



**THE ROYAL BOROUGH OF KENSINGTON AND
CHELSEA TENANT MANAGEMENT
ORGANISATION LIMITED**

BOARD MEETING

Tuesday 10 January 2017, 6.30pm

**Board Room, 3rd Floor, 346 Kensington High
Street, W14 8NS**



**The Royal Borough of Kensington and Chelsea
Tenant Management Organisation Limited
(the "Company")**

AGENDA

Meeting of the Board of Directors ("Board") of the Company
to be held on Tuesday 10 January 2017 at 6.30pm
at Board Room, 346 Kensington High Street, London W14 8NS

Agenda Item	Report Name	Presenter	Action	Enclosure
PART A - OPEN				
1.	Notice, Apologies ¹ and Quorum	Chair	-	-
2.	Declarations of Interest ²	Chair	-	-
3.	Appointment of Council-Nominated and Independent Board Members	Yvonne Birch Executive Director of People, Performance and Governance	Decision	✓
4.	Minutes of the meeting held on 24 November 2016	Chair	Approval	✓
5.	Matters Arising <i>There were no matters arising – 24 November 2016</i>	Chair	-	-
6.	Chair's Report	Chair	Information	-
7.	Chief Executive's Report	Robert Black Chief Executive	Discussion	✓
PART B – CONFIDENTIAL				
8.	Minutes of Confidential Meeting held on 24 November 2016	Chair	Approval	✓
9.	Matters Arising	Chair	Discussion	✓
10.	Group Budget 2017-2018	Rupa Bhola Assistant Director of Financial Services	Decision	✓

11.	HRA Budget Report 2017-18	Barbara Matthews Executive Director of Financial Services & ICT Steve Mellor Head of Finance, RBKC Department of Housing	Decision	✓
12.	Procurement Policy	Sacha Jevans Executive Director of Operations	Decision	✓
13.	Appointment of External Auditor	Barbara Matthews Executive Director of Financial Services & ICT	Decision	✓
14.	Committee Membership Update	Company Secretary	Approval	-
15.	Draft Committee Minutes: <ul style="list-style-type: none"> Finance, Audit and Risk Committee 7 December 2016 Draft Subsidiary Company Minutes: <ul style="list-style-type: none"> Repairs Direct Ltd 15 December 2016 	Company Secretary	Information	✓
16.	AOB	Chair	-	-
17.	Date of the next meeting: Thursday 30 March 2017			

Notes:

- (1) Board Members can send their apologies to the Company Secretary by email or by calling on [REDACTED]
- (2) Every member of the Board has a duty under Section 182 of the Companies Act 2006 to declare any interest in any transactions or arrangements with the Company under consideration, or section 177 of the Companies Act 2006 to declare any interest in any proposed transactions or arrangements with the Company under consideration in accordance with the Company's Articles of Association. Any interests should be declared to the Company Secretary at, or before the meeting. A person who has declared an interest will neither attend the discussion leading to a decision on the conflicted matter nor vote on it.

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

Open	
For Decision	
Board Report 10 January 2017	
Report title:	Board Membership Matters
Authority for decision:	The Board has a duty to ensure that the Company complies with its Constitution.
Recommendations:	<p>It is recommended that the Board considers this report and passes the following resolution:</p> <p>“It was RESOLVED:</p> <p>(a) to appoint TBC for a term of three years, as a Director of the Company according to 30.3 of the Constitution, subject to his signing the Terms of Appointment;</p> <p>(b) to re-appoint Anthony Preiskel for a term of three years as a Director of the Company according to 31.4 of the Constitution; and</p> <p>(c) that the Company Secretary updates the register of directors and files the appointment at Companies House.”</p>
Regulatory/legal requirements:	<p>The Board is responsible for ensuring compliance with the Constitution of the Company.</p> <p>The Modular Management Agreement (MMA) grants RBKC the right to nominate up to four members of the Board.</p>
Business Plan link:	Not Applicable
Equality Impact Assessment/comment:	The provisions of the Equality Act 2010 have been complied with in the recruitment process.
Resident consultation:	Not Applicable
Resource implications/VFM statement:	The Recruitment process was funded from the budget set by the Company.
Risk:	<p>Vacancies on the Board may result in a skills/experience gap which could impact the effectiveness of the Board.</p> <p>Undertaking the recruitment of Board Members is according to the provisions of the Constitution of the Company and results in no risk to the Company.</p>
Appendices:	None
Total number of pages including appendices:	3
Name, position and contact details of author:	Truda Scriven, Interim Head of Governance & Company Secretary, Ext [REDACTED]

1 EXECUTIVE SUMMARY

- 1.1 According to Article 30.1 of the Constitution, RBKC may nominate up to four Board Members. Following the resignation of Jeff Zitron with effect from 27 May 2016 the Board is invited to consider the nomination of the Royal Borough and to appoint TBC to fill the current casual vacancy.
- 1.2 Further to Article 31.1 of the Constitution, the Board may appoint up to three persons to be Independent Board Members. Anthony Preiskel has completed his second three-year term and has indicated his willingness to stand for a third, and final, term. The Board is invited to consider the recommendation of the Appointments and Remuneration Committee that the Board re-appoints Anthony Preiskel as an Independent Director of the Company.

2 BOARD VACANCIES

- 2.1 The Board will note that there remains one unfilled casual vacancy arising this year according to the provisions of 30.3 of the Constitution (Council-Nominated Board Members). The Company received written notice of resignation from Jeff Zitron with effect from 27 May 2016 who was a Council-Nominated Board Member.
- 2.2 There is also one re-appointment of an Independent Board Member position under consideration as a result of the end of the second term of Anthony Preiskel at the meeting on 10 January 2017.

3 FILLING THE VACANCIES

- 3.1 **Council-Nominated Board Member** - under the powers in its Terms of Reference, as delegated by the Board (Article 35), the Appointments and Remuneration Committee undertook a recruitment exercise using Gatenby Sanderson as the retained consultant. As a result of this exercise the Committee was able to provide RBKC with a shortlist of candidates to interview for their nomination to the Board. These interviews were conducted on 5 January 2017 and TBC has been nominated for appointment.
- 3.2 **Independent Board Member** – in accordance with 31.2 of the Constitution an Independent Board Member shall be appointed for a period of up to 3 years at the end of which he shall retire as an Independent Board Member but may, subject to Article 27.4, be eligible for appointment for a further period. Anthony Preiskel has been recommended by the Appointments and Remuneration Committee for re-appointment by the Board as a Director of the Company.

4. BIOG OF RBKC NOMINEE

To be completed once Nominee confirmed

5 CONCLUSION

- 5.1 The Board is invited to pass the following resolution:

It was **RESOLVED**:

- (a) to appoint **TBC** for a term until the morning of the AGM in 2017, as a Director of the Company according to Article 30.1-30.4 of the Constitution, subject to his signing the Terms of Appointment;
- (b) to re-appoint Anthony Preiskel for a term of three years as a Director of the Company according to 31.4 of the Constitution; and
- (c) that the Company Secretary updates the register of directors and files the appointment at Companies House."

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

Minutes of a meeting of the Board of Directors ('**Board**') of the Company held
on the 24 November 2016 at 6.30pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

Resident Board Members Fay Edwards (Chair)
 Alan Barnett
 Anne Duru
 Sharon Price

Council-Nominated Board Members Judith Blakeman

Independent Board Members Simon Brissenden
 Anthony Preiskel

APOLOGIES: Mary Benjamin, Maighread Condon-Simmonds,
 Maria Escudero-Barbaza, Paula Fance, Minna Korjonen and
 Derek White

IN ATTENDANCE:	Robert Black	Chief Executive
	Yvonne Birch	Executive Director of People, Performance & Governance
	Sacha Jevans	Executive Director of Operations
	Barbara Matthews	Executive Director of Financial Services & ICT
	Stuart Hill	Director of Policy and Performance
	Peter Maddison	Director of Assets & Regeneration
	Rupa Bhola	Assistant Director, Financial Services
	Janet Seward	Policy Adviser
	Graham Webb	Managing Director, Repairs Direct Ltd
	Amanda Johnson	RBKC Head of Housing Commissioning
Truda Scriven	Interim Head of Governance and Company Secretary (Minutes)	

OBSERVER: Richard Keenan Board Member Candidate

1 NOTICE, APOLOGIES AND QUORUM

- 1.1 Notice of the meeting had been issued to the members of the Board entitled to receive notice and attend board meetings.
- 1.2 Apologies had been received from Mary Benjamin, Maighread Condon-Simmonds, Maria Escudero-Barbaza, Paula Fance, Minna Korjonen and Derek White.
- 1.3 The meeting was quorate according to the provisions of the constitution of the Company.

2 DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest in conflict with the items on the agenda. All declarations of interest were noted as being held on the Register of Director Interests.

3 MINUTES OF THE MEETING HELD ON 29 SEPTEMBER 2016

- 3.1 The minutes of the meeting held on 29 September 2016 were APPROVED as a true and accurate record of the meeting.

4 MATTERS ARISING

- 4.1 There were no matters arising from the meeting held on 29 September 2016.

5 CHAIR'S REPORT

- 5.1 A report had been circulated informing the Board of the Chair's activities while representing KCTMO since the last Board meeting.
- 5.2 The Chair highlighted the key events and meetings she had attended on behalf of KCTMO.
- 5.3 The report would now become a regular part of the Board agenda and was NOTED.

6 RBKC MID-YEAR REVIEW REPORT

- 6.1 The Mid-Year Review Report, conducted by RBKC for April to September 2016, had been circulated and was presented by Amanda Johnson, RBKC Head of Housing Commissioning.
- 6.2 The KCTMO (Housing Revenue Account) Performance Agreement was reported to the RBKC Scrutiny Committee on 13 July 2016. This had set the performance framework for monitoring for 2016-17 and was subject to review on a six monthly basis.
- 6.3 It was reported that in the first six months of 2016-17 KCTMO was working steadily towards the outcomes identified in the 2016-17 Performance Agreement. For the benefit of the newer Board Members it was stated that the Performance Agreement brought together a range of KCTMO's housing management activities and the key performance indicators monitored by the Council which measured the levels of achievement. It also

provided any updates on joint work by KCTMO and the Council to meet strategic priorities in terms of finance, regulation and asset management as well as the day-to-day management functions, on-going projects and the other business functions as set out in the Business Plan.

- 6.4 The Head of Housing Commissioning for RBKC was pleased to report that performance against the key indicators showed that Repairs Direct, re-let times and Homeownership collection rates were meeting quarterly targets. The rent collection performance had a strong start to the year and, although it had dipped below target in September, it would recover in quarter three. The capital programme was being re-profiled to reflect the approach being taken for the replacement of lifts and windows.
- 6.5 In conjunction with the Council, considerable work had been undertaken on welfare reform. This had included the introduction of Universal Credit and getting people back in to training or work. KCTMO was supporting the Council's ambitions to diversify the tenure of the housing stock, bring in investment through the commercial portfolio and promote digitalisation to residents. Health and safety remained a high priority and involved in-depth work with the London Fire Brigade and emergency planning with the Council.
- 6.6 The RBKC Head of Housing Commissioning was thanked for her attendance and for providing the Board with assurance that KCTMO was meeting the performance indicators in the key areas that formed the service delivery plan for the Council and KCTMO.

Amanda Johnson left the meeting

7 PERFORMANCE REPORT – QUARTER 2 2016-17

- 7.1 A report to update the Board on Quarter 2 Performance had been circulated.
- 7.2 The following areas were highlighted:
- It has been another positive quarter for Repairs Direct, with all targets achieved for the period.
 - Voids & Lettings - during quarter two there were 84 lettings, 58 of which were for general needs homes. The targets for the average number of days to re-let a general needs home and void rent loss had both been met.
 - Gas safety compliance ended the period at 100%.
 - Complaint responses were below target for the period but had met target since August 2016.
 - Customer Service Centre - during the quarter the call centre answered 95.19% of calls, with 74.26% answered within 30 seconds.
 - Resident Engagement - all targets for key resident engagement performance indicators were met for the quarter.
 - Anti-social Behaviour - a total of 85 new ASB cases were reported to the TMO.
 - Home Ownership - the arrears targets for service charge and major works for the quarter had been met.
- 7.3 The Performance Report for Quarter 2 was NOTED.

8 CHIEF EXECUTIVE'S REPORT

- 8.1 The report to the Board from the Chief Executive had been circulated.
- 8.2 The report set out information particularly relevant to the sector in order to inform the Board about how the business would be shaped by the latest developments in social housing. KCTMO accessed this information as it was part of the link process between the National Federation of ALMOs (NFA) and the Association of Retained Council Housing (ARCH). Together, the NFA and ARCH represented over 1.2 million council homes, one third of the social housing in England.
- 8.3 The Board was informed that there were several provisions of the Housing and Planning Act 2016 where the detailed approach to implementation was yet to be specified in secondary legislation. 'Pay to Stay' was now voluntary for Councils to adopt and RBKC had confirmed that it would not be doing so.
- 8.4 The works required by the London Fire Brigade Enforcement Notices were successfully completed within the extended timescales agreed with the LFB. The Fire Risk Assessments for these blocks were also comprehensively reviewed at the conclusion of the work and the LFB provided with all relevant documentation. The LFB Inspecting Officers undertook their post-Notice inspection at Adair Tower on 28 September 2016 and at Hazlewood Tower on 15 November 2016 - formal notification of the outcome of these inspections was awaited.
- 8.5 The location of 400 CCTV cameras on the estate had been digitally mapped. It was confirmed that all requests for CCTV footage from the Police had been successfully delivered. These had been instrumental in resolving some crimes in the Borough including an incident at Grenfell Tower.
- 8.6 A Project Manager had been appointed to lead on developing the new website. The new website would allow residents to fully engage and participate in services online.
- 8.7 The Chief Executive's Report was NOTED.

.....
Chair

.....
Date

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED**

Open	
For information	
Board Report 10 January 2017	
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:	7
Name, position and contact details of author:	Robert Black, Chief Executive Ext [REDACTED]

1. HOUSING MARKET

I have attended a couple of Saville's seminars and conferences on the Housing market and the state of the nation. Overall the view was one of difficult to call but they did feel that London had overheated as a market and they thought we would see the markets West, North and South providing better value, with people choosing to have a longer commute to get an affordable home. The projection however was still for rents in London to increase by 25% over the next five years. The big changes they outlined were the impact on the buy to let markets with additional tax implications and more regulation from the Bank of England would see this market reduce by 33% over the five years and a similar impact on cash buyers as the impact of stamp duty and other government decisions make an impact on this sector.

They also published a piece about capacity in the sector. They say Housing Associations (HAs) have the financial capacity to more than double their output and bring forward 44,000 extra new homes by 2029 through additional asset-backed borrowing. Some form of subsidy is critical to deliver these homes across a range of tenures and to achieve affordability. In the absence of grant, HAs would need to secure land at zero or low value to deliver shared ownership or affordable rent housing. Almost half of the additional financial capacity to become a new class of home builder rests with large scale voluntary transfer (LSVT) associations, particularly larger ones. The structure of HAs also allows for continuing housing delivery through housing market cycles. Their existing stock provides an ideal asset to borrow against during periods of tighter development funding. Opportunities for growth exist in most areas, particularly where there is activity linked to inward investment, infrastructure spending and the Devolution agenda.

They have also highlighted areas where limited developer diversity provides opportunities for HAs to compete. However, there are significant barriers including: skills shortage, lender attitudes and regulatory concerns. Greater collaboration within the sector is key. This is likely to include more mergers and innovative partnerships. To access this capacity those Housing Association Boards and Executive would need to re-visit their Business Plan and risk map to achieve this. At the same time some of the big HA developers have been downgraded by the rating agencies because of the exposure to the for sale market, which they are using to cross subsidise their affordable rent programme.

2. MARKET CONFIDENCE

In the Social Housing Magazine, they reported that Housing Association leaders are more confident about the future since the formation of Theresa May's government, but still rank welfare reform as the biggest risk to their businesses and tenants.

The views are revealed in an exclusive survey of 120 senior housing professionals by Social Housing and Lloyds Bank, one of the sector's leading lenders. It found that 44 per cent of people are more confident in the future of the social housing sector since the new UK government was formed, while 37 per cent said their views about the sector were unchanged. Nineteen per cent reported a drop in confidence. Some respondents pointed out that the May government sees housing associations 'potentially as part of the solution, rather than part of the problem', with a feeling there is 'a better realisation that we need a mixed supply of tenures to meet housing demand'.

Both of these sentiments were reinforced by Chancellor Philip Hammond during his autumn statement in late November (see p.2), which set out a plan to grant fund a mix of tenures rather than just ownership products. However, three areas that have not been fully addressed by the new government are also the greatest risks for housing leaders: including welfare reform, the social and affordable rent cut, and applying the local housing allowance cap to social housing.

While the UK's vote to leave the EU has not impacted build plans, the survey reveals that a third of respondents do not intend to build social rented housing in the next 12 months, with most focused on affordable rent. Of those that answered, the majority also thought there are too many housing associations in the sector, with a number specifying they believe there are too many inefficient or underperforming organisations. The results come from research conducted in November 2016 with Lloyds, which has £13bn of lending in the sector. Respondents were made up of chief executives, finance directors and development directors. A fifth of these were from HAs with 1,000 homes or less, while the majority had up to 20,000 homes and a quarter were groups with more than 20,000 homes.

3. THE NATIONAL HOUSING FEDERATION (NHF)

The NHF were positive about the Chancellor's announcement about the way the Government will invest in affordable housing, with funding increased with an additional £1.4bn of flexible funding to build 40,000 new affordable homes and relaxed restrictions on how affordable housing funding can be used, allowing HAs to build a range of tenures to meet different people's needs. These were the two most important things the NHF had identified that would help the sector deliver more affordable homes, and reflect the key asks we put forward in their Autumn Statement submission.

Developing housing associations highlighted greater flexibility on tenure would have allowed them to bid for 60% more funding from the Shared Ownership and Affordable Homes Programme, and HAs now have the scope to build much-needed homes to rent as well as buy. This is thoroughly welcome and the NHF are delighted that the Government has listened and responded on these issues.

The Chancellor also announced £2.3bn of new infrastructure funding specifically to unlock land for up to 100,000 new homes in high demand areas. Historically this has been a major blockage for local authorities and builders and the main concern of residents who did not want the development.

4. HOUSING ASSOCIATION VOLUNTARY RIGHT TO BUY (VRTB) AND THE SALE OF HIGH VALUE VOIDS

In the Autumn Statement the Chancellor announced £200m of funding for a regional pilot of the VRTB scheme. This pilot will last for one year and will test two critical pillars of the original agreement that weren't tested in the original pilot, one for one replacement and portability – that is, in the event that a tenant cannot purchase their current home, the option to port their discount to an alternative property of their own or another willing housing association.

The new pilot will also test the application of the VRTB guidance, which is the policy that details how the scheme will operate and has been jointly designed by housing associations, the National Housing Federation and the Government. This will be made available to all housing associations at least three months before the pilot begins to ensure associations have sufficient time to prepare. Testing these elements will build on current work and allow an understanding of how replacements and portability can work effectively for tenants and housing associations, enabling a smooth experience for tenants once VRTB is rolled out more widely. It is likely that the pilot will run in 2017/18. However, further details are awaited from the Government on the region that the pilot will take place in and the eligibility criteria for tenants.

The Government has been clear that it is committed to delivering the VRTB scheme and these plans to test crucial parts of the deal over the course of a year underlines this commitment. Linked to this the Government has confirmed and written to all Local Authorities that the sale of high value assets would not need to be budgeted for in 2017/18 and have currently not set a date for this. .

5. THE MAYOR AND THE GREATER LONDON AUTHORITY

Housing Associations in London are poised to enter “strategic partnerships” with City Hall, as Sadiq Khan’s overhaul of affordable housing funding was hailed as a “defining moment in housing history”. The mayor of London published his first affordable housing prospectus in early December, offering fixed grant rates of £60,000 for low-cost rent and £28,000 for rent-to-buy and shared ownership. Mr Khan will only offer these top grant rates to providers willing to build 50% affordable across their entire portfolio and will enter into “strategic relationships” with certain major providers able to build at least 60% affordable. James Murray, deputy mayor for housing, said this would involve a formal sharing of “risk and reward” on developments, and would likely be offered to “large housing associations”. He said the Greater London Authority (GLA) remains “flexible” about how it would structure these, and did not rule out formal joint ventures.

Overall this is positive news about Housing and affordable housing in particular but the role of the Local Authority as a developer is still not so clear and it will be interesting to see how this develops over the next few months

6. ENSURING PROPER USE OF RUBBISH CHUTES

Across our estates we have a continual problem of our rubbish chutes being blocked and residents complaining to either councillors or our self. To try to give this a bit more profile and to get across to residents a shared ownership of this problem we have set up the Chute group led by Derek Singleton from Repairs Direct. This has now had two meetings and we recently visited Warrick Road with two councillors as this was raised by the RA. What was clear on the visit was that we need to work together to resolve this. We will be developing some articles for Link and will see if we can trial some ideas which come out of the group

7. HIDDEN HOMES

I recently visited our latest home at Holmefield House where we have developed a one bed flat which is now complete and on budget. This was off a good size and will be let to someone off the housing list at social rent.

The scheme at Tavistock is now being developed and the team are working with our residents to overcome concerns about site security and how to get the materials in and out without causing too much disruption as it is a tight site with only one access point, this will develop some new homes.

8. NATIONAL GRID AND GAS SUPPLIES

Further to recent queries in relation to residents' gas supply being cut off and concerns relating to cooking over the Christmas period, the list of sites below are currently those affected. Although on some sites the supply may be for the entire blocks not all properties may use gas for cooking therefore the number of homes affected may be lower than the number of homes in the block. In addition, this does not cover leaseholders as we do not hold records of their gas supply/method of cooking.

At the time of gas shutdowns National Grid provide residents with electric hobs and temporary heating if required; in addition, they provide compensation up to £1000 depending on the length of shutdown; however, this is paid out directly once the issues have been resolved.

Homes affected:

Grenfell Tower – 20 homes affected – cut-off date 30/9/2016 - cooking only
National Grid proposal was approved in principle during the week before Christmas however due to the complexity of the works this will not be completed before Christmas.

Chesterton Square – 21 homes affected – cut-off date 10/11/2016 - cooking only
Reinstatement won't take place before Christmas.

Berenger Tower – 27 homes affected – cut-off date 9/10/16 - cooking only
Reinstatement due for completion before Christmas.

Wiltshire Close – 6 homes affected – cut-off date 8/11/16 - heating & cooking

Although we have no direct responsibility for the gas supply it can take a number of months for supply to be reinstated on complex blocks and it is challenging for us to provide meaningful updates other than when supplied by National Grid.

As it is coming up to Christmas one of the residents at Chesterton Square has suggested residents are supplied with mini ovens; it is not practical for us to hold a stock of these to loan to residents as they would require PAT testing, cleaning, storing and transport after each outage and does not provide residents with a choice.

We have identified a couple of options which could be considered:

1. Provide residents with Curry's voucher to allow them to purchase something on a temporary basis or something to support them in the longer term (combined microwave ovens are around £120)
2. Offer compensation for a similar value which residents could spend as best suits them (appliances at a different supplier, second hand items or a meal out)

Both options would contribute to a new electric cooker if they decided to permanently move away from gas cooking.

The gas supply pipe work within the borough is all of similar age and now appears to be failing more regularly.

If we were to offer residents £120 compensation at the outset of long term outages this may reduce the level of enquires when this does occur and offer residents choice from the outset however could escalate cost wise going forward when this is a service which National Grid are responsible for and provide compensation to residents. For example, if we were to offer this to the currently affected residents this would be in the region of £9,000 which could be accommodated within the current forecast.

9. KCTMO PERSONAL DEVELOPMENT ACADEMY

The KCTMO Personal Development Academy offers tenants and leaseholders the chance to enhance their skills through a series of free and engaging training workshops.

The workshops cover a range of topics and skills that would benefit any attendee in either their personal or professional lives. The workshops are free and open to all residents who are over 18 and either a KCTMO tenant or leaseholder.

Workshops will be held on a range of dates throughout 2017/18 and include:

- An introduction to Social Housing
- DIY tips
- Getting your point across
- How to be effective at meetings
- Charing skills
- Ideas into action
- Presentation and public speaking skills
- Dealing with conflict and disagreement

10. TMO LIVE – 2017

Following the enormous success of the TMO Live event which was held on Lancaster Green in May 2016, the team are busy planning a similar event in the south of the borough.

We are investigating potential locations for the event near World's End to take place on a Saturday during March 2017. Once the venue is agreed we will be able to provide more details.

11. SUCCESSFUL UP YOUR GAME PROJECT FINISHES FOR THE YEAR

On the 5 November, the extremely successful Up Your Game project, which we ran with Chelsea Football Foundation coaches, came to an end. From April to November 2016, 165 children from the local area, including 53 TMO residents took part in a total of 864 hours of free, professional football sessions.

Following the project, one young lady has been recommended to the Chelsea Football Development Centre and one young man has potentially been discovered to progress to the FA Football Coaching programme.

We gave free VIP Arsenal tickets to a lucky young person called Simon because he showed such commitment by turning up every week and behaving immaculately. Consequently, because all of the young people wanted the tickets, it showed them that good behaviour is rewarded.

The project received very positive feedback from residents of Appleford and Bosworth House. They said how wonderful it was to see children enjoying themselves and being kept occupied whenever they passed the pitch on a Saturday. The project restarts in April 2017.

12. YOUTH ENGAGEMENT PROJECT

One of the main focuses for the Youth Engagement Project, which engages with 14 to 19 year olds, is to address the need for young people to acquire work skills and training. We at the TMO want to help and support our young people as much as we can on their chosen path to give them a real advantage.

In November, two young people from our Youth Engagement Project, successfully completed two-week's work experience here at the TMO with Repairs Direct. They shadowed our carpenters, plumbers and electricians and gained some very valuable work experience in the process. Although both have aspirations in another field, they understand the importance of the experience and having a backup skill. This opportunity will give them a competitive advantage in the work place.

We also helped to create an opportunity, in conjunction with Fay Edwards and the Southern Row Residents' Compact, for a young person to complete his level 2 coaching accreditation with the London FA, including the possibility of volunteering with the Chelsea Football Foundation.

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

Minutes of a **Confidential** meeting of the Board of Directors ('**Board**') of the
Company held on the 24 November 2016 at 6.30pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

Resident Board Members Fay Edwards (Chair)
 Alan Barnett
 Anne Duru
 Sharon Price

**Council-Nominated Board
Members** Judith Blakeman

**Independent Board
Members** Simon Brissenden
 Anthony Preiskel

APOLOGIES: Mary Benjamin, Maighread Condon-Simmonds,
 Maria Escudero-Barbaza, Paula Fance, Minna Korjonen and
 Derek White

IN ATTENDANCE:	Robert Black	Chief Executive
	Yvonne Birch	Executive Director of People, Performance & Governance
	Sacha Jevans	Executive Director of Operations
	Barbara Matthews	Executive Director of Financial Services & ICT
	Stuart Hill	Director of Policy and Performance
	Peter Maddison	Director of Assets & Regeneration
	Rupa Bhola	Assistant Director, Financial Services
	Janet Seward	Policy Adviser
	Graham Webb	Managing Director, Repairs Direct Ltd
	Amanda Johnson	RBKC Head of Housing Commissioning
Truda Scriven	Interim Head of Governance and Company Secretary (Minutes)	

OBSERVER: Richard Keenan Board Member Candidate

9 NOTICE, APOLOGIES AND QUORUM

- 9.1 Notice of the meeting had been issued to the members of the Board entitled to receive notice and attend board meetings.
- 9.2 Apologies had been received from Mary Benjamin, Maighread Condon-Simmonds, Maria Escudero-Barbaza, Paula Fance, Minna Korjonen and Derek White.
- 9.3 The meeting was quorate according to the provisions of the constitution of the Company.

10 DECLARATIONS OF INTEREST

- 10.1 There were no declarations of interest in conflict with the items on the agenda.

11 MINUTES OF THE MEETING HELD ON 29 SEPTEMBER 2016

- 11.1 Subject to a minor amendment, the minutes of the meeting held on 29 September 2016 were APPROVED as a true and accurate record of the meeting.

12 MATTERS ARISING

- 12.1 There were no matters arising from the meeting held on 29 September 2016 not appearing elsewhere on the agenda.

13 BUDGET MONITORING REPORT – QUARTER 2

- 13.1 A report to update the Board on the financial position of the Company, its subsidiary and the HRA for the 2016-17 financial year was presented.
- 13.2 At the end of October 2016 the year-to-date result was a £1k surplus; in line with budget. The current forecast for the year showed a £1k surplus for the Company; however, this was before the Project Management costs for projects such as the new website and intranet which were now being incurred. The forecast for the project management of the website project was currently £40k in 2016-17, during which period the scope of the project would be prepared. This would include the development, licence and other project delivery costs. These costs, up to a value of £250k, had been agreed by the Board to be funded from reserves in 2015-16.
- 13.3 HRA Managed Revenue Budget for 2016-17 showed a net income of £38,458k; split between budgeted expenditure of £21,727k and budgeted income of £60,185k. The overall forecast was a net income of £39,239k, a positive variance of £781k.
- 13.4 The approved Capital Programme budget for 2016-17 was £16.427m, with the current forecast for the year projected at £13m. Actual spend to October was £5,913k.
- 13.5 The forecast expenditure for Regeneration and Hidden Homes project was £1,348k, in line with budget. Actual total project expenditure to October 2016 was £165k.

13.6 The report was NOTED.

14 LETTING OF TRELICK TOWER CONTRACT

- 14.1 A detailed report was presented concerning the substantial investment needs of Trellick Tower, a Grade II* Listed 32 story building. As an asset it performed poorly with a Net Present Value (NPV) of -£49,000 per unit over the next thirty years.
- 14.2 Trellick Tower contained 217 properties, making up 3% of the total housing stock. There were 37 leaseholders, with the majority of the properties remaining socially rented.
- 14.3 RBKC was currently procuring a new build option for the Edenham Way site adjacent to Trellick Tower. It was important that the essential work to the exterior of Trellick Tower was completed in the near future to enable the new build programme to commence. In the short term it was proposed to carry out work to the exterior of the building as detailed in the report in the estimated sum of £7.2m in 2016-17 and 2017-18 to enable the Edenham Way new build scheme to follow on after autumn 2017.
- 14.4 In January 2016, the Operations Committee received a report on the investment programme proposed to be delivered on Trellick Tower in 2016-17 and 2017-18 and noted that Wates and Baily Garner would be the framework partners responsible for this contract.
- 14.5 Residents had expressed concern about the security of their homes while scaffold was in place on the block. Wates had therefore proposed the use of a security firm to patrol the site and perimeter of the building during 'out-of-hours'. As the extent of activity on the scheme during main working hours would provide sufficient security and deterrent, residents were supportive of this approach. Therefore, it was proposed to include this item in the scope of works.
- 14.6 It was confirmed that consultation was ongoing with the Trellick Residents Association to discuss the proposed works. The establishment of a Residents "Major Works Working Group" was being sought to help direct resident engagement relating to the works. Feedback received so far from residents in relation to the scope of works and the proposed working method had been incorporated into the management of the project.
- 14.7 On 5 January 2015, the Board approved the appointment of Bailey Garner LLP, John Rowan and Partners LLP and Arcus Consulting LLP to the Capital Works Consultants Framework. The Board also agreed to appoint Baily Garner (North Area) and John Rowan and Partners (South Area) to provide consultancy services for the delivery of the capital programme for 2015-16 and 2016-17. On 23 July 2015, the Board approved the call-off of Wates Living Space Limited to undertake works in the North Area of the Borough, further to the Framework Agreement, for a period of two years and the call-off of Keepmoat Regeneration Limited to undertake works in the South Area of the Borough, further to the Framework Agreement, for a period of two years. The Framework Agreements for each Service Provider and Consultant had been engrossed and signed by the Service Provider, the Company and the Consultants.

- 14.8 It was confirmed that the Operations Committee would receive regular reports on the progress of the Trellick Tower project. This report would include the schedule and programme of works, key milestones and any slippages, cost overruns and the framework targets for employment and training.
- 14.9 The section 20 notices had not yet been issued. Once the consultation period had ended, and due regard had been taken of the feedback received, it was expected that instructions to commence works could be issued in mid-January 2017.
- 14.10 Paula Fance had been unable to attend the meeting but had commented on the paper. The questions she had raised, and the answers provided, were presented at the meeting to the satisfaction of Board Members.
- 14.11 After a thorough discussion of the key issues relating to this important project it was unanimously **RESOLVED TO:**
- (a) award the contract for external repair and redecoration of Trellick Tower to Wates Construction in the sum of 7,589,871 (inclusive of fees), subject to satisfactory completion of statutory leasehold consultation.
 - (b) authorise any two Executive Directors, or an Executive Director and the Company Secretary to execute all and any task orders in respect of external works to be entered further to the contract of works by and between the Company, and Wates Living Space Limited, for and on behalf of the Company.
- 14.12 Peter Maddison, Director of Assets and Regeneration, was thanked for his comprehensive report and analysis.

15 LETTING OF THE MATERIALS CONTRACT FOR REPAIRS DIRECT LTD

- 15.1 A paper recommending entering into a Contract between Kensington and Chelsea TMO Repairs Direct Limited (the Subsidiary Company) and Travis Perkins Trading Company Ltd, for the supply of building materials and associated managed services, for a 4-year period commencing 2 January 2017 had been circulated.
- 15.2 The proposed agreement was the result of a compliant procurement process, conducted in line with Group policy. The proposal had been reviewed by the Subsidiary Company Board, who had approved it and recommended it to the Group Board.
- 15.3 Travis Perkins Trading Company Ltd (TP) had provided building materials to the Subsidiary Company since its inception in September 2013. The current contract expired at the end of November 2016 and its terms had been extended by 1 month to facilitate consideration of this proposal.
- 15.4 A replacement contract had been sourced through the Places for People Framework Agreement. The Contract Notice was issued by Places for People Group Ltd on 19 October 2015. The Contract Award was made on 19 January 2016. There were Four lots covered by the Framework Agreement. Lot 4 (One Stop Shop) of the Framework had

Travis Perkins Trading Company Ltd assigned as the sole provider for all building materials, a one stop shop facility, with logistical solutions including van stocks, stock holding and integration with IT systems and dedicated customer service.

- 15.5 The proposed Contract would be called off from the Framework Agreement and would be for a term of four years from 2 January 2017.
- 15.6 After due consideration, the Board APPROVED entering into a Contract between Kensington and Chelsea TMO Repairs Direct Limited and Travis Perkins Trading Company Ltd for the supply of building materials and associated managed services, with effect 2 January 2017, for a term of 4 years, with a forecast value of £2.5m.

Graham Webb left the meeting

16 CORPORATE RISK MAP 2016-17

- 16.1 The Corporate Risk Map report had been circulated.
- 16.2 The Board of Directors was responsible for ensuring that there were systems of internal control established to identify and manage all material risks to the Company. It regularly reviewed the Corporate Risk Map which identified the most important strategic risks to the business was exposed.
- 16.3 The risk map had been recommended to the Board for approval by the last Finance, Audit and Risk Committee on 19 October 2016. The risk ratings had remained the same as in the May Board report but some of the actions updated.
- 16.4 It was AGREED that a workshop would be provided on risk management for the Board. This would look at whether all corporate risks had been captured and adequately mitigated.
- 16.5 The Corporate Risk Map, as recommended to it by the Finance, Audit and Risk Committee, was APPROVED.

17 BUSINESS PLAN 2014-17 DELIVERY PLAN UPDATE

- 17.1 A paper had been circulated summarising progress made against each of the five Business Plan strategies which was provided to the Board every 6 months.
- 17.2 The KCTMO Business Plan 2014-17 was agreed by the Board on 24 July 2014. Its overarching mission was 'Delivering excellent services through resident led management.' To achieve this, five strategic priorities were defined each with an accompanying strategy setting out what actions were required to deliver them with a timeline for achievement:
 - Customers at the heart - Customer Strategy
 - Fantastic people work here - People Strategy
 - Invest to make great homes and communities - Investment Strategy
 - Deliver excellent good value services - Value for Money Strategy
 - Grow our scope and scale - Growth Strategy

- 17.3 The strategic objectives and priorities of the delivery of the Assets and Regeneration Plan were also presented. The horizon had changed since its initiation and this now set the context within which investment decisions were made.
- 17.4 The Director of Policy and Performance and Director of Assets and Regeneration were thanked for their presentations.
- 17.5 The report and presentations of progress against all actions and particular milestones for the period to date were NOTED.

18 COMMITTEE AND SUBSIDIARY COMPANY MINUTES

- 18.1 The Committee Minutes for the Finance, Audit and Risk Committee on 19 October 2016 and the Operations Committee on 27 October 2016 were NOTED.
- 18.2 The Minutes of the Subsidiary Company Board meetings held on 15 September 2016 and 8 November 2016 were NOTED.

19 ANY OTHER BUSINESS

Board Member Vacancy

Richard Keenan left the meeting

- 19.1 Two unfilled Board Member vacancies remained. They arose in the year under the provisions of 30.1 (Council-Nominated Board Members) and 31.2 (Independent Board Members) of the Constitution. There was one Independent Board Member position available as a result of the resignation of Peter Chapman with effect from 20 July 2016 and another, Council-Nominated vacancy, due to the resignation of Jeff Zitron with effect from 27 May 2016.
- 19.2 Under the powers in its Terms of Reference, as delegated by the Board (Article 35), the Appointments and Remuneration Committee undertook a recruitment exercise using Gatenby Sanderson as the retained consultant. A report had been circulated regarding that process and Richard Keenan, a corporate lawyer and currently Chief Counsel of BT plc's Major Transactions Team, was recommended.
- 19.3 The Board was invited to appoint Richard Keenan as Director of the Company for a term of three years. Such appointment taking effect from 24 November 2016; subject to his signing the Terms of Appointment.
- 19.4 It was unanimously RESOLVED:
 - (a) to appoint Richard Keenan for a term of three years, as a Director of the Company according to 31.4 of the Constitution, subject to his signing the Terms of Appointment; and

- (b) that the Company Secretary updates the register of directors and files the appointment at Companies House.

Richard Keenan rejoined the meeting and was congratulated by the Board.

19.5 There was no other business.

20 DATE OF NEXT MEETING

20.1 The date of the next meeting was Tuesday 10 January 2017.

The meeting was closed at 8pm

.....
Chair

.....
Date

MATTERS ARISING (Confidential Meeting)

NO.	MEETING DATE	MINUTE NUMBER	ACTION	BY WHOM	BY WHEN	UPDATE
1.	24/11/2016	16.4	It was AGREED that a workshop would be provided on risk management for the Board. This would look at whether all corporate risks had been captured and adequately mitigated.	Barbara Matthews	March 2017	

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED ("TMO")**

Confidential	
For Decision	
Board Report 10 January 2017	
Report title:	TMO Group Budget 2017/18
Authority for decision:	The Board has the responsibility to set the financial direction of the company.
Recommendations:	<p>It is recommended that the Board pass a resolution in the following form:</p> <p>"It was RESOLVED to:</p> <ul style="list-style-type: none"> i. approve the TMO budget as presented for the 2017/18 financial year ii. approve the revised budget for Kensington and Chelsea TMO Repairs Direct Limited (RD) for the 2016/17 financial year iii. approve the budget for RD for the 2017/18 financial year."
Regulatory/legal requirements:	The Board have legal responsibility of ensuring the organisations resources are used in accordance with the budget and business plan.
Business Plan link:	Growth and Value for Money
Equality Impact Assessment/comment:	None required.
Resident consultation:	None required.
Resource implications/VFM statement:	This is the subject of the report.
Risk:	The CRM project may incur additional costs above that forecasted in the budget and together with the unbudgeted costs for the intranet and website replacement projects will reduce the surplus budget to a deficit position. .
Appendices:	2

Total number of pages including appendices:	14
Name, position and contact details of author:	Rupa Bhola Assistant Director of Finance

1. Purpose of Report

The purpose of this report is to present the Board with the Group Budgets for 2017/18.

2. Group Budget

Group Budget	2016/17	2017/18
	£ 000s	£ 000s
TMO	1	(38)
Repairs Direct	130	194
Group Net Surplus	131	156

3. TMO Budget

The overall budget for the TMO Company for 2017/18 is a surplus of £36k prior to project management costs (and a deficit of £38k after project management costs).

TMO Budget	Annex	2016/17	2017/18
		£ 000s	£ 000s
Management Fee		10,825	10,761
Other Income	1a	3,373	3,691
Staff Costs		(9,756)	(10,023)
Other Costs	1b	(4,405)	(4,393)
Net Surplus		37	36
CRM Mobilisation 2016/17		(36)	
Project Management 2017/18			(74)
Net Surplus/(Deficit) to/(from) Reserves		1	(38)

3.1. Assumptions

The budget has been prepared using the following assumptions:

- Management Fee reduced by 2% (£212k) before inflation of 1% with a net impact of £104k reduction.
- Capital Programme fee inflation of 1% plus additional agreed £100k per annum for 2 posts from August 2016 to July 2018.
- 1% cost of living inflation on salaries for 2017/18. This is in line with RBKC guidelines and is reflected by increases across all payroll budgets.

- Vacant positions budgeted at the mid-point of the relevant pay scale with pension contribution.
- Pension is budgeted at 20.5% employer's contribution.
- Customer First Project depreciation and software maintenance costs have been incorporated in the budget.
- An additional £20k has also been included within the budget for the maintenance costs of the new website and intranet.
- As per 2016/17 a total of £62k has been included for maternity costs.

3.2. TMO Budget Summary

The overall result for the TMO in 2017/18 is a surplus budget of £36k. This is only £1k below last year's surplus of £37k prior to CRM Mobilisation costs. The 2017/18 budget position after project management costs (for the website and intranet projects) however will require a £38k drawdown from reserves.

Project Management costs of £74k have been included in the budget. This covers the cost of the project manager. Consultancy and implementation costs for the Intranet and Website projects and not included as these are yet to be determined.

4. Repairs Direct Revised Budget 2016/17

The original budget for 2016/17 for Repairs Direct was based on the 5 year financial plan approved by the RD Board in June 2016.

The revised budget position for Repairs Direct is a surplus of £151k, £20k better than the original budget. The additional surplus is a result of the works undertaken by Repairs Direct at Adair and Hazelwood Towers for fire risk assessment works (FRA).

Inclusion of £295k additional income of which £220k relates to FRA works and £75k additional Capital Works.

Reliance on subcontractors has started reducing in the current financial year; however with the extra FRA works which were completely subcontracted has increased the budget requirements. The costs are partly offset by the reduced staff costs of £234k and the material costs lower by £104k.

5. Repairs Direct Proposed Budget 2017/18

The budget for Repairs Direct for 2017/18 has been prepared with the following assumptions:

- Inflationary increase on day to day responsive repairs (DTD) and Voids of 1% from RBKC
- Inclusion of paid for services (PFS) income at £278k

- Surplus of £194k includes £25k from PFS
- TMO recharge increased by £59k from 2017/18 following a review undertaken by all teams to reflect the true value of services provided to RD.

The proposed budget for 2017/18 financial year is a net surplus of £194k. This is an increase of £43k from 2016/17 and is largely due to the inclusion of a full year of PFS and the inflationary increase on DTD and Voids from RBKC. Please refer to annex 2 for details.

Repairs Direct Budget Summary	Budget 2016/17 £k	Revised Budget 2016/17 £k	Budget 2017/18 £k
Income	5,656	5,951	6,492
Staff Costs	(1,990)	(1,748)	(2,105)
TMO Recharge	(411)	(41)	(476)
Subcontractor Works	(1,883)	(2,542)	(2,534)
Material Costs	(568)	(464)	(561)
Transport Costs	(221)	(209)	(219)
Other Overheads	(453)	(426)	(403)
Total Costs	(5,26)	(5,800)	6,298
Total Profit	130	151	194

6. Conclusion

The Finance, Audit and Risk Committee reviewed and discussed the budget report and information in the appendices as presented and recommended that the Board agrees to the resolutions as set on the first page of this report.

The Board is asked to consider the recommendations on the first page of this report.

KCTMO Board
TMO Budget 2017/18
10 January 2016

Income	Budget 2016/17 £k	Budget 2017/18 £k
Management Fee	10,825	10,761
Other Income:		
Community Alarm Service Income & Supporting People	717	763
Legal Cost & Other Recharge Income	346	354
RD Recharge – corporate costs	411	471
Digital TV	480	480
Other Income	570	664
Capital Programme Fee	849	959
Other Income Total	3,373	3,691
Total Income	14,198	14,452

KCTMO Board
TMO Budget 2017/18
10 January 2016

Costs	Budget 2016/17 £k	Budget 2017/18 £k
Staff Costs	9,756	10,023
Other Costs:		
Accommodation	919	925
Legal	580	580
IT Services	920	829
SLA with RBKC (ex Legal)	313	310
Consultants	145	130
Recruitment & Training	154	219
CAS Other Costs	92	106
Digital TV	480	480
Other Costs	802	814
Other Costs Total	4,405	4,393
Total Costs	14,198	14,452
CRM Mobilisation	36	0
Project Management	0	74

KCTMO Board
REVISED BUDGET 2016/17 and PROPOSED BUDGET 2017/18
10 January 2016

DESCRIPTION	DETAIL	REF	2016/17 Original Budget	2016/17 Revised Budget	2017/18 Proposed Budget
In-house Income*	Based on number and outturn costs for repairs	1	3,331,000	2,810,960	3,463,250
Subcontract Income	Subcontracted works	2	2,325,000	3,140,040	3,029,219
	TOTAL INCOME		5,656,000	5,951,000	6,492,469
Subcontracted Specialist Trades	Subcontract work	3	(1,883,250)	(2,541,900)	(2,534,449)
Material cost	Material costs	4	(567,685)	(463,685)	(560,822)
Direct ISP staffing costs	Based on agreed staffing structure	5	(1,990,024)	(1,748,072)	(2,105,000)
Overhead (Staffing costs)	Indirect Staffing and additional staffing through TMO	6	(410,905)	(410,905)	(476,000)
Transport Costs	For example, Van lease, fuel, insurance and tracking	7	(221,342)	(208,712)	(219,415)
ICT Set Up - Depreciation costs	Capital Cost - Assumed spread over 5 years assume	8	(92,770)	(91,700)	(92,000)
ICT Software Maintenance costs	Annual Revenue Cost	9	(45,450)	(42,000)	(80,972)
Other Annual Overhead	For example, leasing of plant and equipment, offices, legal, external support.	10	(214,345)	(192,855)	(189,311)
Non Rechargeable Costs	Costs that cannot be recharged to RBKC eg: investment in the local community projects		(100,000)	(100,000)	(40,500)
Net Surplus before Tax	After Recovery of TMO Overheads		130,229	151,171	194,000
	TAX @ 20%		(26,046)	(30,234)	(38,800)
Net surplus after Tax			104,183	120,936	155,200
	TMO Loan Balance from £700k @ 31st Mar 2017/2018		265,000	265,000	55,000
	% Suplus on Revenue excl Non Rech Costs		2.3%	2.5%	3.6%

TURNOVER, SUBCONTRACTOR COSTS AND MATERIAL COSTS SUMMARY

TYPES of WORK	2016-17 Original INCOME Figures			2016-17 Original COST Figures			
Description	In house Revenue	Subcontract	TOTAL VALUE	%	Sub-contractor	%	Material Costs (% of In house TO)
DAY TO DAY	2,500,000	1,400,000	3,900,000	29%	1,134,000	17%	425,000
CAPITAL		450,000	450,000	81%	364,500	0%	-
VOIDS	700,000	350,000	1,050,000	27%	283,500	17%	119,000
FIRE RISK ASSESSMENT WORKS	-	-	-	0%	-	0%	-
AIDS AND ADAPTATIONS	75,000	125,000	200,000	51%	101,250	17%	12,750
PAID FOR SERVICES	56,000	-	56,000	0%	-	20%	10,935
	3,331,000	2,325,000	5,656,000		1,883,250		567,685
	Ref 1	Ref 2			Ref 3		Ref 4

TYPES of WORK	2016-17 Revised INCOME Figures			2016-17 Revised COST Figures			
Description	In house Revenue	Subcontract	TOTAL VALUE	%	Sub-contractor	%	Material Costs (% of In house TO)
DAY TO DAY	2,562,200	937,800	3,500,000	25%	781,500	16%	415,000
CAPITAL		1,400,000	1,400,000	72%	1,075,200	0%	-
VOIDS	97,760	552,240	650,000	60%	460,200	26%	25,000
FIRE RISK ASSESSMENT WORKS		220,000	220,000	90%	200,000	0%	-
AIDS AND ADAPTATIONS	95,000	30,000	125,000	54%	25,000	13%	12,750
PAID FOR SERVICES	56,000	-	56,000	0%	-	20%	10,935
	2,810,960	3,140,040	5,951,000		2,541,900		463,685
	Ref 1	Ref 2			Ref 3		Ref 4

TYPES of WORK	2017-18 INCOME Figures			2017-18 COST Figures			
Description	In house Revenue	Subcontract	TOTAL VALUE	%	Sub-contractor	%	Material Costs (% of In house TO)
DAY TO DAY	2,787,784	1,194,765	3,982,549	25%	995,637	15%	418,167
CAPITAL	145,526	954,474	1,100,000	72%	795,395	16%	23,089
VOIDS	232,518	597,902	830,420	60%	498,252	20%	46,503
FIRE RISK ASSESSMENT WORKS		151,500	151,500	90%	136,350	0%	-
AIDS AND ADAPTATIONS	52,782	97,218	150,000	54%	81,015	33%	17,186
PAID FOR SERVICES	244,640	33,360	278,000	10%	27,800	23%	55,877
Total Value	3,463,250	3,029,219	6,492,469		2,534,449		560,822
	Ref 1	Ref 2			Ref 3		Ref 4

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED ("TMO")**

Confidential

For information

**Group Board
10 January 2017**

Report title:	Revised RBKC Housing Revenue Account (HRA) Budget 2016/17 and Proposed Budget 2017/18
Authority for decision:	The Board is responsible for reviewing, and approving the financial objectives and responsibilities of the Company. These include review of the RBKC TMO Managed HRA budget
Recommendations:	It is recommended that the Board consider the contents of this report and upon due consideration, pass the following resolutions: "It was RESOLVED to: (i) agree the revisions to the 2016/17 HRA budget; (ii) agree the proposed HRA budget for the 2017/18 financial year; (iii) agree to recommend the revised 2016/17 HRA budget to RBKC; and (iv) agree to recommend that proposed 2017/18 HRA budget to RBKC.
Regulatory/legal requirements:	The Board has the responsibility of ensuring the HRA resources are used in accordance with the mandate of RBKC. The Modular Management Agreement (MMA) with RBKC includes the requirement to set and manage the TCC Managed HRA budget.
Business Plan link:	Growth and Value for Money
Equality Impact Assessment/comment:	None required
Resident consultation:	None required.

Resource implications/VFM statement:	This is the subject of the report.
Risk:	The impact of not setting and managing an agreed TMO Managed HRA budget would be in breach of the MMA.
Appendices:	1
Total number of pages including appendices:	31
Name, position and contact details of author:	Barbara Matthews Executive Director of Financial Services & ICT

1. Purpose of the Report

The purpose of this report is to present the TMO Managed (HRA) revised Budget for 2016/17 and proposed Budget for 2017/18.

2. HRA Budget - Introduction

This budget, managed by the TMO on behalf of the Council, comprise the major running costs relating to the management of the stock (repairs and maintenance, utilities, cleaning and refuse, etc.) and the income collected in the form of rents, service charges and other charges.

2.1 The original net budget for 2016/17 splits down between budgeted income of £60.184 million and budgeted expenditure of £21.727 million to produce a net income budget of £38.458 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.

2.2 The following table summarises the overall position for 2016/17 and 2017/18:

	2016/17 Original Budget £'000	2016/17 Revised Budget £'000	2017/18 Proposed Budget £'000
Expenditure	(21,727)	(19,686)	(21,490)
Income	60,184	58,968	59,806
Net TMO Managed Budget	38,458	39,282	38,316

2.3 The complete HRA draft Budget Report is also attached for reference. However, the TMO managed budgets are detailed in the sections below.

3. HRA Revised Budget 2016/17

For the current year, the revised net TMO managed budget is £824,000 higher than the original budget. The main factors resulting in the variance are:

- **Planned Maintenance** – This is forecast to be underspent by £1.443 million. This comprises:
 - **External Decorations** – a reduction of £1 million reflecting delays arising from the need to consider whether windows should be replaced or repaired. The amount to be carried forward will need to be determined as part of Quarter 4 monitoring process;
 - **Individual Heating** – ongoing savings have been achieved following the re-procurement of the gas maintenance contract at the end of 2015/16. This has resulted in a budget underspend of £168,000 in 2016/17;

- Lifts – a budget underspend of £20,000 reflecting savings arising from the re-procurement of the planned and responsive lift maintenance contracts;
- District Heating – an inflationary increase of £25,000 on planned maintenance works to communal plant;
- Central Programmed Heating Work – a reduction of £80,000 to reflect savings arising from the new maintenance contract which requires the contractor to undertake additional tasks as part of the service delivery;
- Estate Lighting – a reduction of £50,000 due to procurement savings achieved from the interim contractor whilst the tender for the permanent contract is in progress;
- Rewiring Works – a reduction of £100,000 due to a fall in the level of works required due to the higher level of activity in 2015/16;
- Water Quality – a reduction of £50,000 as a result of legislation changes that only require risk assessments to be undertaken every two years rather than every year;
- Responsive Repairs – the forecast has been reduced by £100,000. The majority of this is attributed to a £70,000 reduction in Estate Lighting, which is due to procurement savings arising on an interim contract.
- Aids & Adaptations – a reduction of £50,000 due to lower demand for minor aids and adaptation works.
- Electricity, Heating & Hot Water – The overall forecast has been reduced by £631,000. This mainly reflects savings arising from recent procurement activity which has resulted in energy prices falling on average by 20%. A credit of £87,000 has been received from the energy provider relating to 2015/16 which was not assumed when the accounts were closed.
- Contract Cleaning – an increase of £124,000 following the retendering of the service. The new contract starts October 2016 and assumes payment of the London living wage and is based around quality and not just value.
- Dwelling Rents – income is forecast to be £265,000 more than was assumed in the budget. Most of this is due to a lower level of voids arising within the stock.
- Commercial Properties Rent Income – income in 2016/17 has been revised down by £165,000. This comprises:
 - (i) £71,000 for Walnut Tree House due to a legal dispute resulting in no income being collected for the first half of 2016/17;

- (ii) £38,000 for Acklam Road as the lease is due to commence from October 2016 and the first six months are rent free and
 - (iii) £56,000 for Holmefield House as there have been severe delays with renewing communal pipe work and thus no rent will be received in 2016/17.
- Rents from Garage and other parking facilities – income is forecast to be £30,000 lower than assumed in the budget. Following the introduction of the Traffic Management Order, income from charges for on street parking needs to be transferred to the General Fund. At the time the budget was set the level of transfer was unknown. Based on the first two quarters, it is estimated that £50,000 will need to be transferred to the General Fund in 2016/17 which reduces the level of income to be credited to the HRA.
 - Heating and Hot Water Charges – income from charges is £64,000 less than was assumed when the budget was set. This reflects lower charges to tenants arising from the recent procurement work, partly offset by charges to leaseholders being higher than those assumed when the budgets were set. Heating & Hot Water income is based off a 3-year rolling average of gas usage (i.e. 2016/17 charges were set as an average of usage in 2013/14, 2014/15 & 2015/16). This average usage is then charged at the current year unit price (provided by the energy suppliers in April) applied from November to October period. However, the expenditure incurred in current year is the full actual costs of the units consumed from April to March and as such there is a variance between the units charged to tenants and the units paid to utility suppliers. This is further complicated by the accrual accounting basis applied at each year end due to the timing of bills being received and is also affected by estimated billing by suppliers.
 - Tenant Service Charges – the forecast has been increased by £54,000. This reflects a lower level of voids and the level of costs needing to be recharged.
 - Income from charges to leaseholders for insurance – income is projected to be £273,000 less than was assumed in the budget. The budget was set prior to the insurance contract being retendered (see below).
 - Income from Major Works - income is projected to be £1.175 million less than was assumed in the budget. Following a recent Leasehold Valuation Tribunal decision, bills to leaseholders must either be sent at the start of the financial year, provided full consultation has taken place, or in full at the final account stage, if consultation is not complete prior to the start of the financial year. The budgets for 2016/17 were set prior to the consultation process taking place. Some consultation has now been deferred to later in 2016/17 whilst surveys of the blocks are completed. Where leaseholders were not billed at the start of 2016/17, they will now be billed in September 2017 as part of the final accounts process.

- Income from Leaseholder Service charges- This is projected to increase by £202,000 as a result of final accounts being applied and the increased leaseholder management fee.

4. Proposed Budget 2017/18

The proposed TMO managed budget for 2017/18 is for net income of £38.316 million. This surplus is £142,000 less than assumed in the original budget. The main factors resulting in the proposed changes are:

- Planned Maintenance – a reduction of £163,000 due to savings arising from the retendering of the Individual Heating contract.
- Responsive Maintenance – an increase of £48,000 due to inflationary pressures.
- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £653,000 less than was assumed in the original budget. This reflects both lower usage and lower prices. £22,000 of this saving is due our contract with a data validation service ending in 2017/18 and this being brought in house. The full saving will be achieved in 2018/19 of £44,000. It is difficult to predict the level of any price increases in 2017/18, as a result no price change has been assumed in the budget. The budget can be amended once the position becomes clearer.
- Contract Cleaning – the new contract has been procured on the basis that the London Living Wage will be paid to employees. The new contract has started from October 2016. The impact of this is an additional £447,000 for 2017/18. Under the contract terms, no inflationary increase will be payable for the first 18 months.
- Income from dwelling rents is expected to be £450,000 lower than was assumed in the current year's original budget. This reflects the rental reduction of 1% which was announced in the Chancellor's budget (2015) and the loss of income from properties being sold under the Right to Buy regime. A void level of 1.5% has been assumed.
- Rental income from commercial properties is expected to increase by £567,000 compared to the 2016/17 original budget. This is primarily due to the revaluations of RBKC's transfer rent properties and due to the increased income expected next financial year by Commercial Property following their expected renegotiation of leases.
- Income from charges for garages and other parking facilities has decreased by £22,000. This reflects the introduction of the Traffic Management Order whereby income from on-street parking must be charged to the Council's General Fund. However, it is anticipated that expenditure linked to the new car parking arrangements will satisfy the criteria needed to be funded through the car parking Reserve Account.

- Income from Tenants Service Charges is forecast to be £319,000 more than was assumed in the current year's original budget. Of this, £220,000 is due to the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees (see above).
- Income from Leaseholder Service Charges is forecast to be £367,000 more than was assumed in the 2016/17 budget. This includes a 2% RPI uplift assumed to all costs and the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees.
- Income from Heating and Hot Water Charges is forecast to be £106,000 less than was assumed in the current year's original budget. Charges are based on activity over the previous 3 years and reflect the continued downward trend in energy prices.
- Income from Insurance Charges to Leaseholders is £245,000 less than was assumed in the original budget. The original budget was set prior to the insurance contract being retendered.
- Major Works Service Charges – income is £780,000 less than assumed in the 2016/17 budget. This reflects the new arrangements following the recent Leasehold Valuation Tribunal decision (see above). The budget, as presented, only includes works which have been confirmed at November 2016. The position may change before April 2017 and a corresponding change can then be made to the budget.
- Car Parking Management - this budget reflects the costs of the implementing the new car parking arrangements. It is anticipated that these will be fully recovered through a draw down from the Car Parking Reserve Account.

5. Conclusion

- 5.1** The Finance, Audit and Risk Committee reviewed and discussed the budget report and information in the appendices as presented and recommended that the Board agrees to the resolutions as set on the first page of this report
- 5.2** The Board is asked to consider the recommendations on the first page of this report.

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
HRA BUDGETS 2016-17

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Proposed Budget	% Variation Original & Proposed
	2016/17	2016/17	2017/18	
	£'000	£'000	£'000	£'000
Dwelling Rents - Rent and Hostels	43,250	43,514	42,800	-1%
Commercial Properties Rent Income	3,427	3,262	3,994	17%
Garages Rent Income	880	850	859	-2%
Tenants Service Charges	4,501	4,555	4,820	7%
Leaseholder Service Charges	2,688	2,890	3,056	14%
Major Works Service Charges - Leaseholders	2,651	1,476	1,871	-29%
Heating and Hot Water Charges	1,699	1,634	1,593	-6%
Insurance Charges - Leaseholders	1,055	783	811	-23%
Other Contributions Towards Expenditure	30	0	0	-100%
Other Charges for Services & Facilities	4	4	4	0%
TCC Managed Budgets Income	60,184	58,968	59,806	-1%
Planned Maintenance	(6,892)	(5,449)	(6,729)	-2%
Responsive Maintenance	(5,942)	(5,842)	(5,990)	1%
Aids and Adaptations	(150)	(100)	(150)	0%
Area Revenue Works	(199)	(199)	(201)	1%
Electricity, Heating, and Hot Water	(3,413)	(2,783)	(2,761)	-19%
Contract Cleaning	(2,543)	(2,667)	(2,990)	18%
Refuse Collection	(157)	(160)	(163)	4%
Pest Control	(244)	(252)	(262)	7%
Provision for Bad Debts	(500)	(500)	(500)	0%
Rents, Rates, Taxes & Other Charges	(193)	(193)	(197)	2%
Car Park Management	0	(50)	(60)	0%
Other Expenditure - Special Services	(329)	(310)	(297)	-10%
Concierge Costs	(260)	(245)	(245)	-6%
Supporting People Expenditure	(220)	(252)	(255)	16%
Legal Costs	(220)	(220)	(225)	2%
Digital TV	(465)	(465)	(465)	0%
TCC Managed Budgets Expenditure	(21,726)	(19,686)	(21,490)	-1%
Total TCC Managed Budgets	38,458	39,282	38,316	0%

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
HOUSING AND PROPERTY SCRUTINY COMMITTEE – 11 JANUARY
2017

REPORT BY THE DIRECTOR OF HOUSING

HOUSING REVENUE ACCOUNT - BUDGET REPORT 2017/18

This report sets out the proposed budget for the Housing Revenue Account (HRA) in 2017/18.

It also recommends the level of increase to be applied to charges made to tenants and leaseholders who live in Council properties managed by the TMO.

FOR COMMENT

1. BACKGROUND AND FINANCIAL CONTEXT

- 1.1 In April 2012, the Self Financing regime for social housing within the Housing Revenue Account (HRA) was introduced. This both improved the financial outlook for HRAs and provided more certainty regarding future sources of income.
- 1.2 However, a number of policy announcements and the anticipated Housing White Paper are resulting in greater uncertainty regarding the financial outlook for the HRA.
- 1.3 The key changes which will have financial implications for the HRA are:
 - a) Reductions in social rents (see section 3);
 - b) The Sale of High Value voids linked to the extension of the Right to Buy Regime for tenants of Registered Providers (the timescale and severity of this remain uncertain, however, the Government has recently announced that no levy payment will be required in 2017/18) and
 - c) Changes to Benefits
- 1.4 Councils had been expecting to implement the Pay to Stay proposals from April 2017. However, it has now been confirmed that local authorities will no longer have to implement this policy, although they will have local discretion to implement the policy. The Royal Borough will need to consider its position during 2017/18.

- 1.5 The full impact of some of these policy changes cannot be ascertained as details on how they will operate in practice have yet to be published. The HRA Business Plan provides some further details and commentary. However, we have highlighted in this report where we believe there will be an impact in 2017/18.
- 1.6 The results of the initial financial modelling over the medium term are set out in section 5. These will need to be refreshed once the implications of the above policy changes become clearer.

2. BUDGETS – 2016/17 AND 2017/18

- 2.1 Management arrangements for budgets within the HRA are set out in the management agreement with the TMO. This provides for a number of budgets within the HRA to be managed by the TMO. Budgets within the HRA fall into the following three categories:
 - The management costs of the TMO - these are met from an agreed management fee which is charged to the HRA;
 - Budgets managed by the TMO on behalf of the Council. These include the major budgets covering repairs, maintenance and energy and income from rents, service charges and commercial lettings and
 - Council managed HRA budgets including capital financing charges and the provision for depreciation.
- 2.2 An overall statement of HRA budgets for the current year and 2017/18 is set out in Appendix 1. Total gross expenditure in 2017/18 is budgeted at £47.087 million with income budgeted to be £58.226 million. This results in a budgeted surplus of £11.138 million which is added to the Working Balance. In 2017/18, it is planned to transfer £15.091 million from the Working Balance to the Major Repairs Reserve as a contribution towards the Capital Programme. This will be partly funded from contributions from leaseholders, however the amounts due in 2017/18 will depend upon the timing of the S20 notices. The net effect in 2017/18 is to reduce the Working Balance by £2.082 million.

2.3 The following table summarises the changes to the Working balance in both 2016/17 and 2017/18:

Heading	2016/17 Original Budget £'000	2016/17 Revised Budget £'000	2017/18 Proposed Budget £'000
TMO management fee	10,825	10,825	10,761
Gross expenditure budgets managed by TMO	21,727	19,686	21,490
Gross expenditure budgets managed by the Council	15,855	15,378	14,836
Total Budgeted Gross Expenditure	48,407	45,889	47,087
Income budgets managed by the TMO	-57,533	-57,542	-57,995
Income budgets managed by the Council	-254	-254	-231
Total Income Budgets	-57,787	-57,796	-58,226
Net Budgeted Surplus	-9,380	-11,907	-11,138
Contribution towards the Major Repairs Reserve to fund Capital Expenditure	15,391	14,083	15,091
Contribution from leaseholders towards Major Works	-2,651	-1,476	-1,871
Overall Change in Working Balance	3,360	700	2,082

2.4 Further details on the current year's budget and the proposed budget for 2017/18 are set out in the following appendices:

- The TMO Management Fee (Appendix 2);
- Managed TMO Budgets (Appendix 3) and
- Council Managed Budgets (Appendix 4).

2.5 Details of the Working Balance and Reserves are set out in Appendix 5.

2.6 In recent years funding for Discretionary Housing Payments has increased, recognising the changes being made to welfare benefits. Details of next year's allocation are not yet available, however, there remains a risk that the Discretionary Housing Fund is insufficient to meet local demand arising from these changes.

3. POLICY FOR SETTING RENT LEVELS FOR HRA DWELLINGS

- 3.1 The Chancellor's budget statement in July 2015 announced that social rents will reduce by 1% in each of the next 4 years (2016/17 to 2019/20). This change surprised the housing sector as in October 2013, a 10 year rent agreement was published setting rent increases at CPI + 1%.
- 3.2 This change was introduced through the Welfare Reform and Work Act. It requires both Registered Providers and local authorities to reduce rents for social housing by 1% per annum over 4 years, commencing in 2016/17 from a frozen 2015/16 baseline. The frozen baseline is based on rents charged at 8 July 2015. Rents will therefore reduce by a further 1% in 2017/18, this being the second year of the 4 year reduction period.
- 3.3 This 1% reduction will also apply to sheltered accommodation over the 3 year period (2017/18 to 2019/20). A one year exemption for 2016/17 was granted by Government.
- 3.4 When properties become vacant, local authorities are permitted to set rents for new households in the properties at Target Rent (less 1% each year).
- 3.5 The rules regarding rent levels are now effectively prescribed. This was a change in approach, in that previously we have been able to set rents in a manner determined locally, provided we didn't exceed the Limit Rent.
- 3.6 Based on this methodology, the average rent level in 2017/18 is £121.78 which equates to a decrease of 0.8%
- 3.7 The rules regarding rent increases following the end of the 4 year period are unclear and are unlikely to be clarified in the short term.
- 3.8 The Royal Borough's policy is to set the rents for vacant properties at target rent (less 1% each year) unless the target rent exceeds £250 per week. In this case the decision regarding the level of rent to be set is delegated to the Director of Housing who will make a decision taking into account the household's income and employment status. It is proposed that this policy continues.

4. CHARGES FOR GARAGES AND OTHER PARKING FACILITIES

- 4.1 A Members Working Group was established by the Housing and Property Scrutiny Committee to review and make recommendations regarding income generated from garage and other parking facilities within the HRA. However, the Working Group will not be reporting its findings in time for any proposals to be incorporated into the 2017/18 budget.

- 4.2 Each year the Cabinet Member for Finance sets a minimum increase for fees and charges across the Council. It is therefore proposed that for 2017/18, the increase be linked to the rate being set by the Cabinet Member for Finance and Strategy which is an increase of 1%. Where parking facilities fall within a Traffic Management Order, the charges for these must be approved by the Cabinet Member for Planning Policy, Transport and Arts.
- 4.3 The proposed charges from April 2017 are set out in Appendix 7.
- 4.4 The TMO continue to review whether better use can be made of the facilities which are not fully used. For example some spaces have been leased out to storage companies. The budgeted income shown in this report reflects the alternative uses that have been agreed.

5. MEDIUM TERM FINANCIAL OUTLOOK

- 5.1 This section considers various issues and risks which could affect the level of the HRA's Working Balance over the medium term.

Working Balance

- 5.2 Predicting levels of income and expenditure over the medium to longer term is always extremely difficult and inevitably predictions for the early years will be more accurate.
- 5.3 However, the uncertainty of how much the local authority needs to contribute towards the cost of rolling out the RTB regime to Registered Providers and the rules associated with the new arrangement make it almost impossible to allow for the financial implications of this policy change.
- 5.4 Financial modelling, excluding the impact of the local authority contribution towards the roll out of the RTB regime, suggests that at the end of the next 5 years the cumulative surplus could be **in the region of £42 million** (see Appendix 6). This surplus reflects a reduction in the assumed interest rate chargeable on internally funded HRA debt and the additional commercial income being generated within the HRA. Whilst this can still be considered a fairly healthy surplus, it is significantly lower than the level predicted when the Self Financing regime was first introduced.

Efficiencies

- 5.5 The TMO has been extremely successful in achieving savings as contracts are retendered. The retendering of TMO managed contracts has resulted in ongoing annual savings of approximately £800,000.
- 5.6 Further efficiencies savings will continue to be sought, however, similar levels of savings should not be anticipated.

Water Charges – Ruling re London Borough of Southwark

- 5.7 The High Court ruling which found that the London Borough of Southwark had overcharged its tenants for their water charges is likely to affect many local authorities and housing associations. A number of authorities, including the Royal Borough, are seeking advice as part of a collective under the umbrella of the Local Government Association. However, it is anticipated that this issue will take some time to resolve and the full implications are unlikely to be settled in the current financial year.
- 5.8 The Council included a contingent liability for £1.3 million in its 2015/16 accounts, recognising the potential need to refund tenants. This sum is also reflected in the financial modelling set out in Appendix 6. However, whether any refunds need to be made to tenants has not yet been ascertained.
- 5.9 The future arrangements regarding the collection of tenants' water charges need to be determined. However, the Royal Borough's view is that the costs of undertaking such functions must be fully reimbursed by Thames Water.

Charges to Leaseholders

- 5.10 Following a recent Leasehold Valuation Tribunal decision, bills to leaseholders must either be sent at the start of the financial year, provided full consultation has taken place, or in full at the final account stage, if consultation is not complete prior to the start of the financial year. Leaseholders will still be required to make the same contributions for works undertaken, but the timing of payments may change i.e. income may be received later than previously would have been the case.
- 5.11 A new approach is being taken regarding the replacement or repair of components within the housing stock. In particular, this will relate to decisions relating to lifts and windows.
- 5.12 Decisions would be taken on an individual basis and would take into account a number of factors, including the implications for the HRA over the medium to long term. This approach carries some risk relating to whether leasehold charges can be recovered under the terms of the leases.

6. COMMENTS BY DIRECTOR OF LEGAL SERVICES

- 6.1 The Council is required by the provisions of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA) in accordance with proper practices. The sums which are to be debited and credited to the HRA are prescribed by law and are not a matter for

discretion. This means that the HRA is effectively “ring fenced”. The amounts which may be credited include rents and other charges such as heating and hot water. The Council is also under a duty to budget to prevent a debit balance arising on the HRA.

- 6.2 As set out in the report the Welfare Reform and Work Act requires that registered providers of social housing must reduce the amount of rent payable by a tenant of social housing by at least 1% per annum over 4 years, commencing in 2016. This statutory provision will restrict the ability of the Council to set rents.

7. RECOMMENDATIONS

- 7.1 Following discussion at the TMO Board and the Housing and Property Scrutiny Committee, a Key Decision will be taken by the Cabinet Member for Housing, Property and Regeneration to determine the budget for 2017/18 and the level of charges to be set in 2017/18. The Scrutiny Committee is asked to comment on the budget set out in this report and, in particular, on the following recommendations:

- (i) Rents for vacant properties will be charged at Target Rent less the annual 1% reduction. Where the Target Rent exceeds £250 per week, the decision regarding the rent level will be delegated to the Director of Housing;
- (ii) Charges to tenants for garages/car parking facilities are increased by 1% and
- (iii) The HRA Working Balance and other reserves are retained at the level set out in Appendix 5.

Laura Johnson
Director of Housing

Nicholas Holgate
Town Clerk and Executive Director of Finance

Background papers used in the preparation of this report:

DCLG publications and guidance to Self-Financing
Budget Working papers
TMO Board reports

Contact officer: Mr S Mellor on [REDACTED]

Appendix 1

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Estimate	% Variation Original & Estimate
	2016-17	2016-17	2017-18	2017-18
	£'000	£'000	£'000	£'000
TMO Management Fee	10,825	10,825	10,761	-1%
Total TMO Management Fee	10,825	10,825	10,761	-1%
TCC Managed Budgets				
Planned Maintenance	6,892	5,449	6,729	-2%
Responsive Maintenance	5,942	5,842	5,990	1%
Aids and Adaptations	150	100	150	0%
Area Revenue Works	199	199	201	1%
Electricity, Heating, and Hot Water	3,413	2,783	2,761	-19%
Contract Cleaning	2,543	2,667	2,990	18%
Refuse Collection	157	160	163	4%
Pest Control	244	252	262	7%
Provision for Bad Debts	500	500	500	0%
Rents, Rates, Taxes & Other Charges	193	193	197	2%
Car Park Management	0	50	60	0%
Other Expenditure - Special Services	329	310	297	-10%
Concierge	260	245	245	-6%
Supporting People Expenditure	220	252	255	16%
Legal Costs	220	220	225	2%
Digital TV	465	465	465	0%
TCC Managed Budgets Expenditure	21,727	19,686	21,490	-1%
Dwelling Rents - Rent and Hostels	-43,248	-43,514	-42,800	-1%
Commercial Properties Rent Income	-3,427	-3,262	-3,994	17%
Garages Rent Income	-880	-850	-859	-2%
Tenants Service Charges	-4,501	-4,555	-4,820	7%
Leaseholder Service Charges	-2,688	-2,890	-3,056	14%
Heating and Hot Water Charges	-1,699	-1,634	-1,593	-6%
Insurance Charges - Leaseholders	-1,055	-783	-811	-23%
Other Contributions Towards Expenditure	-30	0	0	-100%
Other Charges for Services & Facilities	-4	-4	-4	0%
Transfer from Car Park Reserve	0	-50	-60	0%
TCC Managed Budgets Income	-57,533	-57,542	-57,995	1%
Total TCC Managed Budgets	-35,806	-37,857	-36,505	2%
Council Managed Budgets				
Capital Charges	10,247	10,001	9,198	-10%
Depreciation - Dwellings and Non Dwellings	2,830	2,830	3,056	0%
Insurance Costs	1,419	1,089	1,127	-21%
Recharges from Corporate Services	318	318	308	-3%
Recharges from Housing Services	871	871	1,002	15%
Audit Fees	20	20	20	0%
Burgess Field (Supporting People)	103	103	103	0%
Consultancy budget	13	137	13	0%
Rent, rates, other and subscriptions	34	10	10	-71%
Council Managed Budgets Expenditure	15,855	15,378	14,836	-6%
Supporting People Grant	-205	-205	-205	0%
Interest income	-49	-49	-26	-47%
Council Managed Budgets Income	-254	-254	-231	-9%
Total Council Managed Budgets	15,601	15,124	14,606	-6%
Contribution to (-) or from (+) HRA working balance (excluding Capital)	-9,380	-11,907	-11,138	19%
Transfer to Major repairs reserves	15,391	14,083	15,091	
Contribution from Leaseholders towards Major Works	-2,651	-1,476	-1,871	
Contribution to (-) or from (+) HRA working balance	3,360	700	2,082	
HRA Balance b/fwd	-21,410	-21,410	-20,710	-3%
Contribution to (-) or from (+) HRA working balance	3,360	700	2,082	-38%
TOTAL HRA Working Balance	-18,050	-20,710	-18,628	3%

APPENDIX 2

TMO MANAGEMENT EXPENSES

- 1.1 The management costs incurred by the TMO in fulfilling its responsibilities under the Management Agreement are funded from the HRA by way of a fixed management fee approved by the Council annually. The total management fee for 2016/17 is £10.825 million.
- 1.2 The TMO Management Fee now includes funding to cover the two Neighbourhood Support Officers which were previously managed by the Council.
- 1.3 The Management Fee for 2017/18 has been set at £10.761 million.
- 1.4 An overall inflationary provision of 1% has been allowed for 2017/18, this reflects the anticipated level of pay increases in the public sector. This provision will be used to fund pay awards and other inflationary increases on non-pay budgets e.g. utilities.
- 1.5 The fee for 2017/18 also includes a 2% efficiency saving which has resulted in a saving of approximately £210,000.
- 1.6 The Management Fee includes funding for two welfare reform officer posts which are being funded until March 2019. These officers will provide support and advice, mainly for tenants, regarding the roll out of Universal Credit and the further reduction in the benefit cap. They will also assist tenants, where appropriate, to make claims for Discretionary Housing Payments.
- 1.7 An additional project officer has been funded to support the Parking Review and the Members Working Group on parking facilities. This work will continue throughout 2017/18. A number of projects are now being implemented resulting in additional income of approximately £21m over the life of the leases.
- 1.8 Additional funding of £40,000 has been included to enable the TMO to employ an additional post within the finance team. This post will ensure that accurate data regarding energy usage is available but will enable a current contract regarding this function to be terminated. This arrangement should be cost neutral, whilst improving the data available for payment and billing purposes.

MANAGED TMO BUDGETS

Summary Position

- 1.1 These budgets, managed by the TMO on behalf of the Council, comprise the major running costs relating to the management of the stock (repairs and maintenance, utilities, cleaning and refuse, etc.) and the income collected in the form of rents, service charges and other charges.
- 1.2 The original net budget for 2016/17 splits down between budgeted income of £57.533 million and budgeted expenditure of £21.727 million to produce a net income budget of £35.806 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.
- 1.3 The following table summarises the overall position for 2016/17 and 2017/18:

	2016/17 Original Budget £'000	2016/17 Revised Budget £'000	2017/18 Proposed Budget £'000
Expenditure	21,727	19,686	21,490
Income	-57,533	-57,542	-57,995
Net Managed TMO Budgets	-35,806	-37,857	-36,505

Revised Budget 2016/17

- 2.1 For the current year, the revised net TMO managed budget is £2.050 million higher than the original budget. The main factors resulting in the variance are:
- Planned Maintenance – This is forecast to be underspent by £1.443 million. This comprises:
 - External Decorations – a reduction of £1 million reflecting delays arising from the need to consider whether windows should be replaced or repaired. The budget set for 2017/18 reflects this underspend. Any further realignment between the years will be determined as part of Quarter 4 monitoring process;
 - Individual Heating – ongoing savings have been achieved following the re-procurement of the gas maintenance contract at the end of 2015-16. This has resulted in a budget underspend of £168,000 in 2016-17;

- Lifts – a budget underspend of £20,000 reflecting savings arising from the re-procurement of the planned and responsive lift maintenance contracts;
- District Heating – an inflationary increase of £25,000 on planned maintenance works to communal plant;
- Central Programmed Heating Work – a reduction of £80,000 to reflect savings arising from the new maintenance contract which requires the contractor to undertake additional tasks as part of the service delivery;
- Estate Lighting – a reduction of £50,000 due to procurement savings achieved from the interim contractor whilst the tender for the permanent contract is in progress;
- Rewiring Works – a reduction of £100,000 due to a fall in the level of works required due to the higher level of activity in 2015-16;
- Water Quality – a reduction of £50,000 as a result of legislation changes that only require risk assessments to be undertaken every two years rather than every year;
- Responsive Repairs – the forecast has been reduced by £100,000. The majority of this is attributed to a £70,000 reduction in Estate Lighting, which is due to procurement savings arising on an interim contract.
- Aids & Adaptations – a reduction of £50,000 due to lower demand for minor aids and adaptation works.
- Electricity, Heating & Hot Water – The overall forecast has been reduced by £630,000. This mainly reflects savings arising from recent procurement activity which has resulted in energy prices falling on average by 20%. A credit of £87,000 has been received from the energy provider relating to 2015/16 which was not assumed when the accounts were closed.
- Contract Cleaning – an increase of £124,000 following the retendering of the service. The new contract started October 2016 and assumes payment of the London living wage and is based around quality and not just value.
- Dwelling Rents – income is forecast to be £265,000 more than was assumed in the budget. Most of this is due to a lower level of voids arising within the stock.
- Commercial Properties Rent Income – income in 2016-17 has been revised down by £165,000. This comprises:

- (i) £71,000 for Walnut Tree House due to a legal dispute resulting in no income being collected for the first half of 2016-17;
 - (ii) £38,000 for Acklam Road as the lease is due to commence from October 2016 and the first six months are rent free and
 - (iii) £56,000 for Holmfield House as there have been severe delays with renewing communal pipe work and thus no rent will be received in 2016-17.
- Rents from Garage and other parking facilities – income is forecast to be £30,000 lower than assumed in the budget. Following the introduction of the Traffic Management Order, income from charges for on street parking needs to be transferred to the General Fund. At the time the budget was set the level of transfer was unknown. Based on the first two quarters, it is estimated that £50,000 will need to be transferred to the General Fund in 2016-17 which reduces the level of income to be credited to the HRA.
 - Heating and Hot Water Charges – income from charges is £65,000 less than was assumed when the budget was set. This reflects lower charges to tenants arising from the recent procurement work, partly offset by charges to leaseholders being higher than those assumed when the budgets were set.

The budget variances shown against expenditure on these services and against charges for these services will always differ. The costs of buying the energy are charged to the revenue account in the year of purchase. However, charges to tenants are based on a 3-year rolling average of usage (i.e. 16-17 charges were set as an average of usage in 13-14, 14-15 and 15-16). This average usage is then charged to tenants at the current year unit rate.

- Tenant Service Charges – the forecast has been increased by £54,000. This reflects a lower level of voids and the level of costs needing to be recharged.
- Income from charges to leaseholders for insurance – income is projected to be £272,000 less than was assumed in the budget. The budget was set prior to the insurance contract being retendered (see below).
- Income from Leaseholder Service charges - this is projected to increase by £202,000 due to variations arising during the final accounts process.
- Income from Major Works - income is projected to be £1.175 million less than was assumed in the budget. Following a recent Leasehold Valuation Tribunal decision, bills to leaseholders must either be sent at the start of the financial year, provided full consultation has taken

place, or in full at the final account stage, if consultation is not complete prior to the start of the financial year. The budgets for 2016/17 were set prior to the consultation process taking place. Some consultation has now been deferred to later in 2016/17 whilst surveys of the blocks are completed. Where leaseholders were not billed at the start of 2016/17, they will now be billed in September 2017 as part of the final accounts process.

Budget 2017/18

- 3.1 The proposed TMO managed budget for 2017/18 is for net income of £36.505 million. This surplus is £699,000 more than assumed in the 2016/17 original budget.
- 3.2 The main factors resulting in the proposed changes are:
- Planned Maintenance – a reduction of £163,000 due to savings arising from the retendering of the Individual Heating contract.
 - Responsive Maintenance – an increase of £49,000 due to inflationary pressures.
 - Electricity, Heating and Hot Water – expenditure on energy is predicted to be £652,000 less than was assumed in the original budget. This reflects both lower usage and lower prices, and also the planned termination of a contract with a data validation service (see above). It is difficult to predict the level of any price increases in 2017/18, as a result no price change has been assumed in the budget. The budget can be amended once the position becomes clearer.
 - Contract Cleaning – the new contract has been procured on the basis that the London Living Wage will be paid to employees. The new contract started in October 2016. The impact of this is an additional £447,000 for 2017/18. Under the contract terms, no inflationary increase will be payable for the first 18 months.
 - Car Parking Management - this budget reflects the costs of implementing the new car parking arrangements. It is anticipated that these will be fully recovered through a draw down from the Car Parking Reserve Account.
 - Income from dwelling rents is expected to be £448,000 lower than was assumed in the current year's original budget. This reflects the rental reduction of 1% which was announced in the Chancellor's budget (2015) and the loss of income from properties being sold under the Right to Buy regime. A void level of 1.5% has been assumed.
 - Rental income from commercial properties is expected to increase by £567,000 compared to the 2016/17 original budget. This is primarily due to market rents being charged to both Council services and voluntary organisations and additional income arising from the renegotiation of leases by the Commercial Property Team.

- Income from charges for garages and other parking facilities has decreased by £22,000. This reflects the introduction of the Traffic Management Order whereby income from on-street parking must be charged to the Council's General Fund. However, it is anticipated that expenditure linked to the new car parking arrangements will satisfy the criteria needed to be funded through the Car Parking Reserve Account.
- Income from Tenants Service Charges is forecast to be £319,000 more than was assumed in the current year's original budget. Of this, £220,000 is due to the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees (see above).
- Income from Leaseholder Service Charges is forecast to be £367,000 more than was assumed in the 2016/17 budget. This includes a 2% RPI uplift assumed for all costs and the impact of the new cleaning contract procured on the basis that the London Living Wage is paid to employees.
- Income from Heating and Hot Water Charges is forecast to be £106,000 less than was assumed in the current year's original budget. Charges are based on activity over the previous 3 years and reflect the continued downward trend in energy prices.
- Income from Insurance Charges to Leaseholders is £245,000 less than was assumed in the original budget. The original budget was set prior to the insurance contract being retendered.
- Major Works Service Charges – income is £780,000 less than assumed in the 2016/17 budget. This reflects the new arrangements following the recent Leasehold Valuation Tribunal decision (see above). The budget, as presented, only includes works which have been confirmed at November 2016. The position may change before April 2017, a corresponding change can then be made to the budget.

COUNCIL MANAGED BUDGETS

- 1.1 The budgets within the HRA which continue to be directly managed by the Council comprise the following elements:
- Costs relating to the financing of HRA debt;
 - Costs relating to the funding of the capital programme including a provision for depreciation;
 - Costs relating to property insurance and
 - Costs incurred in supporting the Council's statutory responsibilities in relation to the HRA including audit, performance review, accounting/legal advice, the cost of Council officer time spent on HRA matters and support to the Cabinet Members with responsibility for Housing.

Financing HRA Debt

- 2.1 Prior to the introduction of Self-Financing, the methodology for determining capital financing charges to be met from the HRA was prescribed. Under Self-Financing, these charges must be determined locally.
- 2.2 In determining the charge to be made to the HRA for the use of General Fund resources, the underlying principle must be to ensure the effect on both the HRA and the General Fund is fair and equitable.
- 2.3 In 2012, it was agreed as part of the Council's Treasury Strategy that the charge for using internal resources would be equal to the higher of the PWLB three month variable rate or the Royal Borough's average interest rate. This reflects the short to medium-term nature of General Fund support for HRA borrowing whilst using an interest rate that reflects market short term rates with a small premium. This approach penalises neither the HRA nor the General Fund and so achieves the principle of being both fair and equitable.
- 2.4 The exception to this was the funding of the Self Financing settlement payment (£24.960 million). The Council matched the special rates made available to local authorities for 5 years to fund the settlement payment, on this loan a rate of 1.24% is being charged. This arrangement ends in March 2017 and from 2017/18 rates similar to those charged on other loans from the Council's General Fund to the HRA will apply.
- 2.5 In 2017/18, the overall debt to be financed is £210.164 million. Of this, £130.758 million will be funded from loans from the Public Works Loans Board, with the balance being funded through use of the Council's cash reserves within the General Fund.

- 2.6 Based on the methodology outlined above, the average interest rate chargeable to the HRA on actual external debt is estimated to be 6.32% and on internally funded debt a rate of 1.05% is currently forecast.
- 2.7 In 2004/05, Government changes to Capital Financing accounting included the abolition of the HRA's statutory annual duty to repay 2% of debt. There are no plans to repay debt over the medium term. However, this will be reviewed each year as part of HRA business planning.

Funding the HRA Capital Programme

- 3.1 As part of Housing subsidy, an allocation to fund capital expenditure on HRA properties was received each year. This was known as the Major Repairs Allowance (MRA). Local authorities were allowed to use the level of MRA as a proxy for depreciation.
- 3.2 Under Self-Financing, local authorities must determine the annual funding to be allocated to the capital programme. They also need to determine the level of depreciation chargeable to the HRA which must be in accordance with appropriate accounting practices.
- 3.3 In conjunction with Corporate Finance a depreciation charge of £3.056 million on dwellings and non-dwellings has been calculated. This provision provides a source of funding to meet capital expenditure requirements within the HRA stock.
- 3.4 The 2017/18 budget includes a further contribution towards the HRA Capital Programme in 2017/18. An overall revenue contribution of £18.147 million has been assumed in the 2017/18 budget, this includes the depreciation provision set out above. The planned uses of this funding are set out in the HRA Business Plan.

Summary Position

- 4.1 The following table summarises the revised budget for the current year and the proposed budget for 2017/18:

	2016/17 Original Budget £'000	2016/17 Revised Budget £'000	2017/18 Proposed Budget £'000
Expenditure	15,855	15,378	14,836
Income	-254	-254	-231
Net Council Managed Budget	15,601	15,124	14,606

Revised Budget 2016/17

5.1 In terms of the current year, the revised budget indicates a decrease of £477,000 which is primarily due to:

- Capital Charges – a decrease of £246,000 in the cost of debt charges (interest costs on borrowing to fund the outstanding debt), is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget.
- Insurance cost – the forecast underspend of £330,000 is due to the budget being set prior to the building insurance contract being retendered. This budget comprises all insurances relating to the HRA stock, not just that relating to leaseholders.
- Consultancy budget – an overspend of £124,000 is predicted reflecting the need for external advice relating to a number of issues and projects. This includes the forced sale of Higher Value Voids, the retention of receipts arising from Right to Buy sales and specialist advice regarding regeneration projects.

Budget 2017/18

6.1 The proposed Council managed budgets for 2017/18 indicates a decrease of £995,000. The main factors are:

- Capital Charges – a decrease of £1.049 million in the cost of debt charges (interest costs on borrowing to fund the outstanding debt) reflects the decrease in the interest rate used to calculate the debt charges and the refinancing of capital debt as PWLB loans fall out and use is made of General Fund cash reserves at a rate of 1.05%.
- Depreciation – the £226,000 increase in depreciation is mostly due to an increase in non dwelling commercial properties depreciation. This is fully offset by the Council's decision to charge market rents to users of HRA commercial properties.
- Insurance cost – the forecast underspend of £292,000 is due to the budget being set prior to the building insurance contract being retendered. This budget comprises all insurances relating to the HRA stock, not just that relating to leaseholders.
- Charges made by Housing Services - an increase of £131,000. This is mainly due to additional resources within the regeneration team.

APPENDIX 5

HRA WORKING BALANCE AND RESERVES

Working Balance

- 1.1 As at 1 April 2016, the working balance was £21.410 million. As a result of the projected drawdown from the working balance of £700,000 (see table in paragraph 2.3), the forecast for the working balance as at 31 March 2017 is £20.710 million. The proposed budgets for 2017/18 (see table in paragraph 2.3) would result in a drawdown from the working balance of £2.082 million resulting in a projected working balance at the end of 2017/18 of £18.628 million.
- 1.2 The projected movements in the working balance up to March 2018 can therefore be summarised as follows:

HRA Working Balance		
		£'000
	Opening balance (1 April 2016)	21,410
<i>add</i>	Projected outturn variance 2016/2017	-700
<i>equals</i>	Projected Working Balance (31 March 2017)	20,710
<i>Less</i>	Budgeted drawdown from Working Balance 2017/2018	-2,082
<i>equals</i>	Projected Working Balance (31 March 2018)	18,628

- 1.3 Any proposed uses of the working balance will be considered within the HRA Business Plan.

HRA Reserves

2.1 The following table summarises the level of HRA reserves:

Heading	1 April 2016 (Actual) £'000	31 March 2017 (Forecast) £'000	31 March 2018 (Forecast) £'000
TMO Managed Reserves			
Controlled Repairs/Area Revenue Works Reserve	344	344	344
Major Repairs Reserve	706	0	0
Total	1,050	344	344

Major Repairs Reserve

2.2 The following table summarises the projected position on the Major Repairs Reserve:

	Original Budget 2016-17 £'000	Revised Budget 2016-17 £'000	Estimate 2017-18 £'000
Major repairs reserves (MRR)			
Brought Forward	0	-706	0
HRA Depreciation transfer to MRR	-2,830	-2,830	3,056
HRA transfer to MRR	-15,391	-14,083	15,091
Capital expenditure funded by MRR	18,221	17,619	18,147
Carried Forward	0	0	0

APPENDIX 6

HOUSING REVENUE ACCOUNT BUSINESS PLAN - 2016/17 to 2021/22

Financial modelling has been undertaken to estimate the level of surpluses that might arise on the HRA over the next 5 years. The following table summarises the results of the modelling exercise:

	£000's	In Year (Surplus)/Deficit £000's	Cumulative (Surplus)/Deficit £000's
Balance at 1st April 2016			-21,410
Income received in 2016/17	- 59,272		
Expenditure in 2016/17	59,971		
Deficit arising in 2016/17		699	
Balance at 31st March 2017			-20,711
Income received in 2017/18	- 60,096		
Expenditure in 2017/18	62,178		
Surplus arising in 2017/18		2,082	
Balance at 31st March 2018			-18,629
Income received in 2018/19	- 62,216		
Expenditure in 2018/19	59,752		
Surplus arising in 2018/19		- 2,464	
Balance at 31st March 2019			-21,093
Income received in 2019/20	- 59,780		
Expenditure in 2019/20	53,597		
Surplus arising in 2019/20		- 6,183	
Balance at 31st March 2020			-27,276
Income received in 2020/21	- 60,513		
Expenditure in 2020/21	53,731		
Surplus arising in 2020/21		- 6,782	
Balance at 31st March 2021			-34,058
Income received in 2021/22	- 61,156		
Expenditure in 2021/22	52,946		
Surplus arising in 2021/22		- 8,210	
Balance at 31st March 2022			-42,268

A number of assumptions have been made within the financial model. The key assumptions are as follows:

- The charge to the HRA where debt is financed internally is in accordance with the methodology set out in Appendix 4 paragraph 2.3 i.e. the interest rate is equal to the higher of the PWLB three month variable rate or the Royal Borough's average interest rate;
- Inflation assumptions over the period are as follows: an annual increase of 1% on the TMO Management Fee from 2018/19 and an annual increase of 2% on other expenditure budgets and
- Over the 5 years 2017/18 to 2021/22, revenue contributions of £59.4 million are assumed to be made to the Main Capital Programme. This can be broken down over the 5 years as follows:

2017/18	£16m
2018/19	£13.4m
2019/20	£10m *
2020/21	£10m *
2021/22	£10m *

*The adequacy of this provision will need to be reviewed, taking into account available resources.

- Additional revenue contributions totalling £3.8 million have been made towards other schemes within the Capital Programme.

Some sensitivity analysis has been undertaken to estimate the potential changes if key assumptions were to change. The results of some scenarios considered are:

- A 1% increase in the cost of financing debt internally would reduce the surplus at the end of the period by £4.699 million to £37.569 million.
- A 1% increase in the cost of expenditure (excluding debt financing charges) met by the HRA would reduce the surplus by £1.186 million to £41.082 million.
- The combined effect of the above two scenarios would decrease the surplus by £5.885 million to £36.383 million.

CHARGES FOR PARKING PERMITS

Charges for Tenants and Leaseholders (TLSC) from 1 April 2017

Facility	Current Standard Charge per week – Tenants and Leaseholders	Proposed Standard Charge per week – Tenants and Leaseholders
	(TLSC)	(TLSC) from 1 April 2017
Self-Contained Garage – North (excluding Lancaster West)	12.87	13.00
Self-Contained Garage – South	25.28	25.53
Self-Contained Garage - Lancaster West	21.95	22.17
Self-Contained Garage – Norwood Green, Southall	6.75	6.82
External Hardstand – North (inc. Lancaster West)	5.14	5.19
External Hardstand – South	6.62	6.69
Indoor Car Park Bay – Elm Park Gardens	25.64	25.90
Indoor Car Park Bay – Walnut Tree House	13.82	13.96
Indoor Car Park Bay – Warwick Road	11.74	11.86
Indoor Car Park Bay – Worlds End	16.88	17.05
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	8.99	9.08
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Charges for Other Users (OUSC) from 1 April 2017

Facility	Current Standard Charge per week – Other Users (OUSC)	Proposed Standard Charge per week – Other Users (OUSC) from 1 April 2017
Self-Contained Garage – North (excluding Lancaster West)	32.17	32.49
Self-Contained Garage – South	63.22	63.85
Self-Contained Garage -Lancaster West	54.86	55.41
Self-Contained Garage – Norwood Green, Southall	16.86	17.03
External Hardstand – North (inc. Lancaster West)	12.85	12.98
External Hardstand – South	16.54	16.71
Indoor Car Park Bay – Elm Park Gardens	64.11	64.75
Indoor Car Park Bay – Walnut Tree House	34.53	34.88
Indoor Car Park Bay – Warwick Road	29.33	29.62
Indoor Car Park Bay – Worlds End	42.20	42.62
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	22.46	22.68
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED**

For Decision	
Board Report 10 January 2017	
Report title:	Group Procurement Policy
Authority for decision:	The Board is required to approve the Group Procurement Policy
Recommendations:	<p>It is recommended that the Board considers the report and passes the following resolution.</p> <p>“It was RESOLVED to:</p> <ul style="list-style-type: none"> • approve the KCTMO Group Procurement Policy.
Regulatory/legal requirements:	The Companies Act 2006 provides that the Board of Directors has the duty to promote the success of the Company including managing the relationship with its stakeholder, RBKC.
Business Plan link:	<p>In line with the 2014 - 2017 business plan effective procurement will respond to the Business Plan priorities to:</p> <ul style="list-style-type: none"> • Invest to make great homes and communities • Deliver excellent, good value services.
Equality Impact Assessment/comment:	N/A
Resident consultation:	Leaseholders are required to be issued with Section 20 notices in accordance with any procurement before the entry into contracts for works.
Resource implications/VFM:	The KCTMO Group will aim to achieve VFM through the procurement process.
Risk:	Not adhering to the correct procurement processes may lead to a breach in legislation, challenge from suppliers or poor value in terms of cost.
No of Appendices:	1
Total number of pages including appendices:	5
Name, position and contact details of author:	Sacha Jevans Executive Director of Operations Extn [REDACTED]



PROCUREMENT POLICY

Procurement Policy

Introduction

- 1.1 This Policy sets out the rules and regulations that will govern the process of the procurement of goods, services or works undertaken by the Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited (**KCTMO, the Company**), and any subsidiary of the Company (collectively known as, **the Group**) for itself (where applicable) or on behalf of the Royal Borough of Kensington and Chelsea (**RBKC**). Every procurement activity undertaken by or on behalf of the Group must comply with this policy and the procedure guide (separate document).
- 1.2 The term "**procurement**" in this Policy is the process of acquiring goods, services or works from third parties and external providers. It includes all buying activities including but not limited to leasing and hiring, and may where appropriate include other activities accompanying the life cycle of goods or service contracts and the end-of-life disposal of goods which have been procured.
- 1.3 Procurement is a strategic process that commences with the identification of a need right through to the review of the delivery of the contract for goods, services or works, and the lessons learnt for future procurements. This includes circumstances where more than one provider is invited to tender and also where goods, services or works are procured via negotiation with a single provider.
- 1.4 The purpose of this Policy is to:
 - 1.4.1 help with and guide the optimisation of the procurement of goods, services or works within the limited resources available whilst safeguarding against any imputation of dishonesty or corruption by the Group; and
 - 1.4.2 aid the use of procurement in the delivery of the Group's objectives (defined below); and
 - 1.4.3 ensure compliance with the Group's obligations with legislation particularly the Public Contracts Regulations 2015 (the **EU Regulations**) where applicable.

General Principles

- 1.5 The Group recognises that procurement activities are opportunities to assist in the delivery of the Group's objectives, which are:
 - i value for money;
 - ii investment in communities;
 - iii investment in assets;
 - iv people;
 - v customers; and

vi growth.

- 1.6 In all procurement activity, there needs to be consideration for the extent to which the procurement activity can support or impact the delivery of goods, services and works, to further the Group's objectives:
 - 1.6.1 meeting the Group's requirements within the set budgets;
 - 1.6.2 encouraging a positive contribution from suppliers to the local communities in which they work on behalf of the Group;
 - 1.6.3 exploring the opportunities for developing appropriate contractual provisions to deliver specific community benefits in line with the Group objectives; and
 - 1.6.4 seeking to minimize the risk associated with the procurement of such goods, services and works with the use of tools and strategies (for example, the use of the procurement forward plan).
- 1.7 This Policy should be read in conjunction with the following documents:
 - 1.7.1 the Group's individual / collective Business Plans;
 - 1.7.2 the Group's Financial Regulations;
 - 1.7.3 the Group's Contract Regulations; and
 - 1.7.4 the Group's Anti-Corruption Policy.
- 1.8 The Group shall review this Policy every three years, or at any time whereupon an urgent or major amendment is required. The Executive Team, advised by the Group Secretary or the Procurement Manager, may also from time to time issue amendments to this Policy as he/she may consider appropriate.

Use of this Policy

- 1.9 All procurement activity shall be undertaken in accordance with the applicable procurement laws including the Treaty on the Functioning of the European Union and the Public Contracts Regulations 2015 where appropriate.
- 1.10 Where a procurement law does not apply to a procurement activity, such procurement activity shall be undertaken in accordance with the EU community law and the EC Treaty principles of equality, transparency and non-discrimination.
- 1.11 All procurement activity shall be undertaken with the highest ethical standards applicable and in particular, the provisions of the Group's Anti-Corruption and Gifts & Hospitality Policy (on the intranet) shall be noted.
- 1.12 All employees or any agents, consultants, contractors (and any representatives acting on their behalf) of the Group shall abide by this Policy (and any Procedure Guide in force) for any procurement undertaken for and on behalf of the Group.

- 1.13** The Group Secretary or the Procurement Manager will make the latest version of this Policy or its appendices, available on the intranet and in hard copy to any employee, agent, consultant, contractor, representative or Board member of the Group, upon their request.
- 1.14** Any cases for departure from this Policy shall be required to be reported to the Group Secretary for the attention of the Executive Team and any requests for departure must be submitted so as to allow sufficient time for review before the procurement activity proceeds.
- 1.15** Where the procurement of any goods, services or works of any value is to be fully funded by a third party (for example a developer, funder, or RBKC) and the funding party requests that the provisions of this Policy should be waived (for example, a specific supplier should be awarded), the procurement decision shall be referred to the Company Secretary for guidance on the applicable process to be adopted.

Public Contracts (Social Value) Act 2012

- 1.16** Before starting any procurement activity, the Group is required to consider both of the following:
 - a. how the proposed goods, services and works might improve the economic, social and environmental well-being of the relevant area; and
 - b. how, in conducting the process of procurement, the Group might act with a view to securing that improvement.
- 1.17** In respect of point 1.16(b) the Group should only consider matters that are relevant to what is proposed to be procured, and must also consider the extent to which it is proportionate in all the circumstances to take those matters into account.
- 1.18** The Group must consider whether to undertake any consultation as to social value matters, before starting the procurement.
- 1.19** If an urgent need to arrange the procurement in question makes it impractical to comply with these requirements before the start of the procurement, the Group may only disregard the requirements to the extent that it is not practical to comply with them.

Responsibilities

- 1.20** It is the responsibility of all Board members, employees, volunteers, consultants and suppliers to ensure that the requirements of this Policy are complied with in all procurement activities within their business areas for or on behalf of the Group.
- 1.21** It is the duty of all employees to report breaches of this Policy to an appropriate Executive or Senior Manager and to the Group Secretary.
- 1.22** It is a disciplinary offence to fail to comply with this Policy when procuring any goods, services or works or entering into any contracts.

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED ("TMO")

Confidential

For Decision

Group Board Report 10 January 2017

Report title:	Appointment of External Audit Services
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Authority for decision:	The Board are responsible for assessing the qualifications, expertise and resources, effectiveness and independence of the external auditors annually.
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Recommendations:	It is recommended that the Board consider the contents of the report and upon due consideration pass the following resolution: It was RESOLVED TO appoint BDO LLP to provide external audit services for the TMO for 3 years with the provision to extend for up to a further 2 x 1 years.
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Regulatory/legal requirements:	The Companies Act 2006 provides that companies must prepare financial statements that give a true and fair view and that depending on the size of the company, an independent audit firm is appointed by the company to confirm this view and ensure the financial statements have been prepared properly and in accordance with the requirements of the Companies Act 2006.
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Business Plan link:	None specific
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Equality Impact Assessment/comment:	N/a
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Resident consultation:	N/a
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Resource implications/VFM statement:	None specific
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Risk:	It is a requirement of the Companies Act 2006 to appoint an audit firm to undertake the annual audit of the financial statements.
Appendices:	None
Total number of pages including appendices:	6
Name, position and contact details of author:	Barbara Matthews, Executive Director of Financial Services & ICT

1. **Introduction**

- 1.1. RSM UK AUDIT LLP (formerly Baker Tilly UK AUDIT LLP) ("RSM") have undertaken the audit of the Royal Borough of Kensington & Chelsea Tenant Management Organisation Limited ("TMO") financial statements for the last 9 years. It is current best practice that the audit firm is appointed for 3 years with provision to extend this for a further 2 years, but to a maximum of no more than 7 years.
- 1.2. For no other reason than RSM have provided the service to the TMO for over 7 years, it has been decided that the services should be procured in 2016/17 to commence the contract with the audit of the 2016/17 financial statements.

2. **Procurement**

- 2.1. The current level of fees for the external audit services for the Group (TMO and Repairs Direct) are circa £30k per annum, therefore a 3-year contract with the provision to extend a further 2 years was likely to return a total cost of £150k. The current threshold for Services under EU Public Procurement Regulations is £164,176 and therefore a full OJEU compliant procurement procedure was not necessary in this instance.
- 2.2. An Open Procedure was chosen for the route to market in order to ensure compliance with both the principles of the European Treaty and the TMO Constitution. The preferred bidder would be expected to undertake their business in English, would understand and have clients in the Housing sector and would be of sufficient size to be able to provide the add on services (for example, tax advice) that the TMO Group requires.
- 2.3. The procurement procedure was run by the Finance team with support and advice from the TMO Procurement Manager.

3. **Procurement Process**

- 3.1. The procurement process commenced on Tuesday the 25th October 2016 when a Contract Notice and all Invitation to Tender (ITT) documents were posted on the MyTenders e-procurement portal. The following seven Practices provided their Expression of Interest: -

UHY Hacker Young
Mazars LLP
MHA MacIntyre Hudson
PKF Littlejohn
BDO LLP
PwC
ATAX Solutions Ltd

- 3.2. There were three bids received from the following Practices via the MyTenders e-procurement portal prior to the deadline for the receipt of bids (12 noon on Friday 4th November 2016): -

BDO LLP
Mazars LLP
UHY Hacker Young

- 3.3. The evaluation of the bids was carried out on the 14th November 2016 at the offices of TMO at 346 High Street, Kensington by the evaluation panel consisting of the Executive Director of Financial Services & ICT, the Assistant Director of Finance and the Principal Accountant responsible for the TMO annual audit, reviewed by the TMO Procurement Manager. All three bids were assessed on a Most Economically Advantageous Tender (MEAT) basis using the evaluation criteria of quality (experience, audit and approach) and cost with a weighting of 60% / 40% ratio respectively. Appendix 1 sets out the questions bidders were required to respond to and the rating used for evaluation purposes.
- 3.4. The results of the evaluation identified that two compliant bids were received from BDO LLP and Mazars LLP whilst the bid received from UHY Hacker Young was deemed to be non-compliant due to unacceptable responses given to all three questions in the experience section of the quality response (Questions 1, 2 and 3). The results of the evaluation are shown in the table below: -

	Weighting	BDO LLP	Mazars LLP
Quality	60%	58.00%	58.00%
Cost	40%	40.00%	39.82%
Total	100%	98.00%	97.82%

The two compliant bidders were invited to attend a clarification and presentation/interview session held at the offices of TMO on Wednesday 23rd November 2016.

- 3.5. The interview panel consisted of the Executive Director of Financial Services & ICT, the Assistant Finance Director, Anne Duru (Chair of Finance, Audit & Risk Committee) and Anthony Preiskel (independent Board member).
- 3.6. The panel interrogated both Practices on their ability to provide the added services that the TMO Group may or may not require in the future. The panel agreed that both Practices would be able to provide the audit services required.
- 3.7. The procurement process has identified the preferred bidder as BDO LLP scoring a total of 98% with the second placed bidder scoring a total of 97.82%.
- 3.8. Following the presentation and clarification interviews, it was agreed that the preferred bidder was BDO LLP and that they should be recommended to the Finance, Audit & Risk Committee and the Board for approval to be appointed as the external audit service provider for the TMO Group. On the receipt of formal approval from the Board, the contract will be awarded. The anticipated mobilisation period will be during January to March 2017, for BDO LLP to present their audit plan for the 2016/17 audit (to be undertaken during May 2017) at the March meeting of the Committee.
- 3.9. This report and proposal were discussed by the Finance, Audit & Risk Committee at its meeting on 7 December 2016. The Committee recommends that the Board passes the resolution as set out to appoint BDO LLP to provide external audit services for the TMO Group for 3 years with the provision to extend for up to a further 2 years.

- 3.10. The Repairs Direct Board considered the report and proposal at its meeting on 15 December 2016 and agreed to the proposal to appoint BDO LLP to provide external audit services to Repairs Direct for 3 years with the provision to extend up to a further 2 years.

4. **Recommendation**

- 4.1. It is recommended that the Board passes the resolution to appoint BDO LLP to provide external audit services for the TMO Group for three (3) years with the provision to extend for up to a further two (2 x 1) years.

APPENDIX 1

Questions extracted from the tender used to evaluate bids and their ratings

Quality (60% of the final score)

All bidders were asked the following questions and were required to submit their responses within their bid submission. (weightings as shown).

Q1. Please provide the number of organisation's current housing clients (TMOs /RPs /ALMOs or Local Authorities) and the number of clients owning and/or managing 5,000 to 20,000 units.

(5%)

Q2. Experience in the housing sector in the last 5 years relevant to an organisation similar to KCTMO Group.

(5%)

Q3. List three of your current audit clients (preferably in London) who own and/or manage between 5,000 and 20,000 units that can be used as reference sites. Please include contact details.

(5%)

Q4. Not scored.

Q5. Not scored.

Q6. Not scored.

Q7. Brief explanation of any added value that appointing your firm would bring to KCTMO Group.

(5%)

Q8. Not scored.

Q9. Not scored.

Q10. Not scored.

Q11. Please outline your approach to providing the services required, indicating how you would meet all of the requirements outlined in 5.1 of the ITT document.

(40%)

Cost (40% of the final score)

The bidder with the lowest cost receives the full 40% with the higher bids scored using the following formula: -

Score % = lowest priced bid / bid price being evaluated x 40

(40%)

A report had been provided setting out the internal audit HR recommendation and the corresponding responses and actions. An update of the audit report was requested for the next meeting. It was confirmed that the next internal audit update would reflect the overall recommendations and what had been done.

- 3.2 The updates to the matters arising were NOTED.

4 DECLARATIONS OF INTEREST

- 4.1 There were no declarations of interest.

5 APPOINTMENT OF THE EXTERNAL AUDITOR

- 5.1 The procurement of external auditor services report had been circulated.
- 5.2 After completing a thorough tender process, BDO LLP had been selected to provide audit services to the Company. Seven firms were selected to bid for the for the Company's audit service. Responses were received from three firms, Mazars LLP, BDO LLP and UHY Hacker Young.
- 5.3 The Committee agreed to RECOMMEND to the Board the appointment of BDO LLP to provide external audit services to the Company and its subsidiary company for 3 years with the provision to extend for up to a further 2 years.

6 BUDGET 2017/18

- 6.1 The Group Budget 2017/18 report had been circulated and the Executive Director of Financial Services & ICT provided a presentation of the proposed Group and Company budgets for 2017/18. (attached).
- 6.2 The proposed 2017/18 Group surplus after project costs was £156k, a £25k increase from 2016/17 budget. The parent company's proposed surplus before project costs was £36k. The surplus after project costs resulted in a deficit of £38k in line with the Board's agreement to fund the estimated cost of the website, intranet and the CRM projects from group reserves.
- 6.3 The proposed 2017/18 profit of the subsidiary company was budgeted at £194k compared to £130k for 2016/17. There was some concern about whether the increased use of sub-contractors would pose a risk to the Company's reputation. Assurance was provided that sub-contractors were engaged to complete jobs of a specialised nature which could not be done in-house. The Company had rolled out a new contract to ensure the required quality of work.
- 6.4 The use of the subsidiary company's profits was queried. The Director of Financial Services and ICT explained that the group Board had not yet decided on how the profits of the Company would be used. One option could be to invest into the community by creating a social enterprise.

6.5 After consideration, it was RESOLVED to:

- (i) agree the revised budget for the 2016/17 financial year for Kensington and Chelsea TMO Repairs Direct Limited (RD);
- (ii) agree the proposed budget for the Group for the 2017/18 financial year;
- (iii) recommend the revised 2016/17 budget for RD to the RD Board for approval;
- (iv) recommend the RD proposed budget for the 2017/18 financial year to the RD board for approval; and
- (v) recommend the TMO proposed budget for 2017/18 financial year to the TMO Board for approval.

7 HOUSING REVENUE ACCOUNT BUDGET 2016/17 AND 2017/18

7.1 Revised RBKC Housing Revenue Account (HRA) Budget 2016/17 and proposed Budget 2017/18 had been circulated and the Executive Director of Financial Services & ICT provided a presentation of the proposed budget for 2017/18.

7.2 The proposed 2017/18 budget showed net income at £38.316m which was £142k less than the original 2016/17 budget.

7.3 After consideration, it was RESOLVED to:

- (i) agree the revisions to the 2016/17 HRA budget;
- (ii) agree the proposed HRA budget for the 2017/18 financial year;
- (iii) recommend the revised 2016/17 HRA budget to the Board for approval;
- (iv) recommend the proposed 2017/18 HRA budget to the Board for approval; and
- (v) recommend that the proposed 2017/18 HRA budget be issued to RBKC, by the Company.

8 Any Other Business

8.1 There were no other business to consider.

9 DATE OF NEXT MEETING

9.1 The next meeting of the Committee was scheduled for Thursday, 26 January 2017.

The meeting closed at 7.55pm



KENSINGTON & CHELSEA TMO REPAIRS DIRECT LIMITED
(the 'Company')

Minutes of a meeting of the Board of the Directors (**Board**)
held on 15 December 2016 at 4.30pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

DIRECTORS	Paul Mains	Chair
	Barbara Matthews	
	Graham Webb	Managing Director
	Eman Yosry	

APOLOGIES: Sacha Jevans

IN ATTENDANCE:	Rupa Bhopal	Assistant Director of Financial Services
	Sam Hart	Commercial Manager
	Truda Scriven	Interim Head of Governance and
		Company Secretary (Minutes)

1 NOTICE, APOLOGIES AND QUORUM

- 1.1 Notice had been given to the directors entitled to receive notice and attend the meeting.
- 1.2 Apologies had been received from Sacha Jevans.
- 1.3 The meeting was quorate in accordance with the Articles of Association of the Company.

2 MINUTES OF THE MEETINGS HELD ON 15 SEPTEMBER AND 8 NOVEMBER 2016

- 2.1 The minutes for the meetings held on 15 September and 8 November 2016 were APPROVED as a true and accurate record of the meetings.

3 MATTERS ARISING

- 3.1 *Benchmark job-costing - Minute 6.4 Meeting 10/03/2016*

Benchmarking data, comparing the last available HouseMark repairs data from 2015/16 with those of Repairs Direct, would be compiled and circulated to the Board.

- 3.2 The update to the matters arising was NOTED.

4 DECLARATIONS OF INTEREST

- 4.1 There were no declarations of interest.

5 MANAGING DIRECTOR'S REPORT

- 5.1 The report by the Managing Director had been circulated. The business continued to operate at satisfactory levels, with an improving trend in operational KPIs and financial delivery ahead of budget.
- 5.2 Repairs Direct was operating in line with budget and was forecast to deliver a net profit of £151k, ahead of the revised budget.
- 5.3 Work in progress was within target. An aged analysis of WiP by job profile was AGREED to be brought to the next meeting. It was confirmed that all jobs outstanding since before June 2016 would be cleared by the end of 2016.
- 5.4 All six KPIs reported to Board remained green year to date. It had proved challenging to maintain Average Days within target, with the upturn in volumes for the winter months and a continued drive to reduce subcontracted volume. At October 2016 year to date Average Days were 10.3 against a target of 12.
- 5.5 Productivity was now consistently above 4 jobs per operative per day. There would be a drive towards reaching the target of 5 in the final quarter of the year. There was some discussion concerning *productive* and *non-productive* operative time. It was stated that several factors impacted on this: geographical area, van stock, job diagnostics, prioritisation and call centre training. It was AGREED that a productivity report would be brought to the next meeting by the Operations Manager, Derrick Singleton. A review was AGREED to be conducted of how a diagnostic tool could be further developed for the contact centre. It was also AGREED that an analysis of van stocks would be evaluated under the new contract with Travis Perkins.
- 5.6 Subcontracted work was down to 27.4% of volume in October 2016 which met the target to keep subcontracted work below 30% by volume to the end of the year. Each decision to subcontract work was reviewed by the Commercial Team and trades that could be wholly outsourced were being considered.
- 5.7 The vacancy for a Health, Safety, Environment and Quality Manager had now been filled. All other recruitment was near completion, turnover low and staff performance reviews completed.
- 5.8 The ongoing positive development of the activities, operational and commercial performance of the business was commended by the Chair.
- 5.9 The Managing Director was thanked for his report which was NOTED.

6 BUSINESS PLAN PROGRESS REPORT

- 6.1 An update report on the KCTMO Board approved Repairs Direct Business Plan 2016/17-2020/21 and revised financial plan had been circulated.

- 6.2 Current statistics were provided for the enhanced appointment options for residents which had been piloted from August and September 2016. The pilots would continue to operate while further consideration was given to how to extend the availability, trade range and affordable resourcing of such slots.
- 6.3 A systems process review had been completed since the approval of the business plan. It covered enhanced systems to cater for new paying customers. As a result, Repairs Direct had launched paid for services for leaseholders on 15 November 2016. A small number of enquiries had been received and successfully completed. It was accepted that to develop this area of the business proactively marketing the service to the target audience was required.
- 6.4 Investment to support the business was expected to remain in line with the agreed plan.
- 6.5 The Board was pleased with the good progress in implementing the business and financial plans and NOTED the report.

7 SUB CONTRACTED OPERATIONS

- 7.1 Sam Hart, Repairs Direct Commercial Manager presented the report.
- 7.2 Since August 2016 27.1% of works by volume had been completed by subcontractors. In void properties the volumes subcontracted were 90% due to the nature of the works. A target of reducing subcontracting to 20% by volume by Quarter 2 of 2017/18 had been set. It was AGREED that a strategy would be presented to the July 2017 meeting to demonstrate how this would be achieved. Examples of analysis would be modelling mix and volume, cost comparisons, workflows, resource provision, turnover and surplus impact.
- 7.3 The detailed contractor vetting and approval process was reported. Subcontract agreements were now in place and orders were based on an amended Joint Contracts Tribunal (JCT) measured term contract. Improvements had been made to the management of subcontracts including monthly performance meetings, oversight of work in progress and post work inspections.
- 7.4 It was stated that all larger projects were tendered against the accredited contractor list with a documented tender process to ensure fair competition. Contracts were then prepared and signed for each standalone project.
- 7.5 Looking forward, a number of developments planned for subcontract orders were reported to the Board. These included a yearly review of contracts, a buying analysis, a tiered contractor structure and a more robust sign off process of health and safety. Enhancements to subcontract management would continue as would the adoption of better quality controls.
- 7.6 Better management and reduction in the use of subcontractors was a key focus of both the Board and operational management of the business.
- 7.7 The Commercial Manager was thanked for his report which demonstrated a more robust commercial process was in place in relation to subcontract performance, management and procurement. The report was NOTED.

8 BUDGET REPORT - REVISED 2016/17 AND BUDGET 2017/18

- 8.1 The report had been circulated.

8.2 *Revised Budget 2016/17*

The budget for 2016/17 for Repairs Direct was based on the 5-year financial plan approved by the RD Board in June 2016. The revised budgeted position for Repairs Direct was a surplus of £151k. Reliance on subcontractors had started to reduce in the current financial year.

8.3 *Proposed Budget 2017/18*

The budget for Repairs Direct for 2017/18 had been prepared using the following assumptions:

- 1% increase on RBKC income for responsive repairs and voids
- Inclusion of paid for services income at £278k
- A surplus of £194k included £25k from paid for services
- TMO corporate recharge increased by £59k from 2016/17
- 1% inflationary increase in staff costs; vacancies budgeted at mid-scale point
- Employers pension contribution of 6%
- Other costs at contracted value or 1% inflation

8.4 Key in the analysis was the predictability of the uptake in paid for services. Assurance was provided that the budget was set within expected contribution levels.

8.5 After detailed consideration of the Revised Budget for 2016/17 and Proposed Budget for 2017/18 it was RESOLVED to:

- (i) approve the revisions to the Company's budget for 2016/17;
- (ii) approve the Company's budget for 2017/18; and
- (iii) recommend the Revised Budget for 2016/17 and the 2017/18 Budget to the Parent Board for approval according to the intragroup agreement.

9 **ANY OTHER BUSINESS**

9.1 It was confirmed that a Risk Register existed for the business which was presented 6 monthly to the Board.

9.2 The Forward Plan for 2017 was due for approval at the next meeting.

9.3 Horizon scanning continued by the Managing Director who would report any opportunities of interest to the Board.

9.4 The parent Board Finance, Audit and Risk Committee had conducted a tender process for the external audit of the Group. It would recommend BDO LLP for appointment to the parent Board on 10 January 2017. If appointed, BDO LLP would conduct the audit of Repairs Direct from 2016/17 for 3 years with an option of a 2-year extension. The next meeting would receive the external audit plan for the business.

10 **DATE OF NEXT MEETING**

10.1 The date of the next meeting was Thursday 16 March 2017 at 4.30pm.

11 **CLOSE OF THE MEETING**

11.1 The Chair thanked those in attendance and closed the meeting at 5.30pm.