board later in the year.

9. CHANGEOVER TO UNIVERSAL CREDIT IS DRIVING PEOPLE INTO LONG TERM DEBT

In May Universal Credit (UC) will extend to all new claimants of jobseeker's allowance, employment and support allowance. It is currently paid to more than 175,000 claimants who are registered at 550 jobcentres across the UK and full transition is scheduled for completion by 2020.

The government says that Universal Credit will encourage personal budgeting, improve incentives to work, and respond flexibly to the transition into work. But research by Citizen's Advice and social housing landlords has found that the wait for initial payment, usually five or six weeks, can throw claimants into short-term crisis that often spirals into long term debt.

Sixteen Citizen Advice branches found that up to June 2015, almost 30% of their clients on Universal Credit had waited more than seven weeks for the first payment. When the money arrives, the bills get paid but the debt continues to take its toll.

When the National Federation of ALMOs (NFA), surveyed its members, who manage more than 500,000 council homes across England, on arrears in October and November last year, the policy director Chloe Fletcher had to double-check the figures. They showed that 89% of UC claimants in social housing had fallen into rent arrears, compared with 31% of all social tenants. "In my time researching rent arrears, I've never seen figures like that for a cohort of tenants," says Fletcher. She has worked in housing policy for 19 years.

The arrears often plague tenants for months, or even years, and they also pose an extra burden on social landlords and housing associations. New Charter Group, found that tenants on UC have seen arrears grow 14% on average since they transitioned onto UC. New Charter also estimates that once UC is rolled out to all its 7,500 eligible tenants, it could see a 25% increase in overall debt. Fletcher says that the financial stress of these arrears could mean cuts to new building plans, repair and maintenance services, or tenant support work.

In Sutton, South London, where a small digital pilot of UC is now under way, the council's social landlord is trying to mitigate major arrears. It tracks tenants who are moving on to UC, identifying those with a history of late payments, and advising them to request that housing fees be paid direct to the landlord upfront. In this setup, the claimants also forfeit 10%-20% of their remaining monthly allowance to gradually pay landlords back for existing arrears.

10. HOUSING BRIEFING: WHERE ARE WE WITH THE HOUSING BILL?

Rent decrease and its impact on Budgets: 2016/17 is when the first of the four year decreases starts. This process will have a negative £22m impact on the RBKC HRA Business Plan over the four years and substantially more when you look at it over the 30 year business plan. The initial position of the RPs (Housing Associations) was to announce substantial job losses and reviews to seek to reduce operational costs and maintain the surpluses they had in their business plan. This has had a focus on cutting resident engagement, reviewing the housing management services and looking at what could they stop doing. For the ALMO sector it is a wait and see the impact of all the changes coming from the new Housing bill

The Right to Buy (RTB) for Housing Associations: This is now voluntarily for the Housing Association sector and a pilot of 5 housing associations has been set up to see the impact and demand which seems to be coming out at around 7%

In the budget in March the Government announced plans to explore models for those in social housing who can not afford RTB, this could be a model where the £100k becomes an equity share along the line of shared ownership, with the resident then being responsible for repairs and a share of capital works.

The sale of high value voids:- the Asset Levy: This poses a substantial threat and impact on the HRA Business Plan and our organisation.

- This was linked to the RTB for Housing Associations, with the councils sale of assets paying for the £100k subsidy to the resident
- The Treasury is currently analysing information it has collected from all local authorities in England on land values and voids
- The feeling is this will translate into an upfront tax or asset levy on all Local Authorities who have retained their housing and it will then be up to them to work out how to recover this cost which would have to be built into the HRA Business Plan
- At this stage we do not know what the cost will be so it has not yet been built into the HRA Business Plan.
- However this could have a substantial impact on our long investment plans and see the council having to sell substantial amounts of property to fund this which in turn could have an impact on our management fee and our services. We are now seeing civil servants separate this levy from the RTB, and saying overall it is not right that councils should have all this money tied up in its assets and it should be used in a better way to build new homes. The expectation is it will start in the financial year 2016/17

Pay to stay: The government position is that people living in social housing who have incomes of higher than £40k in London (£30k outside) are being subsidised to the tune of £3,500 and pay to stay is a policy which will address this.

- The DCLG has consulted Local Authorities and Housing Associations on the costs and how to administrate this process which we have jointly worked on with RBKC. At this stage we have no idea of time scale.
- This will be voluntarily for Housing Associations and if they do it they will be able to keep the extra income to put towards development of new homes
- It will however be mandatory for Local Authorities and the money raised will not go to the HRA Business Plan but to the Treasury to reduce the national debt

- Everybody has commented that to make this proposal work HMRC will have to provide Councils with the information to be able to carry out this policy
- Research by Savills and the Local Government Association (LGA) estimate it could impact on around 86,000 residents across England
- Latest reports in the press state that the Government is cooling on this due to the EU referendum which has slowed down a lot of the governments work whilst Ministers campaign on this subject however it was included in the budget in March where it talks about having a taper between social rent and market rent so

5 year fixed tenancies: This is not an issue for RBKC or the TMO as RBKC have already introduced 5 year fixed tenancies. However lots of local authorities have not and will be mandatory unlike Housing Associations for whom it will be voluntarily.

Starter Homes and Section 106 agreements: Starter Homes is a new product announced by the Government which aim to offer new homes developed by the private sector at 20% below market rate.

David Cameron announced that developers will be able to choose to deliver affordable homes to buy as part of Section 106 instead of affordable rented homes. More precisely, this confirmed that Starter Homes will be included within the definition of affordable housing in the National Planning Policy Framework. We understand that planning guidance will be amended to ensure that local authorities are 'flexible' over what type of affordable housing is delivered under Section 106.

The change is likely to see developers increasingly deliver Starter Homes themselves, instead of homes for affordable rent and shared ownership with housing associations. There are well-documented fears that these homes won't be affordable for many low-to-middle income households, and with 37% of affordable housing delivered through Section 106 in 2013/14, we think it could significantly reduce the number of genuinely affordable homes built.

In spite of this, the introduction of Starter Homes may mean there is less scope for developers to negotiate down affordable housing contributions on the grounds of viability. Delivering all Section 106 affordable housing as Starter Homes would significantly increase sales risk, so we would also expect many developers to continue providing homes for affordable rent and shared ownership, due to the guaranteed and early cash flow they provide. It is also worth remembering that housing associations will be able to replace Right to Buy sales with social or affordable rented homes.

Conclusion

This is a changing and challenging time for those operating in a social housing context overall

For local Authorities, ALMOs and TMOs the changes when put together will have a substantial impact on all HRA Business Plans going forward. The Housing bill splits

the sector with Housing Associations now being in the position of most of it being voluntary while for Local Authorities these changes are on the whole mandatory.

The asset levy looks more like a tax on councils who continue to manage their homes as they are not seen by the government to be maximising their assets to help build homes for the future. Until we know the cost of this levy is is hard for RBKC and Local Authorities in general to understand the impact on the HRA Business Plans and how this shapes our business going forward.