

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Ltd

A Meeting of the **TMO Board** will be held on **Tuesday, 8th of January 2013, 6.30pm – 8.30pm** in the **3rd Floor Boardroom** at **346 Kensington High Street, London W14 8NS**

Apologies (phone XXXXXXXXXX)

Refreshments available from 6pm

Part A – For consideration / decision				
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Date of next meeting: 21 March 2013

Agenda Item 2

THE ROYAL BOROUGH OF KENSINGTON & CHELSEA TENANT MANAGEMENT ORGANISATION

TMO Board Meeting held on 15th November 2012

Present:

Ms Fay Edwards, Borough wide Board Member (Chair)
Mr Tony Annis, Borough wide Board Member
Ms Mary Benjamin, Borough wide Board Member
Mrs Celine Green, Borough wide Board Member
Mr Reg Kerr-Bell, Borough wide Board Member
Mr Iain Smith, Borough wide Board Member
Mr Roy Turner, Borough wide Board Member
Mr Tony Ward, Borough wide Board Member
Councillor Judith Blakeman, Council appointed Board Member
Councillor Maighread Condon-Simmonds, Council appointed
Board Member
Mr Peter Molyneux, Council appointed Board Member
Mr Peter Chapman, Appointed Board Member
Mr Anthony Preiskel, Appointed Board Member

In Attendance:

Mr Robert Black, Chief Executive
Mr Mark Anderson, Director of Assets and Regeneration
Ms Yvonne Birch, Executive Director of People and
Performance
Mrs Angela Bosnjak-Szekeres, Governance Manager and
Company Secretary
Ms Sacha Jevans, Executive Director of Operations
Mr Andy Marshall, Assistant Director of Partnering
Mr Anthony Parkes, Executive Director of Financial Services
and ICT
Ms Amanda Johnson, Head of Housing Commissioning, RBKC
Mr Peter Dunne, Consultant
Ms Jane Clifton, Executive Office Manager

Apologies:

Mr Jeff Zitron, Council appointed Board Member
Mr Jon Dee, Appointed Board Member

**Action
by**

1. Introduction

The Chair welcomed Board members to the meeting, and apologies were given.

There were no declarations of interest.

Andy Marshall, Assistant Director of Partnering, was introduced to the meeting, who was managing the Willmott Dixon contract.

2. Minutes of meeting held on 6th September

The minutes of the meeting held on 6th September were agreed and signed as a correct record.

3. Chief Executive's report

The Chief Executive confirmed that the next Board meeting would be held on Tuesday, 8 January, which seemed to be a more convenient date for everybody than 3 January. Questions were invited on the report:

1. **Fire Risk Assessments:** it was queried what action would be taken if leaseholders did not ensure that they had an entrance door that was fire risk compliant. Clarification was given that the letter was sent out by RBKC, but queries have been dealt with by the Home Ownership team. A letter had also been sent to the Fire Brigade about their responsibilities on this matter, and a subsequent meeting held.
2. There was concern that the letter which had been sent out had upset some leaseholders because of the requirement to replace their doors if they did not comply with fire risk requirements. Further clarification had been given to all leaseholders who had contacted the TMO in response to the letter, and Board members were asked to pass on the details of any leaseholders who were concerned, and had not contacted the TMO direct.
3. It was pointed out that the letter sent out did not explain how to establish whether a door was compliant or not. Clarification was given that the requirement for doors to be fire compliant was under FD30S, and it was not possible to say whether the doors were compliant or not without a physical inspection. The London Fire Brigade required us to work with RBKC under the Fire Protection Act on this

issue.

It was queried whether leaseholders could assume that their doors were compliant if they had the same type of door as their tenant neighbours. There had been an inspection of all tenant doors, and in cases of non-compliance, a note had been made of leaseholder addresses, and the leases checked to establish whether responsibility for doors had been demised to the leaseholder. However, the letter had confirmed that it was the leaseholder's responsibility to establish that their door was compliant. This responsibility only applied to external doors which opened on to external/communal areas. It was agreed that Janice Wray, Health & Safety Advisor, prepare an explanatory note on this issue.

AP/JW

The Board noted the contents of the Chief Executive's report.

4. Mid Year Report on TMO Performance Agreement 2012/13

Amanda Johnson, RBKC, was welcomed to the meeting, and she presented the Mid Year Report on TMO Performance, which had been presented to the Scrutiny Committee on 8 November. The TMO had continued to perform well, and where there had been slippage on PI targets, action was in hand. Internal audit reports had all been satisfactory. There had been some slippage on complaints' targets which may be related to the withdrawal of the Morrison repairs' contract.

There were a number of challenges for RBKC in connection with Localism, and the TMO was working positively with RBKC on the way forward. Both RBKC and the TMO were facing challenges from Welfare Reform and Universal Credit, and were working closely on how we could assist those affected by this legislation.

On investment in, and regeneration of the housing stock, RBKC was working closely with the TMO. This included the Hidden Homes' developments.

The work being done on resident engagement had resulted in more residents being involved with their residents association, and attending the AGM. On older persons' housing, RBKC and the TMO were working up options to deliver improvements across the sheltered schemes. Very positive feedback was being received on the TMO's management of the travellers' site.

Board members asked the following questions:

1. Regarding Welfare Reform, concern was expressed about

- elderly tenants who were under-occupying, and whether they would be affected by these changes. Confirmation was given that they would not be affected, and where we had other vulnerable residents, RBKC would work closely with the TMO to assist them.
2. The impact of Welfare Reform on tenants who were under-occupying was raised, and confirmation was given that they would receive a reduction in housing benefit. Those affected could talk to RBKC and the TMO about the option of moving to smaller accommodation if they could not afford the additional rent. A scheme in Westminster was raised which offered a high financial incentive to tenants to consider moving to a smaller property. Amanda Johnson confirmed that RBKC already had a number of schemes in place to encourage people to move.
 3. It was queried whether the changes on under-occupation would affect tenants who were working. Clarification was given that there would be no impact if they were not on benefits, as rents would stay the same. Although there was a scheme in place encouraging people to consider downsizing, it had not previously been very successful but this situation may change.
 4. Downsizing incentives were welcomed as it would also help those with overcrowding problems. Amanda Johnson undertook to bring a paper back to Board on what was being done in this area. Work was also being done with the 500 people affected by the legislative changes as it would not be possible to offer them all alternative accommodation because of the limited supply of housing.
 5. At present, those affected could apply for discretionary housing benefit payments, and a number of people had taken up this option, but it was not sustainable in the long term. Further consideration would be given to what support could be provided, as well as the impact on the HRA.
 6. Lack of progress on the revised MMA for Lancaster West EMB was raised, and confirmation was given by Amanda Johnson that she had attended the September EMB meeting and apologised for the delay in revising the MMA which was due to a delay in completing the revision of the MMA with the TMO which had to be concluded first. The EMB board would be kept informed.
 7. Confirmation was given that RBKC were working with the TMO on revising the MMA as it was out of date, and did not fully reflect present services. Any significant changes would be presented to the Board once this exercise had been completed.
 8. Public documents concerning a review of sheltered housing within the borough would be sent to Tony Annis. An offer to

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provide an overview report was made, and this was welcomed.

9. It was queried whether the TMO's performance on applying for energy efficiency grants could be monitored. However, although the Council worked in partnership with the TMO on green issues, it was felt that it would not be appropriate for the Council to monitor the TMO's performance in this area.

Board Members and the Chief Executive welcomed this positive report on the performance of the company by RBKC, the TMO's regulator. The report had also been presented to Cllr Coleridge, Cabinet Member for Housing, and welcomed by the Scrutiny Committee as very positive. **The Board noted the Mid Year Report on TMO Performance Agreement 2012/13.**

5. RBKC Property Services' Update

This item was deferred due to the unavailability of RBKC staff to present the report.

6. Re-appointment of Independent Board Members

At the meeting on 26 July, the Board had agreed a process for the re-appointment of Independent Board Members. The Company Secretary advised the Board that two Independent Board Members were eligible for re-appointment. Jon Dee had decided to stand down from the Board, and his post would be advertised in the New Year. Peter Chapman had expressed his willingness to continue on the Board. In line with the procedure, Peter Chapman had completed his appraisal satisfactorily, and his re-appointment had been considered by the Appointments Panel on 14 November, and a recommendation was being made to the Board that he be re-appointed. **The Board approved the re-appointment of Peter Chapman as an Independent Board Member for a further term of three years in line with the process agreed by the Board on 26 July.** Peter Chapman thanked the Board for their support.

7. Performance Update 2012/13: Quarter 2

This report gave an update on TMO performance until the end of September 2012, and now included a report on expenditure on the capital programme. Board members asked the following questions:

1. It was queried why gas servicing was shown as red in two areas when it had almost reached its target. However, this was a very sensitive target, and 20 properties were still without an up to date certificate. For most of these cases,

- we were in the process of applying for a court date to gain access.
2. It was queried why we did not carry out gas servicing during the summer months when heating was not required. An explanation was given that T. Brown worked to a 10 month cycle for servicing, and planned maintenance and forced entries were carried out during the remaining two months. This pattern was the norm, and if we moved to a servicing cycle of 3 – 4 months, the contract would be more expensive.
 3. It was asked whether the communal heating systems could be thermostat controlled so that they responded to weather conditions. However, we had set times for turning the systems on and off, and people had different requirements for when they wanted the heating on. It was acknowledged that it was a difficult problem as about 3,500 properties were dependent on communal heating systems, and the majority of these were 40 – 50 years of age. There was no individual resident control over the systems, and only investment in the systems could address all the problems. The capital programme for 2013/14 would target 70% of the resources towards building services, which would only address 50% of the requirements. It was recognised that heating was a major issue for residents, and systems operated for 18 out of 24 hours from 1 October to May.
 4. With reference to heating problems, it was commented that not all the communal heating systems were old, and there were still problems with regular breakdowns. It was queried whether consideration could be given to requests from leaseholders to have an individual system installed. An explanation was given that systems were prone to breakdown due to historical poor management as systems had been on all the time, and maintenance regimes had been poor. Confirmation was given that any request from a leaseholder to have their own system installed would be given consideration, but it was not always possible. However, the leasehold may still be liable to pay for the communal system in their service charge.
 5. With reference to para 13.2, further information was requested on the complaints which had been dealt with by the Ombudsman. Clarification was given that residents went to the Ombudsman when they had been through the TMO process.
 6. Concern was expressed about the post inspection failure rate for repairs, and how this could be addressed. An explanation was given that many of these failures had been during the Morrison contract, and now we were 15 weeks into the Willmott Dixon contract, it was anticipated that an

- improvement would be seen. Willmott Dixon had drawn up a detailed action plan to address this issue.
7. It was asked what the projected year end position was on post inspections. It was anticipated that we would see a significant improvement in a month's time, and we wanted Willmott Dixon to leave the contract in good shape for the handover to the ISP if the Board decided to set one up.
 8. Progress on signing up new TMO members was raised, and confirmation was given that a membership strategy had been drawn up, and consideration would be given to how to deliver the strategy to achieve the target. It was queried why new residents were not signed up automatically. However, although new tenants were encouraged to take up membership by the voids officer, the tenant could chose whether to become a member. At present, membership could only be promoted under the constitution.
 9. The high level of staff sickness was raised, and confirmation was given that this was being addressed, and the policy was being looked at i.e. return to work interviews. There had also been a few cases of long term sickness which had to work their way through the system.
 10. It was asked whether the completed stock condition survey would be reported to Board, and confirmation was given that a high level report from Rand on investment need had been circulated with the background papers for the Board away days. It was proposed that a 30 minute session on the report be arranged before a Board meeting (in March).

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The Board noted the TMO's performance for the period April – September 2012, and progress on the Business Plan strategic priorities.

8. Budget Monitoring April – September 2012

The budget monitoring report for the period to the end of September had been presented to the Finance, Audit and Risk Committee. A surplus of £28k was still forecast for the year end. The costs for Assets and Investment were still high but were offset by savings in other areas. The HRA managed budgets were being re-forecast for the next quarter with RBKC. We were forecasting £1m savings on planned maintenance mainly for redecorations due to a delay caused by the procurement of a long term contract. This could not be achieved this year because of leaseholder consultation, but it was hoped to have it in place for 2013/14. The underspending from this year would be transferred to next year so there would be no underspending overall for the two year period.

We had received financial information for the first quarter of the

Willmott Dixon contract, and their year end position was now more in line with the original budget, but not all information was yet available. We were still negotiating the costs of coming out of the Morrison contract, and had yet to reach a final settlement.

The following questions were asked:

1. Leaseholder surgeries/meetings on redecorations were raised. Confirmation was given that consultation was carried out on an estate basis when a programme was scheduled, and consultation with leaseholders followed legislative requirements. Historically we held a leaseholder forum which was poorly attended, and was either borough wide, or north and south. However, these forums had been replaced by smaller meetings on estates to resolve issues.
2. It was confirmed that there had been no leaseholder consultation at Manchester Drive when redecorations were carried out last year. It was agreed to discuss this issue further outside the meeting to establish what consultation had been carried out. It was proposed that a separate meeting be arranged for those who were interested on leaseholder issues.
3. It was queried why costs were high for agency staff/consultants, but for Lancaster West only £1k. It was explained that these costs were for interim staff covering vacancies for permanent staff, and the costs were offset against savings on salaries. It was recognised that the percentage of agency staff was high at 25%, and was mostly due to ongoing reorganisation. Recruitment for permanent staff was currently ongoing, so these costs would reduce over the next few months. On consultant costs, we were £8k over budget (£256k compared to £248k). The use of agency staff was to ensure efficient delivery of services, and although the aim was to recruit permanent staff, it was still difficult to recruit staff with the right skills in some areas. An explanation was given that agency costs for Lancaster West EMB were low because there had been a sustained recruitment drive last year in order to improve the service.

AP

The Board noted the budget monitoring report for the period April to September 2012.

9. Feedback from Committees

Feedback was given from recent meetings in October of the Finance, Audit and Risk Committee, and Operations Committee. The Finance, Audit and Risk Committee had reviewed the budget

monitoring report for August, the corporate Risk Register and the committee's terms of reference. Changes to the risk register had been reported, and the risk register would continue to be monitored. The revised terms of reference were attached to the report, and it was recommended that they be approved by the Board. The committee had also noted a waiver report regarding the commissioning of Savills to carry out a review of the performance of assets managed by the TMO. Further information would be provided on the report as requested by the committee.

The Operations Committee had requested that a proposal be presented to the Board on an opt out arrangement for TMO membership, which would come to the Board meeting in March 2013.

The Board noted the feedback report on the Finance, Audit and Risk Committee held on 18 October, and the Operations Committee held on 10 October. The highlighted changes to the terms of reference for the Finance, Audit and Risk Committee were agreed by the Board.

10 Date of next meeting

The next Board meeting would be held on Tuesday, 8 January 2013, at 6.30 pm. This date replaced the meeting scheduled for 3 January.

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**THE ROYAL BOROUGH OF KENSINGTON & CHELSEA
TENANT MANAGEMENT ORGANISATION**

TMO Board

Meeting held on 15th November 2012 - Part B

Present:

Ms Fay Edwards, Borough wide Board Member (Chair)
Mr Tony Annis, Borough wide Board Member
Ms Mary Benjamin, Borough wide Board Member (Vice Chair)
Mrs Celine Green, Borough wide Board Member
Mr Reg Kerr-Bell, Borough wide Board Member
Mr Iain Smith, Borough wide Board Member (Vice Chair)
Mr Roy Turner, Borough wide Board Member
Mr Tony Ward, Borough wide Board Member
Councillor Judith Blakeman, Council appointed Board Member
Councillor Maighread Condon-Simmonds, Council appointed
Board Member
Mr Peter Molyneux, Council appointed Board Member
Mr Peter Chapman, Appointed Board Member
Mr Anthony Preiskel, Appointed Board Member

In attendance:

Mr Robert Black, Chief Executive
Mr Mark Anderson, Director of Assets and Regeneration
Ms Yvonne Birch, Executive Director of People and
Performance
Mrs Angela Bosnjak-Szekeres, Governance Manager and
Company Secretary
Ms Sacha Jevans, Executive Director of Operations
Mr Andy Marshall, Assistant Director of Partnering
Mr Anthony Parkes, Executive Director of Financial Services
and ICT
Mr Peter Dunne, Consultant
Mr David Williams, Consultant
Ms Jane Clifton, Executive Office Manager

Apologies:

Mr Jeff Zitron, Council appointed Board Member
Mr Jon Dee, Appointed Board Member

1. Update on developing the proposal to set up an Internal Service Provider (ISP) for repairs and maintenance

An update had been provided for the Board which gave a summary of the work done so far to develop an ISP, and the next steps. Section 4 outlined the steps going forward to the Board meeting on 8 January. Following the Board away days on 2/3 November, two additional meetings had been arranged for 22 and 29 November to provide Board members with an opportunity to discuss the details before the business plan went to the Finance, Audit and Risk Committee on 13 December. There would also be an opportunity on the 22 and 29 November for Board members to see how the repairs' section operated at present, and the CSC.

The following questions were asked:

1. It was queried whether there was a comparable organisation to the TMO to provide benchmarking on costs. Appendix 1 of the report gave details of the benchmarking carried out in the summer against comparable organisations.
2. The position with Willmott Dixon was queried, and confirmation was given that whilst the ISP was under consideration by the Board, it would remain confidential. However, because Willmott Dixon had an interim contract, they would be aware that we would be considering options for the future of the service which would include setting up an ISP.
3. It was requested that more narrative be provided on net surplus assumptions when the business plan was presented to the Finance, Audit and Risk Committee on 13 December.

The Board noted the update on the work being undertaken to develop the proposal to set up an Internal Service Provider (ISP) for repairs and maintenance.

2. The Grenfell Tower Regeneration Project

The Grenfell Tower regeneration project had come to the Board earlier in the year for the appointment of Studio E Architects as the design team, which had taken the project through to the submission of a planning application, due to be approved in December. This procurement had been led by the KALC project, and the appointment of the design team had been an OJEU procurement. The Board was now being asked to agree the appointment of Leadbitter, the principal contractor, for the pre-

construction agreement phase of the project. The work being carried out by the design team had reached stage D, the submission of the planning application, and their employment would transfer to Leadbitter. A further contract award report would come to the Board in January 2013.

The following questions were asked:

1. It was queried whether there would be any liabilities, and confirmation was given that these would pass to Leadbitters.
2. A comment was made by one Board member that consultation with residents had been carried out at a late stage. This was refuted, and it was explained that there had been over six months of detailed consultation on the Grenfell Tower project, and good feedback had been received, although consultation on the KALC project had been late.
3. Consultation with the EMB board was queried, and also with leaseholders. Confirmation was given that there had been consultation with the EMB board, but no leaseholder consultation was required because it was an improvement.

The Board agreed that the project should progress to the detailed design and tender package phases, and that Leadbitter be appointed to undertake the Pre-Construction Agreement phase of the project with costs being capped at £250k.

3. Investment requirements of RBKC Housing Stock: TMO approach

The Chief Executive introduced this item. Since the away days on 2/3 November, he had attended a presentation by two consultants, Savills and Sector, and Savills would be appointed as RBKC's consultant on this project in two weeks' time, and work would then start. Savills would be working for both the TMO and RBKC on investment options, but the work would be done by different teams.

Dave Williams made a short presentation to the Board on further work carried out since the discussion at the Board away day on 2 November. His presentation covered:

- Recap from the away day
- Asset ownership models
- Focus on community ownership
- Next steps

Savills would make recommendations on the way forward to obtain

funding for the stock, and were due to report to RBKC in March 2013. The TMO would be expected to engage in this process, and influence the outcome. Their brief was to look at a wide range of options, some of which would not involve the TMO although there was a good relationship between RBKC and the TMO.

Key criteria for this project had been agreed by the Board:

- More investment in homes and estates
- To be a catalyst for change in the local area
- Resident influence to be enhanced
- Protect the business going forward
- Deliver new homes
- Play a role in regeneration on specific estates
- Maintain a strong delivery relationship with the Council
- Would it be best for the TMO's evolution going forward?

High level options:

1. Asset transfer, either freehold or leasehold
2. A joint venture company to get investment into the stock
3. Staying as we are would involve looking at the management agreement and changing it so we could move forward.

During previous discussions, the Board had been interested in the first two options which both had sub-options for consideration against the Board's key drivers.

As a result, further consideration had been given to a mutual/resident ownership model which was one of the asset ownership options. There were variations on the community ownership model i.e. community gateway which was not used very much.

The mutual model:

- Transfer of stock or leasehold. It had to be a long lease in order for the model to work properly i.e. 125 years
- The option would be subject to a tenant ballot, but although leaseholders would be consulted, under legislation they were not required to be included in a ballot
- The model assumes resident involvement, and an extension of membership to everyone, including staff
- The key advantage was that this model would allow the TMO to borrow money. The Council were limited on the amount that they could borrow because of the debt cap.
- Tenant rights are protected, and potentially we could provide a greater range of services.

Requirements for setting up a mutual:

- The structure of the organisation would have to change because we would be involved in providing new homes, regeneration, borrowing money and community development
- The management structure with the Council would also have to change as we would become a different type of company
- We would obtain grants/funding from the Homes and Community Agency, and we needed assurances about regulations
- The governance structure would evolve so we had the right skills
- The Homes & Community Agency would want to see our performance
- There would be a financial plan for borrowing money over a 30 – 40 year period, which would be paid back.

The Council's criteria for considering the various models:

- Would it bring in investment?
- RBKC would keep the freehold
- Would the option provide a successor body for the evolution of the TMO?
- TMO would be engaged in governance and generate additional rents
- Tenants in new homes would pay different rents to existing tenants so the debt could be serviced
- Engagement of staff
- Avoid break up of the stock
- There would still be some choices i.e. community development.

Next steps:

- Develop a more sophisticated financial plan
- Model all the services that we would be doing and agree the assumptions
- Review capacity
- Consider what the money would be spent on
- Build up a financial model over the next few weeks
- Work up proposals in more detail depending on the decision about future direction
- A working group of the Board to look at the detail going forward

- The Chief Executive and Anthony Parkes would be on the Council's working group, and would be able to influence the debate on the way forward.

In summary, there was more work to be done although the mutual was a well developed model, and also aligned itself with the Council's objectives.

The Chief Executive explained that the Council would be leading on this process. Savills, once appointed by RBKC, would look at the options with the Council, and it was hoped that they would give weight to the option of the TMO working in partnership with RBKC. The TMO's role in the process was to influence the Council's considerations, and the Board's strategic position would remain confidential at this stage.

Board members asked the following questions:

1. It was asked whether transfer would involve whole estates, or would the stock be broken up. Confirmation was given that we wanted to avoid the stock being asset stripped. However, this was a possibility even without any decision on the way forward being made.
2. It was queried whether 65% of market rents would be charged for voids if we became a registered provider. Confirmation was given that choices would have to be made if we wanted to develop the stock without access to grants.
3. It was asked that the Council's brief be circulated, and this would be done when it had been established that it was in the public domain, and the presentation would also be circulated.
4. One Board member was concerned that residents might be unhappy with the proposals if they wanted the stock to stay with the Council. There was also concern that leaseholders would be excluded from the ballot. There was sympathy with this point of view, but the decision would be made by RBKC, and the Board was considering the best position to influence this decision. If we did not co-operate, it was very likely that we would lose estates over the next few years.
5. It was also felt that the Council was moving too quickly. However, if the Board wanted the Council to consider this model, the best way forward was to produce something in the next two weeks which would show that a mutual was an achievable model.
6. It was queried whether the TMO would become a registered provider. However, the TMO would have to fit within the regulatory framework in order to borrow money/get grants and funding so we would have to register. Private landlords

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were now becoming registered and companies such as Pinnacle. Becoming registered as an RP would be just a vehicle for borrowing money. Savills may propose another option i.e. borrowing on the General Fund, or setting up a joint venture company. Any option had to provide the potential to borrow money. Although councils could borrow money at favourable rates, RBKC could only borrow a very small amount of money under government guidelines.

7. It was commented that not all tenants had received new kitchens and bathrooms under decent homes as promised. However, the Board could decide on key criteria for the regeneration of homes, and this was an opportunity to maintain homes at a standard that residents wanted.
8. The position on secure tenancies was queried. This would be debated as we would move to a new tenancy regime under a leasehold transfer. However, terms and conditions would remain the same, and could be enhanced i.e. two succession rights. Assured tenancies also provided tenants with the same level of security, and this message would be conveyed to residents.
9. It was queried whether the Council would take away tenant management under a joint venture company, and this could happen as this model was not compatible with that of a TMO.
10. It was agreed that the status quo would be a worse option, and there was also the possibility that the management fee could be cut in the future.
11. It was queried what the position was on the right to transfer. This was not yet legislation, but would not be an option if the Council wanted to regenerate the stock.

The Board would be kept informed of progress when Savills started their commission through meetings and e-mails. Board members were in agreement that the TMO had to use this opportunity to influence the Council's decision on the way forward, and that we should position ourselves to do this. **The Board noted the update on the investment requirements of RBKC housing stock.**

CEO/JDC
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Agenda item 2

Appendix 1 BOARD ACTION RECORD / MATTERS ARISING

NO.	MEETING DATE	MINUTE NUMBER	ACTION	BY WHOM	BY WHEN
1	15/11/12	4.1 – 4.3	Fire risk assessments for leaseholder entrance doors: following RBKC letter to leaseholders concerning fire risk requirements, a further explanatory note to be done for Board members.	AP	As soon as possible
2	15/11/12	5	Welfare Reform: Amanda Johnson to bring a paper back to Board on work being done to assist those who were under-occupying, and due to have their benefits cut. She would also provide an overview on a review of sheltered housing within the borough.	AJ, RBKC	As soon as possible
3	15/11/12	8.10	A session to be arranged before a Board meeting on the stock condition survey	SJ/MA	March 2013
4	15/11/12	9.2	Budget monitoring: briefing on leaseholder consultation and other issues to be arranged with Celine Green	AP	tbe
5	15/11/12	10	Feedback from committees: Operations Committee had asked that a proposal on an opt out arrangement for TMO membership be brought back to Board	AB-S	March 2013
6	15/11/12	3 (Part B)	Investment requirements of RBKC housing stock: Council's brief for appointment of consultants to be circulated	RB	As soon as possible

Agenda Item 3

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA TENANT MANAGEMENT ORGANISATION LIMITED

Open

For information

TMO Board 8 th January 2013

Report title:	Chief Executive's update report
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Authority for decision:	The Board has ultimate responsibility for monitoring the performance of the organisation.
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Recommendations:	For information
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Regulatory/legal requirements:	None
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Business Plan link:	Keeping abreast of performance initiatives within the organisation, and external developments affecting social housing.
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Equality Impact Assessment/comment:	Equality and diversity issues are taken into consideration.
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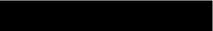
Resident consultation:	Ongoing
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Resource implications/VFM statement:	Keeping up to date on the latest developments in social housing is important for shaping the business. Improved performance within the organisation will help the TMO to achieve its VFM objectives.
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Risk:	Failure to engage with the external housing sector could have an adverse effect on the TMO in keeping abreast of developments within the sector. There is also reputational risk if performance fails to improve across the TMO.
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Appendices:	0
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Total number of pages including appendices:	6
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Name, position and contact details of author:	Robert Black, Chief Executive 
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Chief Executive's Report

1.0 Fighting Fraud Awards

As reported to the Board meeting in November, the TMO and RBKC were shortlisted for this national award for their collaborative work to prevent, detect and deter fraud in the housing stock, including legal action against unlawful subletting. Prevention of tenancy fraud has become increasingly important as the demand for affordable housing increases at a time of diminishing supply.

Although the TMO did not ultimately win the award, it was still a considerable achievement to be shortlisted for national recognition. A press release was sent out on 11 December saying: *'TMO Chief Executive, Robert Black said 'Having set the precedent, we are confident there is a clear message that we won't tolerate tenancy fraud in our borough.'*

'By continuing our work together we can ensure housing is allocated to those who genuinely need it most across the properties we manage.'

2.0 Children's Forum

The Resident Engagement team has secured Silver Level funding from the RBKC 'Give Children a Voice' fund to continue their activities with the 8-13's Children's Forum.

As part of the highly successful 'Funzone' at the Residents' Conference, participants of the 8-13's Children's Forum had a great time interviewing attendees and compiling a newsletter about their time at the conference.

The successful application means that the Children's Forum will receive £500 towards its work. The next step is to apply for Gold Level funding for this initiative.

3.0 Your Credit Union (YCU) update

The YCU website has gone live, and as Your Credit Union draws closer to launching in early 2013, Board members can see more about their services on <http://www.yourcu.co.uk/index.asp>.

Your Credit Union is a community based organisation offering low cost saving and borrowing. Everyone living, working, studying or volunteering in RBKC can open a savings account by making a minimum deposit of £15. To date the Credit Union has received deposits in excess of £260,000.

4.0 £1m lottery funding for World's End and Lots Road Estates

£1m lottery funding for World's End Estate and the Lots Road area has been granted from the Big Local programme, funded through a £200m Big Lottery Fund investment in 2010, and managed by Local Trust. Big Local is helping 150 urban and rural communities across the UK to make their areas better places to live. Each Big Local area will receive at least £1m lottery funding to spend over the next 10 years.

Residents will be able to identify priorities for this spending, and there will be support, training and networking opportunities to help residents develop plans to improve their area, and empower them to find solutions that will work for their communities. The scheme is completely resident led so it will be entirely up to people living in the area to use the £1m on the things that matter to them, and projects and services that will have the biggest impact on the needs they identify.

Residents will need to come together to spend the funding, which can be used on any project from starting up social enterprises and addressing unemployment to tackling local issues or providing more activities and services for people locally. This will begin to happen when the scheme starts in April 2013.

5.0 RBKC Savills Project

The Chief Executive has attended two meetings on the RBKC Savills project since the last Board meeting on 15 November. The first meeting with RBKC reviewed the initial response from Savills. The second meeting between RBKC, the TMO and Savills, looked at setting some consistent parameters for the project and checking on some of the Rand Asset management figures.

All the investment costs have now been analysed against the agreed asset groups (estates). This has provided initial results that indicate which are the best performing properties financially and those which are the worst. As this information builds it will help to inform strategic asset management decisions. The draft report will be presented in February and work to date will be discussed in more detail at the January Operations Committee.

6.0 RBKC Sheltered Schemes Review

RBKC have commissioned a piece of work that will review the sheltered housing provision across the Borough. The work will look at opportunities in terms of the assets as well as housing need.

7.0 Fire Door Update

The dispute between RBKC and the London Fire Brigade is continuing and is being escalated by both parties up to the Secretary of State for

clarification as to where the responsibilities lie. Anthony Parkes and Dan Wood attended a meeting with Counsel organised by RBKC. It was Counsel's opinion that the TMO had fulfilled its duties by carrying out the Fire Risk Assessments under the Regulatory Reform (Fire Safety) Order and informing the relevant authorities.

They were of the further opinion that until the dispute is resolved, the TMO Health & Safety team should continue to carry out Fire Risk Assessment work and in conjunction with the Home Ownership Team, who sent the letters to the leaseholders, assess which of the 68 doors noted as being a potential risk needs further inspection. The TMO should also continue to work with the Fire Risk Assessor to carry out the fire risk assessment work which involves liaising with leaseholders to assist them in their ensuring their doors are compliant.

8.0 Conferences

DCLG workshop on 'Scaling Up' - 28 November

The Chief Executive attended this DCLG workshop looking at the Big Society initiative on Wednesday, 28 November. This was to look at how we could improve and get more people involved. The workshop was well represented on the TMO front - Southwark TMO, NFTMO and our self took part along with a number of other organisations and policy forums. The Rt Hon Don Foster MP, Minister for Localism, highlighted the importance of this work and how the government wants to give local people more freedom to shape the communities they live in. Some of the key points for the DCLG which came out of the meeting were

- DCLG need to give a clear consistent message about the importance of localism and what this means for communities.
- Government should make more use of the civil service at the local level to link national policy with local delivery.
- Government should support development of networks and showcase inspiring successes and case studies so people can see that others like them are doing these things successfully.
- DCLG should promote peer to peer learning and bring people together.
- Local authorities should have more information and guidance on their websites
- DCLG needs to give local authorities clear messages about their role in stimulating and supporting community action.
- DCLG should change the language about community activity to focus less on the rights and more on the things people want to achieve.
- DCLG should be talking about what opportunities there are for people to volunteers and get things changed themselves.

The notes of the meeting will be circulated once the DCLG have completed them

ALMO Chairs' Conference - 4 December

The TMO Chair and Yvonne Birch, Executive Director of People and Performance, attended this NFA conference on Tuesday, 4 December. The NFA have recently published a report, 'Let's Get Building', which was launched at the conference. Other topics covered at this conference were lobbying: engaging with prospective parliamentary candidates, and communicating with councillors, Welfare Reform: action planning on communicating changes to tenants, options for households, income collection and arrears management.

9.0 Operations Staff Update

We have successfully recruited Peter Maddison as the new Director of Assets and Regeneration starting on the 21st January 2013. We have also recruited the new Head of Neighbourhood North and South roles and also the Head of Capital Investment.

10.0 Residents' conference/AGM 2013

The Residents' Conference and AGM on Saturday, 21 September 2013 will again be held at the Holiday Inn Kensington Forum Hotel near Gloucester Road tube station.

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

TMO BOARD – 8 JANUARY 2013

TENANTS CONSULTATIVE COMMITTEE - 9 JANUARY 2013

**HOUSING AND PROPERTY SCRUTINY COMMITTEE – 16 JANUARY
2013**

**REPORT BY THE DIRECTOR FOR HOUSING AND THE TMO CHIEF
EXECUTIVE**

HOUSING REVENUE ACCOUNT - RENT REPORT 2013/14

This report sets out the proposed budget for the Housing Revenue Account (HRA) in 2013/14. It also recommends the level of increase to be applied to rents and other charges to tenants and leaseholders in Council properties managed by the TMO.

The proposals in this report result in an average increase in rents of 4.5%. This level of increase arises from applying the Government's rent restructuring policy to the calculation of individual property rents.

FOR COMMENT

1. BACKGROUND

- 1.1 A new regime for funding social housing within the Housing Revenue Account was introduced in April 2012. This is known as Self-Financing and aims to put local authorities in a position where they can support their own stock from their own income. To achieve this, an adjustment was made to the Council's historical capital debt. This budget has been prepared within the new funding regime.
- 1.2 Management arrangements for budgets within the Housing Revenue Account (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 (covering both TMO company budgets and budgets managed by the TMO on behalf of the Council which are known within the agreement as Tenants Consultative Committee (TCC) budgets). The other budgets remain the responsibility of the Council. Budgets within the HRA therefore fall into three categories as follows:
 - The management costs of the TMO which are recorded in the TMO's own company accounts and are charged to the HRA through an agreed management fee;
 - Managed TCC budgets which include the major budgets covering

repairs, maintenance, energy costs, etc. Income from rents, service charges and commercial income is also included. These budgets also cover direct spend on the Lancaster West Estate and

- Council managed HRA budgets including capital financing charges and the provision for depreciation.

2. HRA OUTLOOK AND RECOMMENDED FINANCIAL STRATEGY

- 2.1 As part of the Self-Financing regime, local authorities are required to produce a 30 year business plan for their Housing Revenue Account.
- 2.2 Predicting levels of income and expenditure over a 30 year period is extremely difficult and inevitably predictions for the early years will be more accurate. However, the self-financing regime has removed the uncertainty around the annual announcements regarding housing subsidy but has introduced local decision making regarding capital financing and depreciation.
- 2.3 The introduction of self-financing has been broadly welcomed by local authorities and has improved the financial outlook for our HRA. Assuming the annual contribution to the capital programme remains at £7.2m, then financial modelling suggests that surpluses will accumulate each year and at the end of the next 5 years could total in the region of £44 million. Further details are set out in Appendix 1.
- 2.4 A key risk to the budget is the effect of the welfare reforms being introduced by Central Government. These include the benefit caps, benefit changes relating to under occupancy and the introduction of the Universal Credit. In setting the 2013/14 budget, assumptions have had to be made around potential increases in bad debt levels. The accuracy of these assumptions will need to be closely monitored so that any potential budgetary impact can be identified early.
- 2.5 This surplus arises largely because, under self-financing, increases in rent income can be retained by the HRA rather than being returned to Central Government through the Housing Subsidy process. The position reflects the value for money savings which have been achieved in recent years and cost pressures which are anticipated in 2013/14. Identifying further efficiency savings remains a key target for both the TMO and the Council.
- 2.6 Use of these future surpluses is being considered as part of the Capital Business Planning process.

3. BUDGETS – 2012/13 AND 2013/14

3.1 An overall statement of HRA budgets for the current year and 2013/14 is set out at Appendix 2. These are summarised below:

Heading	2012/13 Original Budget £'000	2012/13 Revised Budget £'000	2013/14 Proposed Budget £'000
TMO management fee	9,758	9,758	10,038
Lancaster West management fee	342	342	363
Total Management Fees	10,100	10,100	10,401
Managed TCC budgets	-32,662	-33,825	-34,360
Council Managed Budgets	21,878	21,535	21,489
Net HRA Exp(+)/Income(-)	-684	-2,190	-2,470

3.2 The proposed budget for 2013/14 will produce an in-year surplus of £2.470 million.

3.3 Further details on the current year's budget and the proposed budget for 2013/14 are set out in the following sections and attached appendices. The figures incorporate the effects of the proposed rent increase.

3.4 The Director of Legal Services comments that the legal implications are set out in the report.

4. TMO MANAGEMENT EXPENSES

4.1 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 2012/13 is £10.100 million. Appendix 3 provides information on the key changes in terms of the revised position for the current year and a proposed budget for 2013/14.

4.2 The Management Fee for 2013/14 has been set at £10.401 million.

4.3 An overall inflationary provision of 1% has been allowed, reflecting the expectation that any pay award will be limited to 1% in 2013/14. This provision will also be used to fund other inflationary increases on non-pay budgets e.g. utilities. This level of management fee will enable the TMO to maintain and improve its level of services within the financial framework.

- 4.4 The Royal Borough recently changed its policy regarding Discretionary Rate Relief. As a result the reduction available to the TMO is being reduced to £40,000 in 2013/14. This change in policy results in a cost pressure of £134,000 which is being split equally between the TMO and the Council (HRA). The TMO's Management Fee is therefore being increased by £67,000 reflecting the impact on this policy change on the HRA.
- 4.5 In order to support the welfare changes, it is planned to create two welfare reform officers to investigate and implement initiatives to minimise the impacts of the welfare reform changes. These posts will be created initially for a two year period at a cost of £80,000 per year.
- 4.6 In order to further increase income to the HRA, it is planned to create a Project Officer post which would initially focus on the objectives identified within the Parking Review. The post is being created for one year but if successful may be extended.
- 4.7 The Lancaster West management fee for 2012/13 is £342,000 and the expectation is that Lancaster West will be at a break even position at year end. In 2013/14, the proposed management fee for Lancaster West has been budgeted at £363,000. This will give Lancaster West a break even budget and not require any draw-down from its reserves.

5. MANAGED TCC BUDGETS

- 5.1 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. The original net budget for 2012/13 therefore splits down between budgeted income of £52.795 million and budgeted expenditure of £20.133 million to produce a net income budget of £32.662 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.
- 5.2 Appendix 4 provides information on the key changes in terms of the projected position for the current year and budget proposals for 2013/14. The overall position is summarised below:

	2012/13 Original Budget £'000	2012/13 Revised Budget £'000	2013/14 Proposed Budget £'000
Expenditure	20,133	18,340	21,476
Income	-52,795	-52,165	-55,836
Net Managed TCC Budgets	-32,662	-33,825	-34,360

5.3 For the current year, the revised net TCC managed budget indicates an increase in surplus of £1.163 million which will increase the working balance. The main factors resulting in the variance are:

- Planned Maintenance – This is forecast to be under spent by £1,552,000. This comprises:
 - Additional expenditure of £535,000 due to the delay in completion of the External Decorations programme for 2011/12 caused by issues raised around the quality of the works undertaken. As reported in the Outturn Report for 2011/12, a budget provision for the expenditure was carried over from the 2011/12 budget;
 - A reduction in expenditure on External Decorations (£1.7 million). This is a one-off saving as the section 20 consultation process was delayed pending the outcome of a legal challenge in another local authority. Provision of £700,000 is being added to next year's budget to enable these works to proceed in 2013/14;
 - A reduction in expenditure on Programmed Heating Works (£220,000) due to more capital works being undertaken which has reduced the need for revenue expenditure;
 - A reduction in expenditure on Programmed Lift Works (£60,000) following a successful tender process in 2011 and
 - A reduction in expenditure on Individual Heating systems (£50,000) due to replacement programmes being undertaken as part of the Capital Programme.
- Responsive Maintenance – This is forecast to be overspent by £88,000. This mainly comprises:
 - An increase in expenditure on Building Repairs (£375,000) reflects the market rates being charged by the interim contractor, whereas the budget was based on the rates submitted by the previous contractor which have not proved to

be sustainable. The final amount payable to the previous contractor is currently disputed, there is a risk that the final settlement could exceed the provision included in the 2011/12 accounts;

- A reduction in expenditure on Estate Lighting (£187,000) due to a lower than expected need for responsive works and
- A reduction in expenditure on Electrical Rewiring (£41,000) and Door Entry and CCTV Repairs (£40,000) due to recent replacement works undertaken as part of the Capital Programme.
- Aids and Adaptations – a decrease in expenditure of £178,000 due to the capital nature of a number of projects.
- Electricity, Heating and Hot Water – a decrease in expenditure of £64,000 due to a reduction in expenditure on gas (£162,000) partly offset by a rise in the cost of electricity of (£98,000). The reduction in gas reflects the efficiencies achieved on certain sites where improvements have been made to the heating systems.
- Provision for Bad Debts – a decrease in the provision for Bad Debts of £100,000 has been assumed which reflects the significant improvement in the level of outstanding leaseholders' service charges over the last 6 months.
- Security Costs – additional costs of £32,000 are anticipated. The service is to be re-tendered which may reduce costs in future years.
- Income from Dwellings Rents – the increase of £110,000 is due to the original budget being based on 52 weeks (364 days). The revised budget includes the income for one additional day.
- Income from Tenant Service Charges – a shortfall of £75,000 which equates to 1.7%. This is due to a number of small variances arising across various services.
- Income from Leasehold Service Charges – a decrease of £87,000 due to a drop in the charges attributable to leasehold communal repairs. This is a reflection of actual costs that have been incurred.
- Income from Major Works Service Charges (Leaseholders) – a decrease of £378,000 mainly attributable to the slippage on the External Decorations programme for 2011/12 and a prioritisation in the Capital Programme to doing more Decent Homes work which is non rechargeable.

- Income from Heating & Hot Water Charges – a decrease of £168,000 is due to a lower than anticipated rise in the price of gas and a reduction in consumption which is also reflected in the current years costs.

5.4 The proposed TCC managed budget for 2013/14 is for net income of £34.360 million. This surplus is £1.698 million more than assumed in the original budget. The main factors resulting in the proposed changes are:

- Planned Maintenance – an increase of £511,000. An additional provision of £700,000 will enable works on external decorations to take place which were originally planned for 2012/13. This is partly offset by savings arising from some works undertaken within the Capital Programme e.g. boilers have been replaced which reduces the need for a planned maintenance contract during the guarantee period.
- Responsive Maintenance – a £391,000 increase. The original budget for 2012/13 reflected the assumed saving of £500,000 which was expected to arise following the tendering process undertaken in 2010. This level of saving has not proved to be achievable and the budgets have been realigned to reflect more realistic estimates of expenditure. When savings arising from the procurement of some smaller responsive engineering contracts are added, the overall budget increase is reduced to £391,000
- Aids and Adaptations – a £78,000 decrease due to the capital nature of some of the projects.
- Electricity, Heating and Hot Water – a £161,000 increase. This assumes an increase in costs of 5% which reflects the most current information available in the market.
- Cleaning Contract – a £43,000 increase reflects a provision for inflation in accordance with the contract.
- Provision for Bad Debts – an increase in provision of £325,000 has been allowed reflecting the changes in legislation (benefit caps and under occupancy) which are expected to have an impact on the collection rates from 2013/14 onwards.
- Security Costs – a £32,000 increase. The cost of the service is rising, it is anticipated that savings may arise following the retendering of the service.
- Income from Dwelling Rents – the estimated income from rents in 2013/14 is £1.744 million more than assumed in the 2012/13 original budget. This change arises from applying the Government's rent restructuring rules which will result in an

average rent increase of 4.5% in 2013/14. The void level continues to be set at 0.75% which is below the 2% level assumed by the Government in the Self Financing determination.

- Income from Commercial Properties – a £297,000 increase of which £132,000 arises from three new commercial leases currently under negotiation. The remainder of £165,000 relates to the commercial marketing of two of the parking sites.
- Income from Insurance Charges (Leaseholders) – an increase of £297,000 following the reprocurement of a new contract for buildings insurance.
- Income from major works – following the finalisation of the Elm Park Gardens Account a one-off increase of £795,000 is assumed in 2013/14. This is partly offset by some smaller variations.

6. COUNCIL MANAGED BUDGETS

6.1 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 resulting from development and regeneration work;
- Costs relating to property insurance and
- Costs incurred in supporting the Council's statutory responsibilities in relation to the HRA including audit, performance review, regeneration, 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

6.2 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.

6.3 It is anticipated, that over the medium term, significant surpluses will arise on the HRA revenue account. These surpluses could be used to fund additional capital expenditure or to refinance capital debt as PWLB loans fall out or General Fund cash reserves become unavailable. Taking out fixed term loans, e.g. for 10 years, therefore seems inappropriate when access to short term funding from the Council's General Fund is available.

- 6.4 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.
- 6.5 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.
- 6.6 The exception to this is the funding of the Self Financing settlement payment (£24.960 million). The Council has matched the special rates made available to local authorities to fund the settlement payment, on this loan a rate of 1.24% is being charged.
- 6.7 In 2013/14, the overall debt to be financed is £210.164 million. Of this, £160.895 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.
- 6.8 Based on the methodology outlined above, the average interest rate chargeable to the HRA on actual external debt is estimated to be 6.9% and on internally funded debt (except that financing the Self – Financing settlement) a rate of 1.5% is currently forecast.
- 6.9 In 2004/05, Government changes to Capital Financing accounting included the abolition of the HRA's statutory annual duty to repay 2% of debt. The HRA has not budgeted to repay debt in 2012/13 and is not proposing to do so in 2013/14. However, this will be reviewed each year as part of HRA business planning.

Funding the HRA Capital Programme

- 6.10 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.
- 6.11 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.
- 6.12 In conjunction with Corporate Finance a depreciation charge of £2.815 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.

6.13 The 2013/14 budget includes a further contribution towards the HRA Capital Programme in 2013/14. Together with the depreciation provision set out above, an overall revenue contribution of £7.252 million has been assumed in the 2013/14 budget.

6.14 The following table summarises the revised budget for the current year and the proposed budget for 2013/14. Further details are set out in Appendix 5:

	2012/13 Original Budget £'000	2012/13 Revised Budget £'000	2013/14 Proposed Budget £'000
Expenditure	22,149	21,893	21,769
Income	-271	-358	-280
Net Council Managed Budget	21,878	21,535	21,489

6.15 In terms of the current year, the revised budget indicates a decrease of £343,000 (see appendix 5 for details), which is primarily due to:

- Capital Charges – a decrease of £71,000 in the cost of debt charges (interest costs on borrowing to fund the capital programme), is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget.
- Income from interest on balances – an increase of £8,000. This is mainly due to a minor increase in interest rates.
- Regeneration – a decrease of £100,000 is mainly due to budget provisions for 2012/13 now expected to be used in 2013/14.
- Government Grants – following completion of the 2011-12 final HRA subsidy claim at the end of July 2012, subsidy allowance was £79,000 more than budgeted due to changes in interest rates.
- Insurance – a decrease of £86,000 is due to the beneficial outcome to the Council of the successful negotiation and implementation of the Tri Borough insurance tender. It should be noted that leaseholders insurance was not included in the Tri Borough tender process.

6.16 The proposed Council managed budgets for 2013/14 indicates a decrease of £389,000 (see appendix 5 for details). The main factors resulting in the proposed changes are:

- Capital Charges – a decrease of £516,000 in the cost of debt charges (interest costs on borrowing to fund the capital programme) is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget. This reflects the refinancing of capital debt as PWLB loans fall out and use is made of General Fund cash reserves at a rate of 1.5%.
- Charges made by the Corporate Services business group – a decrease of £87,000. This is mainly due to a decrease in the public liability insurance premium.
- Insurance – a net increase of £231,000. This is due to an increase of £297,000 for leaseholder insurance partly offset by savings of £66,000 from the successful negotiation and implementation of the Tri Borough insurance tender. The leaseholder insurance contract is currently out to tender but increases of at least 50% are anticipated.
- Provision of £300,000 has been made in the 2013/14 budget to fund the costs relating to work on Development and Regeneration. This is the same as the provision included in the original budget. This budget will be used to fund professional fees and other costs associated with the development of sites within the HRA.

7. PROPOSALS ON RENT LEVELS AND OTHER CHARGES

7.1 Almost all authorities set dwelling rents in accordance with the rent restructuring regime. Whilst this is not a statutory requirement, the debt settlements implemented as part of the Self Financing regime assumed adherence to this rent regime.

7.2 In 2002/2003, the Government introduced its “rent restructuring” regime where rents are set in line with a national formula which is used to calculate a target rent for each property. This means there is limited flexibility in rent levels if authorities comply with the regime.

7.3 The implementation of rent restructuring means that it is no longer possible to increase rents by a single percentage across the board. Rents have rather to be set at an individual property level based on a formula set out by the Government. The calculation of the “formula rent” is based on the following:

- 70% of the average rent multiplied by relative county earnings multiplied by bedroom weight; and
- 30% of the average rent multiplied by relative property value as a

percentage of the national average value.

The valuation used is the open market value as at January 1999 assuming vacant possession and continued residential use. No downward adjustment can be made for the fact that the property is used for social housing.

- 7.4 Local authorities are advised that they should adjust rental amounts annually to reach either the "formula rent" or the "capped rent" for all properties by the year 2015/16.
- 7.5 As a result of lobbying by the Council/TMO and other local authorities leading up to the implementation of rent restructuring, the Government also introduced a number of limits and caps to protect tenants from excessive increases in rents. This means that the very large potential increases that were a concern when the implementation of rent restructuring was being considered have not happened. The limits/caps are as follows:
- No rent shall increase by more than the Retail Price Index (RPI) + 0.5% + £2.
 - Rent caps have been set to ensure that no tenant pays over a maximum rent for any particular size property, no matter what the value of that property.
- 7.6 Detailed modelling of the impact of the rent restructuring formula on individual dwelling rents has been undertaken and this indicates an overall average increase in rents of 4.5%.
- 7.7 The average rent will be £111.32 per week. This is less than the limit rent set by the Department of Work and Pensions (£121.74), and therefore ensures that rents are within the eligible threshold for housing benefit.
- 7.8 It is proposed that all re-lets are let at the target rent level for that property.
- 7.9 An Equalities Impact Assessment has been undertaken and is attached at Appendix 6.
- 7.10 As in previous years, the increase in charges for garages and parking will be linked to the average dwelling rent increase which for 2013/14 is 4.5%. The budget reflects the current level of usage.
- 7.11 When the previous Government introduced rent restructuring it was with the expectation that councils would also move towards separate service charges for communal services. This would allow proper convergence to occur with Registered Providers' rents where service charges are separated out. Tenant Service Charges were introduced in

Kensington and Chelsea in 2005/2006. Both the rent and service charges are eligible for housing benefit.

7.12 Tenant Service Charges are still constrained by the rent restructuring limit so that increases for tenants are not more than RPI + 0.5% per week, except in the case of new services such as digital television.

7.13 Charges for the new Digital TV service - tenants and leaseholders will incur these costs over a 10 year period which equates to the period of the lease. Leaseholders must be charged in accordance with the costs arising in year from the installation of this facility within their block. However, for tenants, as agreed a borough wide weekly charge of ninety pence per week was made from April 2012. At the end of this period a small maintenance charge would be made. These charges are eligible for housing benefit.

8. HRA WORKING BALANCE

8.1 As at 1 April 2012, the working balance was £13.463 million. As a result of the projected net contribution to the working balance of £2.190 million (see table in paragraph 3.1), the forecast for the working balance as at 31 March 2013 is £15.653 million. The proposed budgets for 2013/14 (see table in paragraph 3.1) would result in a contribution to the working balance of £2.470 million resulting in a projected working balance at the end of 2013/14 of £18.123 million.

8.2 The projected movements in the working balance up to March 2014 can therefore be summarised as follows:

HRA Working Balance		£'000
	Opening balance (1 April 2012)	13,463
<i>add</i>	Projected outturn variance 2012/2013	2,190
<i>equals</i>	Projected Working Balance (31 March 2013)	15,653
<i>add</i>	Budgeted contribution to Working Balance 2013/2014	2,470
<i>equals</i>	Projected Working Balance (31 March 2014)	18,123

8.3 Use of this working balance will be considered as part of the business planning process.

9. RESERVES

9.1 The draft budgets also incorporate changes in the budgeted level of HRA reserves during 2013/14. The planned reduction is as follows:

Heading	1 April 2012 (Actual) £'000	31 March 2013 (Forecast) £'000	31 March 2014 (Forecast) £'000
<u>TMO Managed Reserves</u>			
Controlled Repairs/Area Revenue Works Reserve	223	223	223
<u>Lancaster West</u>	101	101	101
<u>Council Managed Reserves</u>			
Capital/Major Works Reserve	2,051	116	0
Total	2,375	440	324

The Capital and Major Works reserve is assumed to be fully released to fund capital projects by March 2014.

10. RECOMMENDATIONS

10.1 The proposals in this report have already been considered by both the TMO Board and the Tenants Consultative Committee. The final decision on these matters rests with the Cabinet Member for Housing and Property. The Scrutiny Committee is therefore asked to pass any comments it wishes to make to the Cabinet Member, in particular on recommendations for:

- (i) Rents being increased in accordance with the rent restructuring regime resulting in an average rent increase of 4.5% in 2013/14;
- (ii) The rents charged for re-lets are set at the target rent level;
- (iii) An increase to tenants of 4.5% in 2013/14 for garages/car parking facilities;
- (iv) An increase in general Tenant (including Hostels) and Leaseholder Service Charges for 2013/14 in line with revised estimates of costs recoverable;
- (v) That the HRA Working Balance and other reserves be retained at the level set out in section 8 and section 9.

Laura Johnson
Director of Housing

Nicholas Holgate
Town Clerk and Executive Director of Finance

Robert Black
TMO Chief Executive

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 BUSINESS PLAN - 2012/13 to 2017/18

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 2012			-13,463
Income received in 2012/13	-52,523		
Expenditure in 2012/13	50,333		
Surplus arising in 2012/13		-2,190	
Balance at 31st March 2013			-15,653
Income received in 2013/14	-56,116		
Expenditure in 2013/14	53,646		
Surplus arising in 2013/14		-2,470	
Balance at 31st March 2014			-18,123
Income received in 2014/15	-57,748		
Expenditure in 2014/15	53,865		
Surplus arising in 2014/15		-3,883	
Balance at 31st March 2015			-22,006
Income received in 2015/16	-60,118		
Expenditure in 2015/16	54,663		
Surplus arising in 2015/16		-5,455	
Balance at 31st March 2016			-27,461
Income received in 2016/17	-62,435		
Expenditure in 2016/17	54,806		
Surplus arising in 2016/17		-7,629	
Balance at 31st March 2017			-35,090
Income received in 2017/18	-64,607		
Expenditure in 2017/18	55,906		
Surplus arising in 2017/18		-8,701	
Balance at 31st March 2018			-43,791

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 paragraph 6.5 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;

- Dwelling rents continue to be set in accordance with the Government's rent restructuring regime assuming RPI to be 3% each year from 2014/15 and
- Inflation assumptions over the period are as follows: an annual increase of 2% on the TMO Management Fee from 2014/15 and an annual increase of 3% on other expenditure budgets.

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 £2.214 million to £41.577 million.
- A 1% increase in the inflation level assumed each year in the calculation of dwelling rents would increase the surplus by £4.326 million to £48.117 million.
- A 1% increase in the cost of expenditure (excluding debt financing charges) met by the HRA would reduce the surplus by £3.131 million to £40.660 million.
- The combined effect of the above 3 scenarios would decrease the surplus by £1.019 million to £42.772 million.

APPENDIX 2

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Estimate	% Variation Original & Estimate
	2012/13	2012/13	2013/14	2013/14
	£'000	£'000	£'000	£'000
TMO Management Fee	9,758	9,758	10,038	3%
Lancaster West Management Fee	342	342	363	6%
Total TMO Management Fee	10,100	10,100	10,401	3%
TCC Managed Budgets				
Planned Maintenance	6,612	5,061	7,124	8%
Responsive Maintenance	4,683	4,770	5,074	8%
Lancaster West EMB Expenditure	595	595	595	0%
Aids and Adaptations	278	100	200	-28%
Area Revenue Works	200	200	200	0%
Electricity, Heating, and Hot Water	3,277	3,213	3,438	5%
Contract Cleaning	2,146	2,146	2,189	2%
Refuse Collection	141	141	144	2%
Pest Control	189	189	189	0%
Provision for Bad Debts	398	298	723	82%
Rents, Rates, Taxes & Other Charges	168	168	169	1%
Car Park Management	45	41	41	-10%
Other Expenditure - Special Services	324	310	307	-5%
Security Costs	148	179	179	21%
Supporting People Expenditure	246	246	220	-11%
Legal Costs	204	204	204	0%
Digital TV	480	480	480	0%
TCC Managed Budgets Expenditure	20,133	18,340	21,476	7%
Dwelling Rents - Rent and Hostels	-38,183	-38,293	-39,927	4.6%
Commercial Properties Rent Income	-2,822	-2,822	-3,119	11%
Garages Rent Income	-710	-677	-685	-4%
Tenants Service Charges	-4,293	-4,218	-4,310	0%
Leaseholder Service Charges	-2,389	-2,302	-2,420	1%
Major Works Service Charges - Leaseholders	-1,275	-897	-2,026	59%
Heating and Hot Water Charges	-2,472	-2,304	-2,465	0%
Insurance Charges - Leaseholders	-524	-547	-821	57%
Supporting People Contract Income	-26	-26	0	-100%
Other Contributions Towards Expenditure	-30	-27	-27	-8%
Other Charges for Services & Facilities	-72	-52	-35	-51%
TCC Managed Budgets Income	-52,795	-52,165	-55,836	6%
Total TCC Managed Budgets	-32,662	-33,825	-34,360	5%
Council Managed Budgets				
Capital Charges	12,329	12,258	11,813	-4%
Depreciation charge (proxy)	7,202	0	0	-100%
Depreciation - Dwellings and Non Dwellings	0	2,840	2,815	0%
Transfer to Major repairs reserves	0	4,361	4,386	0%
Revenue contribution to capital	50	50	50	0%
Insurance Costs	937	851	1,169	25%
Recharges from Corporate Services	482	482	395	-18%
Recharges from Housing Services	600	600	590	-2%
Miscellaneous expenses	110	110	112	1%
Burgess Field (Supporting People)	103	103	103	0%
Consultancy budget	13	13	13	0%
Rent and rates	23	23	23	0%
Stock Options/Regeneration	300	200	300	0%
Council Managed Budgets Expenditure	22,149	21,892	21,769	-2%
Supporting People Grant	-205	-205	-205	0%
Interest income	-67	-74	-75	12%
Housing Subsidy	0	-79	0	
Council Managed Budgets Income	-271	-358	-280	3%
Total Council Managed Budgets	21,878	21,535	21,489	-2%
Contribution to (-) or from (+) HRA working balance	-684	-2,190	-2,470	261%
HRA Balance b/fwd	-13,463	-13,463	-15,653	16%
Contribution to (-) or from (+) HRA working balance	-684	-2,190	-2,470	261%
TOTAL HRA	-14,147	-15,653	-18,123	28%
Gross HRA Budget	52,382	50,333	53,646	2%

APPENDIX 3

RBKC TMO MANAGEMENT FEE		
	2012/13 £000	2013/14 £000
Original Management Fee 2012/13	10,100	10,101
Inflation Increase		101
Business Rates		67
Welfare Reform Officers		80
Project manager		52
Revised & Forward Management Fee	<u>10,100</u>	<u>10,401</u>
Revised & Forward Management Fee	10,100	10,401

MANAGEMENT FEE SUMMARY		
	2012/13 £000	2013/14 £000
RBKC TMO Management Fee	9,758	10,038
Lancaster West Management Fee	342	363
Lancaster West Management Fee Funded by Reserves	0	0
Total Management Fee	10,100	10,401

APPENDIX 4

TCC MANAGED BUDGETS		
	2012/13 £000	2013/14 £000
Original Budget	-32,662	-32,662
<u>Expenditure Budgets (Change)</u>		
Planned Maintenance	-1,552	511
Responsive Maintenance	88	391
Aids and Adaptations	-178	-78
Electricity, Heating, and Hot Water	-64	161
Contract Cleaning	0	43
Refuse Collection	0	4
Provision for Bad Debts	-100	325
Rents, Rates, Taxes & Other Charges	0	1
Car Park Management	-5	-5
Other Expenditure - Special Services	-14	-16
Security Costs	32	32
Supporting People Expenditure	26	0
Legal Costs (LVT)	0	0
Digital TV	0	0
<u>Income Budgets (Change)</u>		
Dwelling Rents - Rent and Hostels	-110	-1,744
Commercial Properties Rent Income	0	-297
Garages Rent Income	33	25
Tenants Service Charges	75	-17
Leaseholder Service Charges	87	-31
Major Works Service Charges - Leaseholders	378	-751
Heating and Hot Water Charges	168	7
Insurance Charges - Leaseholders	-23	-297
Supporting People Contract Income	-26	0
Other Contributions Towards Expenditure	3	3
Other Charges for Services & Facilities	20	37
Transfer to (+) or from (-) Reserves	0	0
Area Revenue Works	0	0
Revised Budget & Forward Estimate	-33,825	-34,360

COUNCIL MANAGED HRA BUDGETS		
	2012/13	2013/14
	£000	£000
Original Budget 2012/13	21,878	21,878
Capital financing		
Depreciation charge (proxy) transfer to Major repairs reserves	-7,202	-7,202
Depreciation charge- Dwellings and Non Dwellings	2,840	2,815
Transfer to Major repairs reserves	4,361	4,386
Sub-Total	0	0
Estimated cost of capital debt charges	-71	-516
Capital Financing	-71	-516
Central Support Services		
Corporate Services Business Group	0	-87
Housing Business Group	0	-10
Sub-Total	0	-97
Other		
Final subsidy claim 2011/12	-79	0
Change in interest on balances	-8	-8
Cost of property insurance	-86	231
Stock Options/Regeneration	-100	0
Miscellaneous Budgets	0	2
Sub-Total	-273	225
Revised Budget 2012/13 and Forward Budget 2013/14	21,535	21,489

Tri-Borough Equality Impact Analysis Tool

Conducting an Equality Impact Analysis

An EqIA is an improvement process which helps to determine whether our policies, practices, or new proposals will impact on, or affect different groups or communities. It enables officers to assess whether the impacts are positive, negative or unlikely to have a significant impact on each of the protected characteristic groups.

The tool has been updated to reflect the new public sector equality duty (PSED). The Duty highlights three areas in which public bodies must show compliance. It states that a public authority must, in the exercise of its functions, have due regard to the need to:

- 1. Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited under this Act;**
- 2. Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;**
- 3. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.**

Whilst working on your Equality Impact Assessment, you must analyse your proposal against the three tenets of the Equality Duty.

Tri borough EqIA Tool

General points

1. In the case of matters such as service closures or reductions, considerable thought will need to be given to any potential equality impacts. Case law has established that due regard cannot be demonstrated after the decision has been taken. Your EIA should be considered at the outset and throughout the development of your proposal, it should demonstrably inform the decision, and be made available when the decision is recommended.
2. Wherever appropriate, the outcome of the EIA should be summarised in the Cabinet/Cabinet Member report and equalities issues dealt with and cross referenced as appropriate within the report.
3. Equalities duties are fertile ground for litigation and a failure to deal with them properly can result in considerable delay, expense and reputational damage.
4. Where dealing with obvious equalities issues e.g. changing services to disabled people/children, take care not to lose sight of other less obvious issues for other protected groups.
5. If you already know that your decision is likely to be of high relevance to equality and/or be of high public interest, you should contact the Equality Officer for support.
6. Further advice and guidance can be accessed from the separate guidance document (link), as well as from your service or borough leads:

LBHF Opportunities Manager: PEIA@lbhf.gov.uk or ext [REDACTED]	RBKC Corporate Equalities Officer: angela.chaudhry@rbkc.gov.uk [REDACTED]	WCC Senior Policy Officer: doleary@westminster.gov.uk [REDACTED]
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Equality Impact Analysis Tool

Overall Information	Details of Full Equality Impact Analysis
Financial Year and Quarter	2013-2014
Name and details of policy, strategy, function, project, activity, or programme	<p>Title of EIA: The Impact of Increasing Rents in TMO Managed Properties</p> <p>Short summary:</p> <p>The Royal Borough is landlord to over 6,900 tenants and 2,500 leaseholders. The housing management responsibility has been delegated to the Kensington and Chelsea Tenant Management Organisation through the Modular Management Agreement (MMA). Rents are set in accordance with the Government national guidelines which for the 2013/14 year will see a proposed average rent increase of 4.5%. Full details for the rent increase will be set out in the Housing Revenue Account Rent Report 2013/14.</p> <p>As of September 2012 the UK Retail Prices Index (RPI) stood at 2.6%¹, the forthcoming rent increase will rise above the inflation rate as the national formula seeks to increase rents over time to the target rent. The national rent formula seeks to equalise rents across Council and registered social landlord owned housing stock by taking into account the value and size of properties coupled with manual earnings in the local area. In the current financial climate it is important that measures are taken to minimise the financial hardship that Council tenants will face as a result of these increases.</p> <p>However, whilst this equalities impact assessment primarily focuses on the impact forthcoming rent increases will have on Council tenants, it is also of relevance to consider that from April 2013, under Welfare Reform, there will be restrictions made by the Department for Work and Pensions (DWP) to the amount of benefits households are entitled to receive in a single week; limiting it to £500 a week for families, or £350 for childless single-adult households.</p> <p>The Benefit Cap will apply to those aged 16 – 64, however there are exemptions for those entitled to Working Tax Credit, Disability Living Allowance, Attendance Allowance and Employment Support Allowance. Furthermore, Welfare Reform will also see the introduction of reduction on Housing Benefit for those who are of working age and under occupying by one bedroom or more. The rates of Housing Benefit reduction are 14% for 1 spare bedroom and 25% for two or more spare bedrooms. The size criteria in the social rented sector will restrict Housing Benefit to allow for one bedroom for each person or couple living as part of the household;</p>

¹ <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/october-2012/index.html>

	<p>with the following exceptions: Children under 16 of same gender expected to share Children under 10 expected to share regardless of gender Disabled tenant or partner who needs non resident overnight carer will be allowed an extra room.</p> <p>Note: If your proposed strategy will require you to assess impact on staff, please consult your HR Relationship Manager.</p>		
Lead Officers	<table border="1"> <tr> <td style="background-color: #f4a460;"></td> <td> <p>RBKC Name: Celia Caliskan Position: General Needs Housing Commissioning Manager Email: Celia.Caliskan@rbkc.gov.uk Telephone No: [REDACTED]</p> </td> </tr> </table>		<p>RBKC Name: Celia Caliskan Position: General Needs Housing Commissioning Manager Email: Celia.Caliskan@rbkc.gov.uk Telephone No: [REDACTED]</p>
	<p>RBKC Name: Celia Caliskan Position: General Needs Housing Commissioning Manager Email: Celia.Caliskan@rbkc.gov.uk Telephone No: [REDACTED]</p>		
Lead Borough	RBKC Specific		
Date of completion of final Full EIA	1 st December 2012		

Section 02	Scoping of Full EIA								
Plan for completion	<p>Timing: 1st December 2012 Resources: Previous EIA Assessments, TMO Resident Survey Data, Statistics on income poverty sourced online and referenced where necessary.</p>								
Analyse the impact of the policy, strategy, function, project, activity, or programme	<p>Analyse the impact of the policy on the protected characteristics (including where people / groups may appear in more than one protected characteristic). You should use this to determine whether the policy will have a positive, neutral or negative impact on equality, giving due regard to relevance and proportionality.</p> <table border="1"> <thead> <tr> <th style="background-color: #f4a460;">Protected characteristic</th> <th style="background-color: #f4a460;">Borough Analysis</th> <th style="background-color: #f4a460;">Impact: Positive, Negative, Neutral</th> </tr> </thead> <tbody> <tr> <td style="background-color: #f4a460;">Age</td> <td>Data from Housing Benefits indicates that there are about 500 households under-occupying their accommodation who are in receipt of either full or partial housing benefit and of working age and will be affected by the under occupancy penalty. There are also approximately 30 households of working age who are currently impacted by the Benefits cap and this number could increase slightly</td> <td style="background-color: #f4a460;">Negative</td> </tr> </tbody> </table>			Protected characteristic	Borough Analysis	Impact: Positive, Negative, Neutral	Age	Data from Housing Benefits indicates that there are about 500 households under-occupying their accommodation who are in receipt of either full or partial housing benefit and of working age and will be affected by the under occupancy penalty. There are also approximately 30 households of working age who are currently impacted by the Benefits cap and this number could increase slightly	Negative
Protected characteristic	Borough Analysis	Impact: Positive, Negative, Neutral							
Age	Data from Housing Benefits indicates that there are about 500 households under-occupying their accommodation who are in receipt of either full or partial housing benefit and of working age and will be affected by the under occupancy penalty. There are also approximately 30 households of working age who are currently impacted by the Benefits cap and this number could increase slightly	Negative							

	<p>with the impact of the rent increase.</p> <p>In 2010/11, an estimated 14 per cent of pensioners in the UK were living on less than 60 per cent of equivalised contemporary median income after housing costs², and a report published by the DWP titled 'Households Below Average Income' show that around 9% of pensioners aged 65 or over were classified as being materially deprived. This evidence indicates that it is highly likely some elderly TMO residents are likely to suffer financial hardship as a result of rent increases.</p> <p>Young people are also likely to be affected by the rent increases and the under occupancy penalty, and the number of young people aged 18–24 in London who claimed JSA was 49,885, or 6.8 per cent of the resident population aged 18–24 (July 2012)³.</p>	
Disability	There are 433 known disabled residents within the TMO managed stock. Disabled adults are twice as likely to be living in low-income households as non-disabled adults. Additionally, disabled people are more likely to not be working, and where they are working, are more likely to be earning less ⁴ . It is evident therefore the increase in rents is likely to specifically impact this protected characteristic.	Negative
Gender reassignment	Resident survey information does not capture specific information as to whether any TMO residents have undergone gender reassignment but the TMO are not aware of any residents who have undergone gender reassignment; however, it is not anticipated that the increase of rents across TMO managed housing stock will adversely impact individuals who may have undergone gender reassignment.	Neutral
Marriage and Civil Partnership	It is not anticipated that the increase of rents across TMO managed housing stock will adversely affect individuals if they are married or in civil partnerships, more so than non-married residents or those not in civil partnerships.	Neutral
Pregnancy and	Residents on low incomes who happen to be pregnant or on maternity leave will	Negative

² http://www.ons.gov.uk/ons/dcp171766_278836.pdf

³ http://seo.org.uk/sites/default/files/downloads/Labour_Market_Update_August_2012.pdf

⁴ Laxton and Parckar for Leonard Cheshire Disability *Fuel Poverty and Disability* January 2009

maternity	be adversely affected by the rent increases as a result of their pregnancy or maternity.	
Race	The TMO's resident survey showed 30.6% of residents are from black, Asian or minority ethnic groups, with a further 34.6% unknown. A report by the Department for Work and Pensions ⁵ also tells us that working-age adults living in households headed by someone from an ethnic minority were more likely to live in low-income households. This was particularly the case for households headed by someone of Pakistani or Bangladeshi ethnic origin.	Negative
Religion/belief (including non-belief)	It is not anticipated that the increase of rents across TMO managed housing stock will adversely affect individuals as a result of any specific religion or belief that they may have.	Neutral
Sex	Currently 57.8% of Council tenants are women, so more women will be affected than men; however it is not anticipated that the increase of rents across TMO managed housing stock, or the bedroom tax will adversely affect individuals based on their sex. Male and Female residents will be equally affected but for the purposes of this characteristic, there is no anticipated impact.	Neutral
Sexual Orientation	It is not anticipated that the increase of rents across TMO housing stock will adversely affect individuals based on their sexual orientation.	Neutral

Human Rights or Children's Rights

If your decision has the potential to affect Human Rights or Children's Rights, please contact your Borough Lead for advice. Forthcoming TMO rent increases are not expected to affect Human Rights or Children's Rights.

Section 03

Analysis of relevant data

Examples of data can range from census data to customer satisfaction surveys. Data should involve specialist data

⁵ Department of Work and Pensions: *Households Below Average Income – An analysis of the income distribution 1994/95 – 2010/11* June 2012 (United Kingdom)

	and information and where possible, be disaggregated by different equality strands.
Documents and data reviewed	<p>LBHF:</p> <p>RBKC: In addition to the data sources identified in Section 2, recent research obtained in connection with this equalities impact assessment shows that;</p> <ul style="list-style-type: none"> • Around two-fifths of people from ethnic minorities live in low-income households, twice the rate for White people⁶. • London has the highest rates of child, working-age and pensioner poverty of any English region⁷. • Housing costs are a critical factor in explaining why London has the highest poverty rates of all of London's regions. Taking account of housing costs, the poverty rate in London is 28% compared to 22% in the rest of England, and the gap has grown in the last decade⁸. • Black, Asian and minority ethnic JSA claimants are far higher than they are represented in the UK population. 57.4% of the 2755 JSA claimants in the Royal Borough are from a BAME background⁹.
New research	If new research is required, please complete this section

Section 04	Consultation
	Complete this section if you have decided to supplement existing data by carrying out additional consultation.
Consultation in each borough	<p>There is a standardised consultation process used for the rent increase:</p> <ul style="list-style-type: none"> • 8 January 2013: TMO Board meeting – the report will be presented by the Council's Housing Finance Manager • 9 January 2013: Tenants Consultative Committee – this is the main agenda item • 16 January 2013: Council's Housing and Property Scrutiny Committee Meeting

⁶ <http://www.poverty.org.uk/06/index.shtml?2>

⁷ <http://www.londonspovetryprofile.org.uk/indicators/topics/income-poverty/londons-poverty-rate/>

⁸ <http://www.londonspovetryprofile.org.uk/downloads/povertyreport2011-web.pdf>

⁹ http://seo.org.uk/sites/default/files/downloads/Labour_Market_Update_August_2012.pdf

	<p>The Tenant's Consultative Committee will be used as a forum to consult with residents and representatives from individual tenant associations.</p> <p>Following the Housing and Property Scrutiny Committee on the 16th January the Cabinet Member for Housing and Property will be asked to take a Key Decision for the 2013-2014 rent increase. Once the Key Decision has been agreed the TMO will distribute rent increase letters to all Council tenants notifying them of the increase. Information outlined within the letters will clearly state that Council tenants should seek advice from their Rental Income Officer, or Neighbourhood Officer if they have any concerns. In addition, it is proposed that the TMO will publicise the increase on the TMO website and in Tenant Link Magazine, at resident association meetings and other resident consultation groups.</p>
Analysis of consultation outcomes for each borough	

Section 05	Analysis of impact and outcomes
Analysis	<p>What has your consultation (if undertaken) and analysis of data shown? You will need to make an informed assessment about the actual or likely impact that the policy, proposal or service will have on each of the protected characteristic groups by using the information you have gathered. The weight given to each protected characteristic should be proportionate to the relevant policy (see guidance).</p> <p>All Council tenants will be affected by these proposed rent increases and a small percentage (approx. 8%) by the impact of the under occupancy penalty, however, it is likely that some groups will be affected to a greater extent because of their lower income. It is essential that those Council tenants who have been identified as likely to suffer from financial hardship as a result of the rent increases, the under occupancy penalty or both, are provided with as much advice as is possible to minimise the impact.</p>

Section 06	Reducing any adverse impacts and recommendations
Outcome of Analysis	<p>Include any specific actions you have identified that will remove or mitigate the risk of adverse impacts and / or unlawful discrimination. This should provide the outcome for each borough, and the overall outcome.</p> <p>As explained in Section 4 of the Consultation Process, the TMO will be required to communicate with all residents in</p>

writing, outlining the increases for the 2013/2014 financial year. The TMO will also provide detailed information to residents on where and when they can seek further advice and guidance on income maximisation and how to reduce the impact of rent increases as well as the alternative housing options for those who will be affected by under occupancy.

As outlined in Section 2 there will be residents from certain protected characteristics who may be more likely to experience difficulties paying the increased charges, and who will be affected by the under occupancy penalty. The TMO will therefore need to ensure that those Council tenants who will be affected are given appropriate advice and support to help them avoid arrears and financial hardship. Informing tenants well in advance of the rent increase and of the impact of a reduction in housing benefit will cause for under-occupiers, will help residents to budget effectively and make informed and independent choices.

Both the Royal Borough as landlord or the TMO as managing agent are putting in place plans to support residents affected by these increases. This could be in the form of a referral to an agency for an income maximisation consultation. Tenants should also be made aware that they can have access to independent financial and housing advice. The Royal Borough has agreed funding for two additional Welfare/Financial Inclusion Officers to carry out visits to those tenants who are affected by the impact of Welfare Reform. The Royal Borough will also have funds available from a Discretionary Housing Benefit Fund that will aim to support vulnerable residents in exceptional circumstances; clear guidance on how to apply and who might be eligible for this will need to be disseminated amongst Council tenants. Further, the Royal Borough's Housing Options Team and Revenues Team, in conjunction with the TMO are currently working on a downsizing policy to assist tenants who will be affected by the under occupancy penalty. Once this policy has been finalised information on how to access the scheme will also be distributed amongst Council tenants.

The TMO is already working with Kensington Job Centre to best support workless tenants; either engaging tenants to offer them advice about getting back to work, identifying where exemptions may apply or where more intensive support is required and putting this in place with the Job Centre.

Section 07	Action Plan					
Action Plan	Note: You will only need to use this section if you have identified actions as a result of your analysis					
	Issue identified	Action (s) to be taken	When	Lead officer and borough	Expected outcome	Date added to business/service plan

Section 08	Agreement, publication and monitoring	
Chief Officers' sign-off		Laura Johnson – Director of Housing
Key Decision Report (if relevant)		Cllr Coleridge – RBKC Lead Member for Housing & Property
Lead Equality Manager (where involved)		Angela Chaudhry – Corporate Equalities Officer

Agenda Item 5

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA TENANT MANAGEMENT ORGANISATION LIMITED

Open

For Approval

TMO Board – 8 th January 2013
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Report title:	Budgets 2013-14
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Authority for decision:	The Board has the overall responsibility for approving the annual budgets.
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Recommendations:	The Board is requested to note the report.
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Regulatory/legal requirements:	The Board have legal responsibility of ensuring the organisations resources are used in accordance with the budget and business plan.
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Business Plan link:	Being competitive and increasing our income
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Equality Impact Assessment/comment:	None required
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Resident consultation:	None required.
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Resource implicationsA/FM statement:	This is the subject of the report.
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Risk:	
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Appendices:	1
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Total number of pages including appendices:	16
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Name, position and contact details of author:	Rupa Bhola Assistant Director of Finance
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THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED

TMO Board – 8th January 2013

REPORT BY THE ASSISTANT DIRECTOR OF FINANCIAL SERVICES

BUDGETS 2013/14

1. Purpose of the Report

1.1 The purpose of this report is to present the TMO Board the TMO Company Budgets and the HRA Managed Budgets for 2013/14.

FOR DECISION

2. TMO Company Budgets - Introduction

The TMO Company budgets for 2013-14 are reported in this paper. The overall surplus in the 2013-14 budgets is £30k, including the budgets of the Lancaster West Estate, a favourable variance of £2k on the previous year.

The main variances are:

Income/Cost	Annual Budget 2012/13 £000's	Annual Budget 2013/14 £000's	Variance £000's	Variance %
Management Fee inc Lanc West	10100	10401	301	3%
Stable Way Income	85	72	(13)	15%
Community Alarm Service Income & Supporting People	693	694	1	0%
Legal Cost & Other Recharge Income	461	380	(81)	18%
Digital TV	480	480	0	0%
Other Income-ex Stable Way	308	311	3	1%
Recharge to Council of Capital Programme Team	502	502	0	0%
Total Income	12,629	12,840	211	2%
People Costs	8,110	8,363	253	3%
Accommodation	795	936	141	18%
Legal	800	670	(130)	16%
IT Services	683	753	70	10%
Property Services	180	180	0	0%
Procurement Costs	108	110	2	2%
Digital TV	480	480	0	0%
Other Costs	1,445	1,318	(127)	9%
Total Cost	12,601	12,810	(209)	2%
Net Surplus	28	30	2	7%

2.1. Assumptions

The budgets are prepared on the following assumptions:

- 1% inflation increase on salaries 2013-14 including performance related pay (2012-13: Nil increases). This is in line with RBKC guidelines and is reflected by increases across all Payroll costs budgets.
- Salaries have been increased to reflect the spinal point as per the employment contracts.
- Vacant positions are budgeted at mid-point in pay scales with pension contributions.
- Inflation on management fee has been taken at 1% in line with RBKC guidelines where applicable.
- All utility and other costs have been budgeted at contracted or forecasted amounts.
- Lancaster West has a break-even budget.

2.2. Chief Executive Directorate – Net 2% increase in income

The Management fee for 2013-14 has been increased by £279k. Inflation of £98k represents a 1% increase on the management fee for 2012-13. The remaining increase consists of £132k for funding three additional posts within the TMO initially for 1 year period and £50k is part funding of the additional costs of NNDR in 2013-14.

The 11% increase in Payroll costs represents the change in the internal divisional and reporting structure at the TMO introduced in 2012-13 after the departure of the Director of People and Organisational Development . The changes are made to two divisions Strategy and Engagement and Financial Services. Strategy and Engagement Division is now People and Performance Division which includes the additional departments of Human Resources, Communications and Complaints and Financial Services now includes Health and Safety department.

Other costs within the division remain in line with the previous year.

2.3. People and Performance Directorate – Net 3% increase in expenditure

Human Resources – There is a 6% or £36k reduction in costs in the overall budget for 2013-14. This is a result of the change in the internal divisional and reporting structure at the TMO introduced in 2012-13 as mentioned in the Chief Executive Directorate above.

Planning and Performance – There is a 12% £(72k) increase in the overall budget for 2013-14. One of the new posts being funded by the additional management fee is within this division. Included within this amount is an increase of £15k for enhancing the company's communications strategies.

Resident Engagement – An overall 1% increase in costs being a reflection of the assumptions mentioned above.

2.4. **Financial Services Directorate** – Net 6% increase in expenditure

Finance – There is an overall reduction in costs of 1% or £6k.

The increase in Payroll costs is a result of the change in the internal division and reporting structure that was introduced in 2012-13 with the Health and Safety department now part of the Financial Services Directorate as mentioned in the Chief Executive Directorate above 2.2.

Other costs have been reduced to reflect the savings identified in the SLA recharges to offset the increase in payroll costs.

Home Ownership Department – There is an overall 5% reduction in costs giving a saving of £13k for the 2013-14 Budgets.

The recovery of legal costs has been reduced by £(75k) in line with the reduction in legal expenditure by £100k. The net impact of this is a reduction in expenditure of £25k. This also reflects in the improving levels of leaseholder debt.

The Payroll costs have increased by 4% or £(10k) which reflects the assumptions of inflation and current pay scales.

Information, Communication & Technology – There is an overall increase in expenditure of 7% in costs for the 2013-14 budget which amounts to £(71k). This is partly due to the increase on the depreciation budget by £35k with the completion of W2 (EDRMS system), an increase of £8k for telecoms usage and £15k in software license costs. The budgets include the software maintenance costs for the new modules purchased for W2 and telecoms during 2012-13.

Office Accommodation (KHS, HUB, Blantyre) – There is an overall increase of 15% or £(124k) in costs for the 2013-14 Budgets.

This is mostly due to the increase in NNDR costs, which is being part funded by RBKC through the increase in the management fee as mentioned in 2.2 above.

2.5. **Operations Directorate** – There is an overall reduction in expenditure of 1%

Asset & Regeneration – There is a 9% decrease overall in the 2013-14 budgets. This is made up of a £63k reduction in Payroll costs for the department as a result of the recent restructure. Depreciation budget for Keystone has been reduced by £30k to reflect the initial software costs invested in 2010, will now being fully amortised by end of 2013.

Customer Contact and Access – An overall upward change in the budget of £(4k) due to the assumptions mentioned above.

Neighbourhood Housing – An overall increase of 3% or £80k in the 2013-14 budget.

Payroll costs within this department have increased by £(107k). The amount of £80k is due to two extra posts of Welfare Reform Officers being funded

through additional management fee as mentioned in the Chief Executive Directorate. The remainder of the increase is due to the assumptions mentioned above in 2.1.

Legal costs within the department have decreased by £50k as a reflection of costs being incurred in the current year. Where these costs are recoverable, the income has been adversely affected and is reduced by £(21k).

Partnering – There is an overall decrease of 4% or £19k in the 2013-14 budgets. This is a saving from the deletion of one post from the structure of the team.

Supported Housing & Community Alarm Service (CAS) – There is a nil change over all.

Stable Way – A reduction in income of 15% or £13k. This is the management fee on the contract with RBKC for the traveller's site.

- 2.7. Lancaster West** – There is an overall break even position for 2013-14 budgets. The management fee for Lancaster West has been increased by 6% or £21k. This is mainly due to the increase in NNDR costs and inflation of 1% which will be funded by the additional management fee.

3. TCC Managed Budgets – Summary

The TCC Managed Budget shows an overall Budgeted Net Income of £34.36m. This is an increase of 5% in 2013-14 over the budgeted surplus of £32.662m in 2012-13. Expenditure has increased either in line with inflation or based on specific provisions as per service contracts.

The surplus of £34.36m is stated before the impact of the Council Managed budgets expenditure. The Council Managed budgets include costs of financing HRA debt, Capital programme, depreciation, insurance, regeneration and development costs and the Council's statutory responsibilities in relation to the HRA including audit and performance review.

3.1. Assumptions

The assumptions made in arriving at this budgeted position are as follows:

- A 4.5% increase in Dwelling Rents has been projected in accordance with the Council's draft Key Decision Report which is due to go to TCC in January 2013.
- An estimated 7% increase in gas and electricity prices for 2013-14.
- Contract Cleaning has inflationary increase of 2.1% as per contract.
- Planned maintenance has been budgeted at the contract price or forecast values.

- Responsive building repairs have been applied an inflationary increase of 3%.
- All other Expenditure has a zero inflation rate or an increase as per the service contracts.

These inflationary increases are in line with those proposed by RBKC and contract variations.

3.2 TCC Managed Budgets Income

Dwelling Rents – the estimated income from rents in 2013/14 is £1.744m more than assumed in the 2012/13 original budget which is an increase of 4.6%. This change arises from applying the Government's rent restructuring rules which will result in an average rent increase of 4.5% in 2013/14. The void level continues to be set at 0.75% which is below the 2% level assumed by the Government.

Commercial Properties – there is an estimated increase of 11% or £297k in 2013/14 budgets. This is attributed to three new commercial leases under negotiation which will generate £132k of income. The remaining £165k relates to the commercial marketing of two car parking sites. This income is expected to continue for the forgoing future

Income from Major Works (Leaseholders) – following the finalisation of Elm Park Gardens final account, a one-off increase of £751k is included in the 2013/14 budgets.

Income from Insurance Charges (Leaseholders) – a 57% or £297k increase due to the necessity of procuring a new contract for buildings insurance.

3.3 TCC Managed Budgets Expenditure

Planned Maintenance – 8% or £511k increase is budgeted, this is due to a £700k increase for cyclical decorations being vired from the 2012/13 budget to the 2013-14 budget due to delays in the commencement of contracted works.

This is offset by a decrease of £189k based on the 2012/13 and 2013/14 Capital Programme where items such as boilers have been replaced they have a minimum one year guarantee period which will reduce the immediate need for a planned maintenance contract.

Responsive Maintenance – An 8% or £391k increase in the budget. This mainly reflects the reversal of the £500k saving offered to the budget when the Morrison contract was awarded. This is offset by some savings which have been included in the budget based on the new procurement for some smaller responsive engineering contracts.

Planned Response Repairs (Aids & Adaptations) – A 28% or £78k decrease in budget due to the reduced number of projects being identified as suitable for adaptive works.

Electricity, Heating & Hot Water – £161k increase in budget due to an estimated increase of 7% in both gas and electricity prices in the next financial year. This percentage increase in prices reflects the most up to date information available in the market.

Provision for Bad Debts – An 82% or £325k increase in provision requirement reflects the changes in legislation (Bedroom Tax and Benefit Cap) that are expected to have an impact on the collection rates from 2013-14 onwards. The information on the number of households involved has been provided by the Council. However the impact of the changes is an estimate. The Council have agreed to review the position at the half year mark and make a further in year adjustment if required.

Security Costs – a 21% or £32k increase. The need for this service is rising and thus the costs are increasing. The contract is due to go out to tender soon and the TMO will look to find some savings when this occurs.

Rupa Bhola
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TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING DRAFT BUDGETS 2013-14

Directorate	Sub Division	Budget 2012-13	Draft Budget 2013-14	% Change
CEO	INCOME OTHER	(9,758,610)	(10,037,996)	
	PAYROLL COSTS	713,992	790,734	
	OTHER COSTS	273,000	276,000	
CEO Total		(8,771,618)	(8,971,263)	2%
Financial Services	INCOME OTHER	(1,033,750)	(956,250)	
	PAYROLL COSTS	1,271,640	1,331,409	
	OTHER COSTS	2,453,480	2,491,143	
Financial Services Total		2,691,370	2,866,302	6%
People and Performance	INCOME OTHER	(2,500)	(2,500)	
	PAYROLL COSTS	1,021,162	1,048,550	
	OTHER COSTS	405,780	418,980	
People & Performance Total		1,424,442	1,465,030	3%
Operations	INCOME OTHER	(1,512,530)	(1,478,531)	
	PAYROLL COSTS	4,899,571	4,925,152	
	OTHER COSTS	1,240,810	1,163,310	
Operations Total		4,627,850	4,609,931	1%
Grand Total		(27,956)	(30,000)	7%

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
CEO Division 2013-14

Department Name	Sub Division	Description	Budget 2012-13	Draft Budget 2013-14	% Change
CEO	INCOME OTHER	CHIEF EXEC - MANAGEMENT FEE	(9,758,610)	(9,856,196)	
		CHIEF EXEC - MFEE INCREASE	0	(181,800)	
	INCOME OTHER Total		(9,758,610)	(10,037,996)	3%
	PAYROLL COSTS	CEO - MATERNITY PAY	15,000	15,000	
		CHIEF EXEC - BONUS	41,586	62,925	
		CHIEF EXEC - EMPLOYERS NI	58,485	64,209	
		CHIEF EXEC - EMPLOYERS PENSION	106,500	129,900	
		CHIEF EXEC - MONTHLY SALARY ALLOWANCE	15,581	15,638	
		CHIEF EXEC - PENSION POT	5,300	5,000	
		CHIEF EXEC - STAFF SALARY	471,540	498,062	
	PAYROLL COSTS Total		713,992	790,734	11%
	OTHER COSTS	CHIEF EXEC - BOARD MEMBER ALLOWANCES	12,500	12,500	
		CHIEF EXEC - BOARD TRAINING	16,000	16,000	
		CHIEF EXEC - TMO - ELECTIONS	10,000	13,000	
		CHIEF EXEC - AGM COSTS	17,000	17,000	
		CHIEF EXEC - BOARD EXPENSES	3,000	3,000	
		CHIEF EXEC - CONFERENCE & AWAY DAY	15,000	15,000	
		CHIEF EXEC - CONSULTANTS	140,000	140,000	
		CHIEF EXEC - GENERAL HOSPITALITY	1,000	1,000	
		CHIEF EXEC - INSURANCE	41,000	41,000	
		CHIEF EXEC - LEGAL EXPENSES	15,000	15,000	
		CHIEF EXEC - MISC EXPENSES	500	500	
		CHIEF EXEC - TRAVEL & SUBS	2,000	2,000	
OTHER COSTS Total		273,000	276,000	1%	
CEO Total			(8,771,618)	(8,971,263)	2%
Grand Total			(8,771,618)	(8,971,263)	2%

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
People and Performance Division 2013-14

Department Name	Sub Division	Description	Draft Budget		% Change		
			Budget 2012-13	2013-14			
HR	PAYROLL COSTS	HR - BONUS	13,734	9,066			
		HR - EMPLOYERS NI	24,356	21,381			
		HR - EMPLOYERS PENSION	53,300	47,600			
		HR - MONTHLY SALARY ALLOWANCE	5,963	1,238			
		HR - STAFF SALARIES	216,875	201,027			
	PAYROLL COSTS Total			314,228	280,312	11%	
	OTHER COSTS	HR - BOOKS & PUBLICATIONS	1,000	1,000			
		HR - CHILDCARE VOUCHERS	500	500			
		HR - DEPRECIATION ON SOFTWARE	27,000	24,000			
		HR - HEALTH INSU, CHECKS etc	25,000	25,000			
		HR - Learning & Ongoing Development	115,000	115,000			
		HR - LEGAL EXPENSES	20,000	20,000			
		HR - ORGANISATION MEMBERSHIPS	20,000	20,000			
		HR - PAYROLL SERVICE COSTS	8,000	8,000			
		HR - RECRUITMENT COSTS	60,000	60,000			
		HR - SALARIES EXPENSE NON PAYROLL (NIC for P11D's)	1,800	1,800			
		HR - SLA PERSONNEL	-	1,200			
		HR - TRAVEL & SUBS	1,000	1,000			
	OTHER COSTS Total			279,300	277,500	1%	
	HR Total			593,528	557,812	6%	
Planning & Performance	PAYROLL COSTS	OD - BI - BONUS	14,901	17,537			
		OD - BI - EMPLOYERS NI	39,515	44,667			
		OD - BI - EMPLOYERS PENSION	79,400	83,600			
		OD - BI - MONTHLY SALARY ALLOWANCE	5,906	6,190			
		OD - BI - OVERTIME	800	200			
		OD - BI - SALARIES	368,823	415,079			
	PAYROLL COSTS Total			509,345	567,273	11%	
	OTHER COSTS	OD - BI - Business Continuity	4,000	4,000			
		OD - BI - CHARTER MARK	1,400	1,400			
		OD - BI - COMMUNICATION	58,000	73,000			
		OD - BI - EQUALITY ST LG	1,000	500			
		OD - BI - MISC EXPENSES	500	500			
		OD - BI - TP TRACKER	12,500	12,500			
		OD - BI - TRANSLATION	6,000	6,500			
		OD - BI - TRAVEL & SUBS	250	250			
		OTHER COSTS Total			83,650	98,650	18%
		Planning & Performance Total			592,995	665,923	12%
RI	INCOME OTHER	HM - RI - MISC INCOME	(2,500)	(2,500)			
	INCOME OTHER Total			(2,500)	(2,500)	0%	
	PAYROLL COSTS	HM - RI - BONUS	7,087	7,202			
		HM - RI - EMPLOYERS NI	15,742	16,075			
		HM - RI - EMPLOYERS PENSION	28,300	28,700			
		HM - RI - MONTHLY SALARY ALLOWANCE	4,725	4,952			
		HM - RI - STAFF SALARIES	141,735	144,035			
	PAYROLL COSTS Total			197,589	200,964	2%	
	OTHER COSTS	HM - RI - ANNUAL CONFERENCE	10,000	10,000			
		HM - RI - PUBLICITY/SURVEY	1,000	1,000			
		HM - RI - RA GRANT	2,800	2,800			
		HM - RI - RI EXPENSES	2,000	2,000			
		HM - RI - ROADSHOW/EVENTS	13,000	13,000			
		HM - RI - TENANT TRAINING	12,000	12,000			
		HM - RI - TP TRACKER SUPPORT	2,030	2,030			
OTHER COSTS Total			42,830	42,830	0%		
RI Total			237,919	241,294	1%		
Grand Total			1,424,442	1,465,030	3%		

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
Financial Services Division 2013-14

Department Name	Sub Division	Description	Draft Budget		% Change	
			Budget 2012-13	2013-14		
Finance	INCOME OTHER	F&ICT - FIN - DIGITAL TV	(480,000)	(480,000)		
		F&ICT - FIN - THAMES WATER COMMISSION	(152,500)	(155,000)		
	INCOME OTHER Total	(632,500)	(635,000)	0%		
	PAYROLL COSTS	F&ICT - FIN - BONUS	14,226	16,349		
		F&ICT - FIN - EMPLOYERS NI	42,441	46,749		
		F&ICT - FIN - EMPLOYERS PENSION	95,700	102,700		
		F&ICT - FIN - MONTHLY SALARY ALLOWANCE	11,816	11,143		
		F&ICT - FIN - OVERTIME	4,500	4,300		
		F&ICT - FIN - STAFF SALARIES	395,074	424,786		
	PAYROLL COSTS Total	563,757	606,028	7%		
	OTHER COSTS	F&ICT - FIN - BANK CHARGES	2,500	2,500		
		F&ICT - FIN - DEPN	4,607	-		
		F&ICT - FIN - DIGITAL TV	480,000	480,000		
		F&ICT - FIN - MISC EXPENSES	500	500		
		F&ICT - FIN - PROVISION FOR BAD DEBTS	5,000	5,000		
		F&ICT - FIN - RENT COLLECTION	5,000	5,000		
		F&ICT - FIN - SLA CASHIERS/RECEIVABLES CHARGES	113,500	70,893		
		F&ICT - FIN - SOFTWARE MAINTENANCE	12,000	13,000		
		F&ICT - FIN - STATUTORY AUDIT	25,000	25,000		
		OTHER COSTS Total	648,107	601,893	7%	
	Finance Total			579,364	572,921	1%
	Home Ownership	INCOME OTHER	F&ICT - LHS - INCOME(ENQUIRY FEE)	(18,000)	(18,000)	
			F&ICT - LHS - LANC WEST	(13,000)	(13,000)	
F&ICT - LHS - RTB SERVICES			(15,250)	(15,250)		
F&ICT - LHS - RECHARGE INCOME - DMH Legal costs Recovered			(171,000)	(85,000)		
F&ICT - LHS - RECHARGE INCOME - Legal costs			(119,000)	(130,000)		
INCOME OTHER Total		(336,250)	(261,250)	22%		
PAYROLL COSTS		F&ICT - LHS - AD HOC SALARY ALLOWANCE	200	-		
		F&ICT - LHS - BONUS	6,319	6,844		
		F&ICT - LHS - EMPLOYERS NI	25,629	26,950		
		F&ICT - LHS - EMPLOYERS PENSION	5,900	5,300		
		F&ICT - LHS - MONTHLY SALARY ALLOWANCE	8,269	7,428		
		F&ICT - LHS - STAFF SALARIES	237,733	249,244		
PAYROLL COSTS Total		284,050	295,767	4%		
OTHER COSTS		F&ICT - LHS - L/HOLD AND RENT PRINTING	20,000	20,000		
		F&ICT - LHS - LEGAL COSTS	190,000	130,000		
		F&ICT - LHS - MISC EXPENSES	750	750		
		F&ICT - LHS - SLA LEGAL COSTS	100,000	60,000		
OTHER COSTS Total	310,750	210,750	32%			
Home Ownership Total			258,550	245,267	5%	
ICT	INCOME OTHER	F&ICT - ICT - RECHARGE INCOME	(20,000)	(15,000)		
		INCOME OTHER Total	(20,000)	(15,000)	25%	
	PAYROLL COSTS	F&ICT - ICT - BONUS	15,344	15,282		
		F&ICT - ICT - EMPLOYERS NI	33,637	33,530		
		F&ICT - ICT - EMPLOYERS PENSION	59,700	66,500		
		F&ICT - ICT - MONTHLY SALARY ALLOWANCE	8,269	8,667		
		F&ICT - ICT - SALARIES	306,882	305,636		
		PAYROLL COSTS Total	423,833	429,614	1%	
	OTHER COSTS	F&ICT - ICT - SOFTWARE PURCHASES	10,000	10,000		
		F&ICT - ICT - ACADEMY Development / Imp	7,500	7,500		
		F&ICT - ICT - DEPN ON COMPUTER EQUIP	185,000	220,000		
		F&ICT - ICT - DISASTER RECOVERY	4,000	4,000		
		F&ICT - ICT - GENERAL CONSUMABLES	5,500	5,500		
		F&ICT - ICT - HARDWARE MAINTENANCE	26,500	26,500		
		F&ICT - ICT - HARDWARE SMALL	6,123	6,500		
		F&ICT - ICT - MOBILE PHONES	40,000	40,000		
		F&ICT - ICT - PHOTOCOPYING	32,000	33,500		
		F&ICT - ICT - PRINTING CONSUMABLES	9,000	9,000		
		F&ICT - ICT - TELECOMS BILLING	135,000	143,000		
F&ICT - ICT - TRAVEL & SUBS	1,000	1,000				
F&ICT - ICT - SOFTWARE MAINTENANCE	185,000	200,000				
OTHER COSTS Total	646,623	706,500	9%			
ICT Total			1,050,455	1,121,114	7%	
HUB Costs	INCOME OTHER	F&ICT - HUB - ACCOMMODATION CONTRIBUTION	(45,000)	(45,000)		
		INCOME OTHER Total	(45,000)	(45,000)	0%	
	OTHER COSTS	F&ICT - HUB - AMORTISATION OF RELOCATION COSTS	67,000	67,000		
		F&ICT - HUB - NNDR	27,000	100,000		
		F&ICT - HUB - RENT	257,000	262,000		
		F&ICT - HUB - RUNNING COSTS	17,000	37,000		
	F&ICT - HUB - SERVICE CHARGE	135,000	115,000			
OTHER COSTS Total	503,000	581,000	16%			
HUB Costs Total			458,000	536,000	17%	

Department Name	Sub Division	Description	Draft Budget		
			Budget 2012-13	2013-14	% Change
KHS	OTHER COSTS	F&ICT - KHS - STAFF - HOSPITALITY & WELFARE	9,500	9,500	
		F&ICT - KHS - & BLA RD AMORTISATION OF RELOCATION	73,000	70,000	
		F&ICT - KHS - CLEANING/SUNDRY COSTS	30,500	37,500	
		F&ICT - KHS - EDMS & OFFICE RUNNING COSTS	12,000	22,000	
		F&ICT - KHS - H&S ALLOWANCE	2,000	2,000	
		F&ICT - KHS - LIGHT&HEAT OTHER TMO OFFICES	10,000	10,000	
		F&ICT - KHS - NNDR	25,000	70,000	
		F&ICT - KHS - OFFICE FURNITURE	5,000	5,000	
		F&ICT - KHS - PRINT GENERAL	16,000	10,000	
		F&ICT - KHS - RENT	92,000	85,000	
		F&ICT - KHS - ROOM HIRE & PARKING	1,000	1,000	
		F&ICT - KHS - SERVICE CHARGE	40,000	40,000	
		F&ICT - KHS - STATIONERY	19,000	19,000	
		F&ICT - KHS - WATER RATE OTHER TMO OFFICES	10,000	10,000	
			OTHER COSTS Total	345,000	391,000
KHS Total			345,000	391,000	13%
Grand Total			2,691,370	2,866,302	6%

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
Operations Division 2013-14

Department Name	Sub Division	Description	Budget 2012-13	Draft Budget 2013-14	% Change
Assets & Regeneration	INCOME OTHER	TS - AM&I - AIDS AND ADAPTATIONS INCOME	(37,809)	(37,809)	
		TS - AM&I - LEASEHOLD ALTERATION INCOME	(10,962)	(10,962)	
	INCOME OTHER Total		(48,771)	(48,771)	0%
	PAYROLL COSTS	TS - AM&I - BONUS	16,086	34,619	
		TS - AM&I - EMPLOYERS NI	61,609	58,137	
		TS - AM&I - EMPLOYERS PENSION	105,600	101,600	
		TS - AM&I - MONTHLY ALLOWANCE	17,929	6,076	
		TS - AM&I - OVERTIME	6,800	-	
		TS - AM&I - SALARIES	572,278	516,387	
	PAYROLL COSTS Total		780,302	716,819	8%
	OTHER COSTS	TS - AM&I - CONSULTANTS	100,000	100,000	
		TS - AM&I - DEPN ON KEYSTONE	65,000	35,000	
		TS - AM&I - ENERGY SOFTWARE SUBSCRIPTIONS	2,080	2,080	
		TS - AM&I - VALUERS COSTS	180,000	180,000	
	OTHER COSTS Total		347,080	317,080	9%
Assets & Regeneration Total			1,078,611	985,128	9%
Assets & Regeneration Recharge	INCOME OTHER	TS - AM&I (RECH) - EXPENSES RECHARGED	(501,694)	(501,694)	
		INCOME OTHER Total		(501,694)	(501,694)
	PAYROLL COSTS	TS - AM&I (RECH) - BONUS	13,683	15,070	
		TS - AM&I (RECH) - EMPLOYERS NI	35,160	30,044	
		TS - AM&I (RECH) - EMPLOYERS PENSION	73,000	72,500	
		TS - AM&I (RECH) - MONTHLY ALLOWANCE	6,834	3,714	
		TS - AM&I (RECH) - SALARIES	328,017	333,649	
	PAYROLL COSTS Total		456,694	454,977	0%
	OTHER COSTS	TS - AM&I (RECH) - COSTS TRANSFERRED IN	45,000	45,000	
	OTHER COSTS Total		45,000	45,000	0%
Assets & Regeneration Recharge Total			(1)	(1,718)	0%
Customer Contact and Access	PAYROLL COSTS	TS - CSC - BONUS	17,733	19,473	
		TS - CSC - EMPLOYERS NI	38,703	40,000	
		TS - CSC - EMPLOYERS PENSION	81,900	74,200	
		TS - CSC - MONTHLY SALARY ALLOWANCE	14,175	11,143	
		TS - CSC - OVERTIME	1,300	900	
		TS - CSC - SALARIES	377,072	389,462	
	PAYROLL COSTS Total		530,883	535,178	1%
	OTHER COSTS	CSC - POSTAGE & COURIERS	33,000	33,000	
		TS - CSC - TRAVEL & SUBS	250	250	
		TS - REPAIRS - OUT OF HOURS SERVICE	45,000	45,000	
OTHER COSTS Total		78,250	78,250	0%	
Customer Contact and Access Total			609,133	613,428	1%
Neighbourhood Housing	INCOME OTHER	HM - MISCELLANEOUS INCOME	(900)	(900)	
		HM - HOSTELS - SALARIES CONTRIBUTION	(11,165)	(11,165)	
		HM - INC MGT - DMH Legal costs Recovered	(51,000)	(30,000)	
		HM - INC MGT - RECHARGED INCOME LEGAL COSTS	(20,000)	(20,000)	
	INCOME OTHER Total		(83,065)	(62,065)	25%
	PAYROLL COSTS	HM - AD HOC ALLOWANCE	400	-	
		HM - BONUS	18,703	31,529	
		HM - EMPLOYERS NI	156,043	165,409	
		HM - EMPLOYERS PENSION	320,600	345,100	
		HM - MONTHLY ALLOWANCE	34,257	34,666	
		HM - OVERTIME	24,000	22,900	
	PAYROLL COSTS	HM - SALARIES	1,520,818	1,582,322	
	PAYROLL COSTS Total		2,074,821	2,181,926	5%
	OTHER COSTS	HM - CLEANING & DOMESTIC SUP	5,250	5,250	
		HM - CONSULTANTS COSTS MEDIATION	7,500	10,000	
		HM - FRAUD INVESTIGATOR	23,000	23,000	
		HM - FTA COSTS	2,000	2,000	
		HM - GARDEN COMP	1,000	1,000	
		HM - INTERNAL AUDIT	20,000	20,000	
		HM - LEGAL COSTS DMH	225,000	145,000	
		HM - LEGAL COSTS (SLA)	270,000	300,000	
		HM - MISC EXPENDITURE	3,300	3,300	
		HM - OFFICE SYS MAINT	1,000	1,000	
		HM - PUBLICATIONS	120	120	
		HM - SERVICE TENANCIES	64,000	64,000	
		HM - TENANT RENT PRINTING	28,500	28,500	
		HM - TOOLS FOR HANDYMAN	500	500	
		HM - TRAVEL & SUBS	600	600	
		HM - TRUSTEE/PROBATE	300	300	
		HM - UNIFORM	4,500	4,500	
OTHER COSTS Total		656,570	609,070	7%	
Neighbourhood Housing Total			2,648,326	2,728,931	4%
Partnering	PAYROLL COSTS	TS - REPAIRS - BONUS	4,500	4,616	
		TS - REPAIRS - EMPLOYERS NI	33,291	31,745	
		TS - REPAIRS - EMPLOYERS PENSION	63,500	64,500	
		TS - REPAIRS - MONTHLY SALARY ALLOWANCE	8,269	7,428	
		TS - REPAIRS - SALARIES	319,959	302,424	
	PAYROLL COSTS Total		429,519	410,714	4%
OTHER COSTS	TS - REPAIRS - TRAVEL & SUBS	750	750		
OTHER COSTS Total		750	750	0%	
Partnering Total			430,269	411,464	4%

Department Name	Sub Division	Description	Budget 2012-13	Draft Budget 2013-14	% Change	
CAS	INCOME OTHER	HM - CAS - CAS INCOME(CORPORATE CLIENT)	(23,000)	(23,000)		
		HM - CAS - CAS INCOME(PRIVATE CLIENT)	(150,000)	(150,000)		
		HM - CAS - SUPPORTING PEOPLE	(300,000)	(300,000)		
		HM - CAS - TELECARE RECHARGED	(100,000)	(100,000)		
	INCOME OTHER Total			(573,000)	(573,000)	0%
	PAYROLL COSTS	HM - CAS - BONUS	227	233		
		HM - CAS - EMPLOYERS NI	28,329	28,615		
		HM - CAS - EMPLOYERS PENSION	44,200	45,700		
		HM - CAS - MONTHLY SALARY ALLOWANCE	5,907	4,952		
		HM - CAS - OVERTIME	40,200	39,000		
		HM - CAS - STAFF SALARIES	244,622	249,353		
	PAYROLL COSTS Total			363,485	367,853	1%
	OTHER COSTS	HM - CAS - BAD DEBT WRITTEN OFF	1,000	1,000		
		HM - CAS - EQUIPMENT MAINTENANCE	60,000	60,000		
		HM - CAS - PUBLICITY	500	500		
		HM - CAS - TECHNICAL EQUIPMENT	27,000	27,000		
		HM - CAS - TELEPHONES	5,000	5,000		
		HM - CAS - TRAVEL & SUBS	200	200		
		HM - CAS - TV LICENCES	150	150		
		HM - CAS - VEHICLE RUNNING COSTS	7,350	7,350		
OTHER COSTS Total			101,200	101,200	0%	
CAS Total			(108,315)	(103,947)	4%	
SHELTERED	INCOME OTHER	HM - SHELTERED - MISCELLANEOUS INCOME	(1,000)	(1,000)		
		HM - SHELTERED - SUPPORTING PEOPLE	(220,000)	(220,000)		
	INCOME OTHER Total			(221,000)	(221,000)	0%
	PAYROLL COSTS	HM - SHELTERED - BONUS	2,043	2,096		
		HM - SHELTERED - EMPLOYERS NI	16,811	17,002		
		HM - SHELTERED - EMPLOYERS PENSION	34,600	29,600		
		HM - SHELTERED - MONTHLY SALARY ALLOWANCE	3,544	2,476		
		HM - SHELTERED - OVERTIME	9,000	9,000		
		HM - SHELTERED - STAFF SALARIES	163,737	166,520		
	PAYROLL COSTS Total			229,736	226,693	1%
	OTHER COSTS	HM - SHELTERED - EQUIPMENT MAINTENANCE	8,000	8,000		
		HM - SHELTERED - CLEANING & DOMESTIC SUP	1,000	1,000		
		HM - SHELTERED - GENERAL EQUIPMENT	500	500		
		HM - SHELTERED - SUBSCRIPTION	500	500		
		HM - SHELTERED - TV LICENCES	750	750		
OTHER COSTS Total			10,750	10,750	0%	
SHELTERED Total			19,486	16,444	16%	
Stable Way	INCOME OTHER	HM - SWAY - MANAGEMENT FEE (Stable Way)	(85,000)	(72,000)		
	INCOME OTHER Total			(85,000)	(72,000)	15%
	PAYROLL COSTS	HM - SWAY - AD HOC SALARY ALLOWANCE	300	-		
		HM - SWAY - BONUS	-	1,346		
		HM - SWAY - EMPLOYERS NI	3,248	2,737		
		HM - SWAY - MONTHLY SALARY ALLOWANCE	1,392	-		
		HM - SWAY - STAFF SALARIES	29,190	26,910		
	PAYROLL COSTS Total			34,130	30,992	9%
	OTHER COSTS	HM - SWAY - MISC EXPENSES	1,210	1,210		
	OTHER COSTS Total			1,210	1,210	0%
Stable Way Total			(49,660)	(39,798)	20%	
Grand Total			4,627,850	4,609,931	1%	

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
Lancaster West 2013-14

Department Name	Sub Division	Description	Budget 2012-13	Draft Budget 2013-14	% Change
Lanc West	INCOME OTHER	LANC WEST - MANAGEMENT FEE	(342,439)	(363,263)	
	INCOME OTHER Total		(342,439)	(363,263)	6%
	PAYROLL COSTS	LANC WEST - STAFF SALARY	196,277	203,516	
		LANC WEST - OVERTIME	6,100	6,100	
		LANC WEST - BONUS	1,850	1,975	
		LANC WEST - MONTHLY SALARY ALLOWANCE	4,725	4,952	
		LANC WEST - AGENCY STAFF	-	910	
		LANC WEST - EMPLOYERS NI	19,810	20,714	
		LANC WEST - EMPLOYERS PENSION	36,400	28,800	
	PAYROLL COSTS Total		265,162	266,967	1%
	OTHER COSTS	LANC WEST - TRAINING	500	500	
		LANC WEST - SERVICE TENANCIES	12,500	13,500	
		LANC WEST - WATER RATES	1,400	1,400	
		LANC WEST - CLEANING AND DOMESTIC SUPPLIES	1,000	1,000	
		LANC WEST - OFFICE CLEANING	7,500	7,500	
		LANC WEST - VEHICLE RUNNING COSTS	3,500	3,500	
		LANC WEST - TRAVEL & SUBS	3,000	3,000	
		LANC WEST - GENERAL EQUIPMENT	1,000	1,000	
		LANC WEST - EQUIPMENT MAINTENANCE	1,500	1,500	
		LANC WEST - FURNITURE	500	500	
		LANC WEST - DRINKING WATER	1,500	1,500	
		LANC WEST - GENERAL HOSPITALITY	1,000	1,000	
		LANC WEST - CLOTHING & UNIFORM	750	1,400	
		LANC WEST - STATIONERY	3,000	3,000	
		LANC WEST - AUDIT FEES	1,000	1,000	
		LANC WEST - CONSULTANTS COSTS	1,000	1,000	
		LANC WEST - LEASEHOLDER SERVICES CHARGES	13,000	13,000	
		LANC WEST - LEGAL EXPENSES	1,000	1,000	
		LANC WEST - POSTAGE & FRANKING	1,500	1,500	
		LANC WEST - TELEPHONE	10,000	10,000	
		LANC WEST - COMPUTER SUPPLIES	1,000	1,000	
		LANC WEST - SUBSCRIPTIONS	500	500	
		LANC WEST - MISC EXPENSES	1,000	1,000	
		LANC WEST - PUBLICITY	1,000	1,000	
		LANC WEST - ARB EXPENSES	1,000	1,000	
		LANC WEST - TENANT TRAINING	1,000	1,000	
		LANC WEST - NNDR	5,600	23,000	
	OTHER COSTS Total		77,250	96,300	25%
Lanc West Total			(28)	4	0%
Grand Total			(28)	4	0%

**TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING
HRA 2013-14**

HOUSING REVENUE ACCOUNT (HRA)			
	Original Budget	Estimate	% Variation Original & Estimate
	2012/13	2013/14	2013/14
	£'000	£'000	£'000
TMO Management Fee	9,758	10,038	3%
Lancaster West Management Fee	342	363	6%
Lancaster West Management Fee Funded by Reserves	-	-	0%
Total TMO Management Fee	10,100	10,401	3%
Dwelling Rents - Rent and Hostels	(38,183)	(39,927)	4.6%
Commercial Properties Rent Income	(2,822)	(3,119)	11%
Garages Rent Income	(710)	(685)	4%
Tenants Service Charges	(4,293)	(4,310)	
Leaseholder Service Charges	(2,389)	(2,420)	
Major Works Service Charges - Leaseholders	(1,275)	(2,026)	59%
Heating and Hot Water Charges	(2,472)	(2,465)	
Insurance Charges - Leaseholders	(524)	(821)	57%
Supporting People Contract Income	(26)	0	100%
Other Contributions Towards Expenditure	(30)	(27)	8%
Other Charges for Services & Facilities	(72)	(35)	51%
TCC Managed Budgets Income	(52,795)	(55,836)	6%
TCC Managed Budgets			
Planned Maintenance	6,612	7,124	8%
Responsive Maintenance	4,683	5,074	8%
Lancaster West EMB Expenditure	595	595	
Planned Response Repairs (Aids & Adaptations)	278	200	28%
Area Revenue Works	200	200	
Electricity, Heating, & Hot Water	3,277	3,438	5%
Contract Cleaning	2,146	2,189	2%
Refuse Collection	141	144	2%
Pest Control	189	189	
Provision for Bad Debts	398	723	82%
Rents, Rates, Taxes & Other Charges	168	169	1%
Car Park Management	45	41	10%
Other Expenditure - Special Services	324	307	2%
Security Costs	148	179	21%
Supporting people Expenditure	246	220	11%
Legal Costs	204	204	
Digital TV	480	480	
TCC Managed Budgets Expenditure	20,133	21,476	7%
Total TCC Managed Budgets	(32,662)	(34,360)	5%

Agenda Item 6

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION LIMITED

TMO BOARD — 8 JANUARY 2012

GRENFELL TOWER REGENERATION PROJECT

1 PURPOSE

- 1.1 To recommend to the Board approval of the **Stage D** cost plan.
- 1.2 To recommend to the Board the progression of the tender package procurement through Leadbitter (Principal Contractor).
- 1.3 To recommend to the Board the award of the construction phase contract within the cost parameters set out in the **Stage D** project report.

FOR DECISION

2 INTRODUCTION

- 2.1 The report will provide information on the following:
 - Background information on the **Grenfell Tower Regeneration Project (GTRP)**.
 - The work undertaken to date and the proposed action going forward.

3 BACKGROUND

- 3.1 Following an approach from **RBKC** the TMO was invited to identify potential regeneration opportunities that would significantly benefit residents and meet wider **RBKC** policy objectives.
- 3.2 Analysis established that the regeneration of Grenfell Tower was most suited to a bid for funding.
- 3.3 Proposals were considered by **Operations Committee** and subsequently presented to Board at its meeting on 29 March 2012 and approved.
- 3.4 The **RBKC** Cabinet considered the bid at its meeting on 2 May 2012 and approved the allocation of £6m toward the **Grenfell Tower Regeneration Project**.

4 PROJECT DEVELOPMENT

- 4.1 The project team comprising; Appleyards Cost Consultants and Employers Agent, Studio E Architects, Churchman Landscape Architects, Curtins Structural Consultants, Max Fordham Services Engineers and Leadbitter Group have been commissioned via the IESE Framework to develop the design proposal.
- 4.2 The development of the proposal includes additional planned Capital Programme works to the communal heating and hot water system, water services, electrical installations, fire safety systems and ventilation systems.
- 4.3 A planning application has been submitted to **RBKC** and this application is expected to be considered by Planning Committee in March 2013.
- 4.4 The project team with the exception of Appleyards has been novated to Leadbitter Group under the Pre-Construction Agreement (PCA).
- 4.5 The project team has started to develop the construction phase work package tenders and these are to be procured between January and April 2013.

5 PROCUREMENT

- 5.1 The project team members have been procured through a European Union (EU) compliant competitive process by **RBKC** for the immediately adjoining **KALC** project and as approved by Board at its March 2012 meeting these project team members will deliver the Grenfell Tower Regeneration Project within defined parameters.
- 5.2 Appleyards has been commissioned separately as Cost Consultant (CC), Employers Agent (EA) and Construction Design Management Co-ordinator (CDMC) and this fee commission is capped at 174k for the entire project.
- 5.3 Procurement of the project is achieved through the Improvement & Efficiency South East (IESE) framework and this is one of nine regional procurement frameworks for the public sector.
- 5.4 Under the framework projects are progressed through a series of stages and at each stage the Employer (KCTMO) and the Contractor (Leadbitter Group and the design team) sign up to the parameters contained in the Stage report.
- 5.5 The Stage D report has been finalised (a copy will be available at the meeting for inspection) and within this is the cost plan for the project. The Contractor in agreeing to this cost plan is effectively stating that it will deliver the project within the cost parameters set out within the Stage D report.
- 5.6 The next phase of the procurement process is for Leadbitter Group to finalise the works package tender documentation and to procure costs for these either from general sub-contractors or specialist sub-contractors.

- 5.7 To enable this approval is sought at this for the award of the construction phase contract within the cost plan parameters as set out in the Stage D report.
- 5.8 In the event that the total value of the tenders for the works packages amounts to a sum greater than that identified in the Stage D cost plan, Leadbitter Group and the design team will be required to present Value Engineering (VE) solutions to bring the project cost back in line with that identified in the approved cost plan.

6 PROJECT BUDGET / PROGRAMME

- 6.1 The Grenfell Tower Regeneration Project comprises three elements; regeneration works to the exterior of Grenfell Tower, provision of new homes and planned capital investment works to the internal building services installations and fabric.
- 6.2 The total project budget (as derived from the Stage D cost plan) for the combined works is £9.768m. This is broken down as; £6m HRA regeneration works, £2.9m Capital Programme works and £0.9m contingency.

Stage D Cost Plan

Demolition Works to Garages	£28,135
Refurbishment Works to Garages	£474,900
Demolition Works to Tower	£182,170
Refurbishment Works to Tower	£5,720,764
Landscaping Works	£246,350
Main Contractor Preliminaries	£997,848
Contingency @ 10%	£765,017
Total Construction Cost	£8,415,000
Professional Fees	£900,000
Surveys	£50,000
Planning and Building Control Fees	£100,000
KCTMO / S106 Fees	£180,000
Contingency @ 10%	£123,000
OVERALL PROJECT COST (EXCL VAT)	£9,768,000

- 6.3 All costs are being charged to the HRA, including KCTMO project staff costs, split between regeneration and capital programme funding streams and these are expected to be incurred over a three year period from 2012 – 2015.
- 6.4 As the procurement of the tender packages is concluded and project delivery is achieved it is anticipated that the contingency will be reduced proportionate to the risk and value attached to individual work packages.
- 6.5 Key programme timescales are:

- Work package tenders – January to May 2013
- Planning Permission – March 2013
- Start on site – April 2013
- Completion – Spring/Summer 2014

7 SUMMARY AND RECOMMENDATION

- 7.1 The project and budget have been clearly defined.
- 7.2 A project programme has been developed.
- 7.3 A Stage D report has been prepared.
- 7.4 Executive Team will be required to 'sign-off' future Gateway reports.
- 7.5 Progress reports will be submitted to Programme Board, Operations Committee and Board.
- 7.6 The Board is recommended to approve:
- 7.6.1 The approval of the Stage D cost plan outlined at 6.2.
 - 7.6.2 The progression of the tender package procurement through Leadbitter Group.
 - 7.6.3 The award of the construction phase contract within the cost parameters set out in the Stage D report and as outlined at 6.2 above.

REPORT AUTHOR: Mark Anderson
Director of Assets & Regeneration

Agenda Item 7

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA TENANT MANAGEMENT ORGANISATION

TMO BOARD
8TH JANUARY 2013

CODE OF GOVERNANCE

REPORT BY COMPANY SECRETARY & GOVERNANCE MANAGER

1. Purpose

- 1.1 The Board should regularly review its governance documents. The Code of Governance has been agreed in 2009 and this is its first review.
- 1.2 Since 2009 there were legislative changes and changes to the TMO governance structures and practices and the review aims to address these.
- 1.3 The Board is asked to agree the revised Code of Governance attached as appendix 1 (changes highlighted in red).

DECISION

2. Good governance prescribes that all key governance documents are reviewed on a regular basis or when legislative changes or changes in governance structures or practices of the organisation occur.
3. Since the Code of Governance was agreed in 2009 the Housing Corporation no longer exists and the legislation referred to in the Code (Schedule 1 of the Housing Act 1996) has been repealed.
4. The TMO governance structures have changed - the Standards and Ethics Committee no longer exists.
5. The review endeavoured to address the changes and to mirror the actual governance practices within the TMO.
6. The review has taken into account the principles on governance and regulation published by the National Housing Federation in 2012.

Angela Bosnjak-Szekeres
Company Secretary and Governance Manager

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION

CODE OF GOVERNANCE

JANUARY 2009

(Revised December 2012)

CODE OF GOVERNANCE

PART I

CODE OF GOVERNANCE

1 GENERAL INTRODUCTION

~~1.1 The Royal Borough of Kensington and Chelsea Tenant Management Organisation is a company limited by guarantee registered under the provisions of the Companies Act 1985.~~

~~1.21.1~~ This Code of Governance describes the respective responsibilities of the Royal Borough of Kensington and Chelsea Tenant Management Organisation's (TMO) Board, Committees and Executive Team (ET). The aim of the Code of Governance is to ensure that decision-making powers and delegated authority are clear and this Code should be read in conjunction with the TMO's approved Constitution.

~~1.31.2~~ This Code of Governance is not intended to replace or alter the TMO's Constitution, rather it is intended to:-

~~1.3.1 amplify those parts of the Rules relating to the Board, its Committee and the Membership, and the convening and conduct of their meetings;~~

1.3.2 outline the responsibilities and level of authority of the TMO's, Board, Committees, Officers, Chief Executive, Executive Directors and Employees;

1.3.3 provide a sound and clear basis for the conduct of the TMO's business in terms of procedure of meetings, letting of contracts and financial regulation;

~~1.3.4 outline the role and responsibilities of the TMO's Board.~~

~~1.41.3~~ In the case of any inconsistency between the TMO's Constitution and this Code of Governance the terms of the Constitution shall prevail.

~~1.51.4~~ All Board Members have a duty to act at all times in accordance with the position they hold in the TMO. Therefore, in conducting the TMO's business, they must at all times concern themselves with two principal questions:

~~1.5.11.4.1~~ is the TMO keeping within its objectives and powers?;

~~1.5.21.4.2~~ are its actions financially and ethically responsible?

~~1.61.5~~ The TMO's Company Secretary has the duty and the right to make all reasonable enquiries should he or she believe a breach of the law or the Constitution of the TMO has occurred. The Company Secretary will report the findings to the ~~Standards and Ethics Committee, Chief Executive and/or the Chair of the Board~~ which who will then decide on

CODE OF GOVERNANCE

whatever further action is necessary. If the breach involves both the Chief Executive and the Chair of the Board, the Company Secretary will report the finding to the Vice Chairs of the Board.

4.71.6 Delegation of financial authority is defined within the TMO's Financial Regulations and the scheme of delegation.

4.81.7 The expression "Director" shall include the Chief Executive and other members of the Executive Team as defined in this Code of Governance.

CODE OF GOVERNANCE

PART II

CODE OF GOVERNANCE

2 BOARD MEMBERSHIP

2.1 Constitution of the Board

- 2.1.1 The Board has overall responsibility for the work of the TMO. The Constitution of the TMO describes the way in which it operates and is governed. The Articles specify the composition of the Board, the process for appointing and removing Board Members, their terms of office and the quorum requirements for meetings.
- 2.1.2 The TMO is a significant provider of ~~homes and~~ property services in its areas of operation and the user of substantial public funds. As such, it is important for the Board to be well equipped to carry out its responsibilities. Therefore, the TMO needs Board Members whose collective skills, experience and personal qualities reflect the need to be an efficient organisation~~social landlord~~.
- 2.1.3 In accordance with the TMO's Constitution, the number of Board Members will be fifteen (comprising eight ~~Tenant~~ Resident Board Members, four Council Board Members and three Independent Board Members). The recruitment of Independent Board Members is used to introduce complementary skills and experience.
- 2.1.4 All Board Members and staff must subscribe to and uphold the TMO's Vision and Values, Codes of Conduct and Equalities and Diversity Policy.
- 2.1.5 The Board will keep its structure under review in consultation with the Royal Borough of Kensington and Chelsea to ensure that it continues to carry out its role properly. This will be facilitated primarily by the regular review of a Management Agreement governing the relationship between both Organisations and the twice yearly performance review of the TMO.

2.2 Board Skills and Competencies

- 2.2.1 Periodically, the Board will assess the experience, skills and competencies of its existing members in comparison with the range of skills and experience needed by the Board.
- 2.2.2 Board Members should collectively possess the qualities required to take decisions and monitor the TMO's performance. Depending on the range of activities undertaken by the TMO, the Board will need to have or acquire a diverse range of skills,

CODE OF GOVERNANCE

competencies, experience and knowledge. These should cover the following broad areas:

- 2.2.2.1 providing leadership and working as an effective team to take strategic decisions;
- 2.2.2.2 direct knowledge of the needs and aspirations of the communities and people served;
- 2.2.2.3 general business, financial and management skills;
- 2.2.2.4 the external framework and operating environment for members; and
- 2.2.2.5 other relevant or specialist skills, such as legal, health, social services, community empowerment, property management, housing development and regeneration and others.

2.3 Equality and Diversity

- 2.3.1 The TMO will ensure that it supports its aim for a Board which fairly reflects the diversity of the community it serves.
- 2.3.2 The TMO will take into account the needs of minority groups and arrange venues and meeting times to ensure that specific individuals and groups are not excluded.
- 2.3.3 The TMO will provide equalities and diversity training as a specific part of the induction and on-going development of Board Members.
- 2.3.4 The Board will provide effective leadership on equality and diversity issues as detailed in the TMO's Equalities and Diversity PolicyStrategy.

2.4 Training for Board Members

- 2.4.1 Board Members of the TMO will be provided with induction training on first appointment to the Board and regular training thereafter.

~~2.4.2~~ The Board will carry out a regular appraisal of its own performance, and ensure that the appraisal of individual Board Members is carried out after one year in office and then at least every threetwo years after—appointment hereafter. Arrangements will also be made for the appraisal of the Chair. The appraisal system will:—

~~2.4.3~~

~~2.4.4 review how well the Board performs its key roles;~~

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~~2.4.4.12.4.1.1~~ review how well the Board performs its roles and the effectiveness of Board relationships;

~~2.4.4.22.4.1.2~~ review the composition of the Board, the skills and contribution of its individual members, and the ability of the TMO to recruit and retain the balance of Board Members it needs; and

~~2.4.4.32.4.1.3~~ result in a clear plan to support continuous improvement of its Board to meet the challenges faced by the organisation.

2.5 Board Members' Expenses

~~2.5.1~~ Board members are entitled to receive a monthly allowance which pays for their expenditure and covers the cost of travel, wear and tear of IT equipment, cost of printing, cost of telephone calls and other necessities to enable full participation in the work of the Board.

~~2.5.2~~ Board members are entitled to receive travel and accommodation expenses when travelling outside the Borough for conferences and events. Expenses will be paid for reasonable travel costs, childcare/carers' costs and, where provision is not otherwise made, the cost of subsistence incurred in connection with the TMO's business.

2.6 Conflicts and Disclosures of Interest

~~2.6.1~~ Board members must ensure, given their position as directors of a company incorporated under the Companies Acts, that they always act and are seen to act, wholly in the interest of the TMO, its residents and other service users. All actual or perceived conflicts or dualities of interest must be openly disclosed and properly resolved.

~~2.6.2~~ Board Members will not be granted a benefit or receive any payment from the TMO other than a reasonable allowance in connection with their Board duties.

~~2.6.1~~ In accordance with Schedule 1 of the Housing Act 1996, the TMO will not grant a benefit or make a payment (other than where specifically provided for in the Housing Corporation's Regulations) to:

~~2.6.1.1~~ any Board member except for reasonable expenses in connection with his or her Board duties;

~~2.6.1.2~~ any employee except under his or her contract of employment;

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~~2.6.1.3 — close relatives of the above;~~

~~2.6.1.4 — anyone who has been in one of the above categories within the last 12 months; and~~

~~2.6.1.5 — any business trading for profit which any of the above own or are involved in managing.~~

~~2.6.22.6.3~~ The TMO will distribute regularly to Board Members a declaration concerning membership of organisations and conflicts of interest and all Board members are required to complete and return this. The returned declarations will be entered into a register to be kept by the Company Secretary. In addition to the regular completion of declarations, Board Members must also declare any relevant organisation memberships, interests or potential or actual conflicts of interests as they arise from time to time.

~~2.6.32.6.4~~ A Board Member should declare an interest if an item of business being discussed at a Board meeting specifically concerns him or her or an organisation with which he or she is involved, whether profit making, public sector or voluntary sector. Further information can be found in Article 20 of the TMO's Constitution.

~~2.6.42.6.5~~ When the Board is to discuss an item that poses a conflict of interest for a Board Member, and the interest has already been declared to the Company Secretary, the Board Member must declare their interest to the Board as well and not vote on the item. However, the Board Member may remain in the room and engage in the discussion if requested to do so by the remaining Board Members.

3 OPENNESS AND TRANSPARENCY

- 3.1 The TMO will act in an open and accountable way in relation to its members and all ~~resident tenants, leaseholders~~, local communities, local authorities, employees, lenders and other stakeholders.
- 3.2 The TMO will aim for maximum openness in the operation of the Board and will develop a policy regarding the dissemination of information on the work, recommendations and the decisions of the Board.
- 3.3 The Board will publish an annual report of the TMO's activities and performance.

4 ATTENDANCE

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- 4.1 In accordance with Rule 15.8.12, a Board member cannot remain a Board member if they have absented themselves for a period of 4 months or longer and the Board determines that they shall be removed from the Board.

5 BEHAVIOUR

- 5.1 In accordance with the TMO's Equalities and Diversity ~~Policy~~Strategy, Board Members will respect the contribution and rights of others, whether other Board Members, staff, ~~tenants~~residents or those with whom the TMO works.
- 5.2 Board Members will:
- 5.2.1 not behave in a racist or sexist manner nor indulge in other ~~unfair discrimination~~discriminatory language or behaviour;
 - 5.2.2 neither encourage nor condone such behaviour in others;
 - 5.2.3 positively uphold and defend the TMO's values;
 - 5.2.4 positively promote the ~~Consultation and Involvement Strategy~~Resident Engagement Strategy; and
 - 5.2.5 respect the Codes of Conduct adopted by the TMO.
- 5.3 Where any Board Member breaches the Board Member Code of Conduct, steps may be taken to remove them from the Board in accordance with the TMO's Constitution.

6 STAFF SUPPORT TO THE BOARD

- 6.1 It is the duty of the TMO's Chief Executive and Executive Team to ensure that the Board and its Committees are informed in a timely manner so as to be able to carry out their management responsibilities. In order to keep the Board informed, staff must provide usable, clear and concise information, and not overload the Board with data from which it is difficult to extract the key points. Points for decision should be clearly identified.
- 6.2 Any item requiring decision must be supported by a written report stating clearly:
- 6.2.1 the purpose of the report and whether or not the report is confidential;
 - 6.2.2 any recommendations or, if none, why the report is being presented;

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6.2.3 the risk implications of the recommendations and how these are to be managed;

6.2.4 the impact on the Budget and Business Plan where relevant; and

6.2.5 whether the recommendations conflict with existing policy or creates a precedent affecting other areas;

~~6.3~~—A schedule of all Board and Committee meeting dates will be prepared twelve monthly in advance on a rolling basis and distributed to Board Members. The timetable shall be drawn up so as to allow the necessary reporting from the Board's Committees to the Board.

~~6.4~~—The draft minutes of each meeting will be circulated to the appropriate Chair for approval within a reasonable time period of the meeting being held. The finalised minutes will then be circulated to the members of the Board or relevant Committee and appropriate staff within reasonable time.

~~6.56.3~~ Reports and finalised minutes that have been signed by the Chair should be kept by the Secretary for at least ~~ten~~ seven years from the date of the meeting at which they are presented.

~~6.66.4~~ Where decisions are needed between meetings, they should be dealt with in accordance with section 40 of the TMO Standing Orders, ~~40~~, 'Arrangement for the discharge of urgent matters between meetings'.

~~6.76.5~~ Where it is proposed to enter into any contract in a form that differs from the Financial Regulations previously agreed by the Board, a solicitor's report (or a summary of it) should also be provided to the Board or Committee.

~~6.8~~—If any Board Member has reason to complain about the conduct or efficiency of any employee (other than the Chief Executive), the Board member shall make known his or her complaint in writing to the Chief Executive, ~~as set out in Part 9.0 of the Protocol for Board Member and Officer relations~~.

7 OFFICERS

~~7.1~~—

~~7.27.1~~ Under the TMO's Constitution, the Company must have a Company Secretary, appointed by the Board, ~~who need not be a member, for such a term and on such conditions as the Board thinks fit~~

~~7.37.2~~ The Board will also elect the following:

~~7.3.17.2.1~~ Chair; and

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7.3.27.2.2 Two Vice Chairs.

7.47.3 The Board will appoint Chairs for Committees.

7.57.4 The Vice Chairs shall act for the Chair in his or her absence.

7.67.5 The Company Secretary is responsible for ensuring the maintenance of the following records at the Registered Office:

7.6.17.5.1 Registers of Members;

7.6.27.5.2 Register of Board Members, Secretary and other Officers;

7.6.37.5.3 Disclosure of Interests Register;

7.6.47.5.4 Minute books for the Board [and all Committees];

7.6.57.5.5 Chair's action register;

7.6.67.5.6 Mortgages and charges register;

7.6.77.5.7 Up to date copy of the Constitution;

7.5.8 Tender register;

7.5.9 Gifts and Hospitality Register and

7.6.87.5.10 Fraud/Bribery Investigations

7.6.9 Register of properties.

7.77.6 The Company Secretary is responsible for the arrangements for General Membership Meetings and the Annual General Meeting.

7.87.7 The Company Secretary is responsible for ensuring that all statutorily required returns are made on time to the Registrar of Companies and other bodies and for ensuring compliance with the TMO's Constitution.

TERMS OF REFERENCE

8 THE BOARD

8.1 The Board's duties include the duties to: -

8.1.1 define and ensure compliance with the values and objectives of the TMO and ensure these are set out in each Annual Report and Financial Statement;

8.1.2 establish policies and plans to achieve those objectives;

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- 8.1.3 approve each year's accounts prior to publication and approve each year's budget;
 - 8.1.4 establish and oversee a framework of delegation and systems of control;
 - 8.1.5 establish and oversee a framework for the identification and management of risk, ensuring that the Board Finance, Audit and Risk Committee receives regular reports on these;
 - 8.1.6 agree or ratify policies and decisions on all matters that might create significant financial or other risk to the TMO, or which raise material issues of principle;
 - 8.1.7 monitor the TMO's performance in relation to these plans, budgets, controls and decisions;
 - 8.1.8 appoint (and, if necessary, dismiss) the Chief Executive and approve his or her salary, benefits and terms of employment;
 - 8.1.9 satisfy itself that the TMO's affairs are conducted lawfully and in accordance with generally accepted standards of performance and probity;
 - 8.1.10 take appropriate advice as and when necessary;
 - 8.1.11 ensure the TMO meets all Companies Act obligations; and
 - 8.1.12 follow the TMO's Constitution in appointing (and, if necessary, removing) the appointing the Chair of the Board.
- 8.2 Other significant matters which are specifically reserved for the Board's decision, which cannot be delegated to the Executive Team or Committees, are:
- 8.2.1 the expansion of the organisation's operations into new activities or geographic areas;
 - 8.2.2 any decision to cease a material part of the organisation's operations;
 - 8.2.3 changes to corporate structure, including the setting up of subsidiaries;
 - 8.2.4 approval of resolutions to be put forward by the Board at a General Meeting;
 - 8.2.5 approval of Committee membership, including their Chairs, and terms of reference;

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- 8.2.6 appointments to the Board of any subsidiary or other organisations;
- 8.2.7 appointment or removal of any officer of the Board ;
- 8.2.8 appointment or removal approval of Board Members~~Directors~~;
- 8.2.9 approval of key policies and strategies, including a Code of Conduct; and
- 8.2.11 changes to the schedule of matters reserved for Board decisions.

9 CHAIR OF THE BOARD

- 9.1 The Chair of the Board is responsible for ensuring that the Board fulfils its role effectively and that all Board Members have an opportunity to participate fully at meetings. The Chair will also maintain standards of behaviour in accordance with the TMO's Code of Conduct. The Chair will establish a constructive relationship with the Chief Executive and act as an ambassador for the TMO. The Chair has particular duties and responsibilities that are set out below. In carrying out these duties, the Chair should always remember that he or she is acting on behalf of the Board and should seek the advice of other Board Members or the Chief Executive.
- 9.2 The responsibilities of the Chair include duties to: -
 - 9.2.1 chair meetings and ensure the efficient conduct of the Board's business, and of the organisation's general meetings;
 - 9.2.2 ensure that all Board Members are given the opportunity to express their views before any important decision is taken and that appropriate standards of behaviour are maintained in accordance with a Code of Conduct approved by the Board ;
 - 9.2.3 establish a constructive working relationship with, and provide support for the Chief Executive and constitute the prime communication link between the Chief Executive and Board;
 - 9.2.4 ensure that the Board delegates sufficient authority to its Committees, the Chair, the Chief Executive and others to enable the business of the TMO is carried out effectively between meetings of the Board;
 - 9.2.5 ensure that the organisation receives professional advice when it is needed;
 - 9.2.6 represent the TMO as necessary

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and, working in consultation with other ~~non-executive~~ Board members duties to:-

- 9.2.7 in conjunction with the Appointments Panel ensure that proper arrangements are made to appraise the performance of the Chief Executive and determine the remuneration of the Chief Executive;
- 9.2.8 ensure, should the occasion arise, that the Board arranges the replacement of the Chief Executive in a timely and orderly fashion;
- 9.2.9 ensure that the Board makes proper and appropriate arrangements for its own appraisal and that of Board Members, including the Chair's own appraisal, and for implementing a succession plan for Board membership;
- 9.2.10 To exercise delegated authority from the TMO Board, as appropriate, including action under Standing Order 40 in conjunction with the Chief Executive in respect of matters which will not allow for delay between meetings. Such matters being-must be reported to the next or first subsequent meeting of the Board.
- 9.2.11 ~~ensure that the Board agrees the role of the Vice Chairs.~~

10 COMMITTEES

- 10.1 The effectiveness and role of the Committees will be reviewed on a regular basis to ensure that they have the necessary skills and relevant experience. Where this is not the case, suitable candidates will be identified.
- 10.2 All Committees shall have members with appropriate skills.
- 10.3 There should be the required number of Board members in attendance at meetings for them to be quorate.
- 10.4 The different Committees have delegated responsibilities as detailed in their Terms of Reference.

11 THE EXECUTIVE TEAM (ET)

- 11.1 The ET has corporate responsibility, along with the Board, through the Chief Executive for the overall formulation and implementation of the TMO's policies and procedures.

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11.2 The purpose of the ET is to:

~~11.2.1 assist the Board and individual Directors in the formulation and implementation of strategic policy initiatives which will meet the aims and objectives of the TMO;~~

11.2.2 ensure that the policies set by the Board are put into practice efficiently and that this is done in a co-ordinated way in order to meet the aims and objectives of the TMO;

;

11.2.3 be responsible for ensuring that the Board and its Committees receive reports in an accurate and co-ordinated way;

11.2.4 ensure that all staff are aware of their responsibilities to empower residents tenants, leaseholders and local communities to shape the activities of the TMO;

11.2.5 identify and resolve issues faced by the TMO;

11.2.6 communicate effectively with staff, both to keep them informed of decisions and to obtain their contribution to decision making;

11.2.7 ensure that the TMO's performance is monitored and that corrective action is taken (where within delegated authority) or recommended to the Board;

11.2.8 develop annual plans and budgets for approval by the Board(~~in accordance with guidelines approved by the Board~~) and programmes for the TMO's activities and monitor their effectiveness and efficiency;

11.2.9 provide leadership and support to all staff.

11.3 The ET comprises the Chief Executive and the ~~service~~-Executive Directors employed by the Organisation.

11.4 The Chief Executive chairs and services the ET meetings. In the Chief Executive's absence, meetings will be chaired by a member of the ET, nominated by the Chief Executive.

11.5 The ET is a means by which the Chief Executive manages the TMO and seeks to gain agreement and/or commitment to decisions and recommendations. Where decisions are opposed by a member of the ET, then that member shall have the right to discuss his or her concerns with the Chair of the Board. The ET can determine its own working methods.

11.6 The ET meets at least fortnightly and may meet more frequently if

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required by the Chief Executive. The Chief Executive will prepare the agenda but any ET member has the right to put items on the agenda.

- 11.7 Agreements reached by the ET within the parameters of existing policy may be implemented forthwith. Matters requiring new policies or major revisions to existing policy will be consulted on and approved by the Board or relevant Committee.
- 11.8 The Chief Executive will ensure that minutes are kept of all ET meetings and that these are circulated to all ET members within one week of the relevant meeting.

12 URGENT BOARD DECISIONS

12.1 From time to time, decisions need to be taken quickly which are outside the authority delegated to employees and which cannot wait until the next scheduled board meeting. The TMO's Board recognises the importance of having clear procedures, which enable such decisions to be taken in a way that:

- ensures the effective continuation of the business;
- recognises the ultimate authority and responsibility of the Board as a whole;
- safeguards the probity and integrity of the person(s) who takes the decision on behalf of the Board;
- avoids placing a disproportionate burden on any board member.

12.2 This urgency procedure should only be used exceptionally, when an urgent decision is required from the Board outside of the agreed meeting schedule. The procedure is not intended to be used for items which were not produced by the specified deadline for submission to a scheduled Board meeting, unless previously agreed. Where it is anticipated that an urgent decision may be required between meetings, the Board will be alerted if possible during its usual cycle of meetings, the Board may make arrangements for the taking of urgent decisions by authorising certain Board Members and the Chair to form a committee/panel which will consider and take the relevant decision on their behalf. In the event that the Board can not be alerted during its usual cycle of the meetings the procedure described in section 14 could be applied, and will be invited to give a steer – both on its preferred policy and procedure – at a normal board meeting.

12.3 As a general principle, the Chair has a responsibility to ensure that all Board Members are given the opportunity to express their views on all substantive matters of Board policy.

13 OPTIONS FOR DEALING WITH URGENT BUSINESS

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13.1 There will be **two** ways of responding to the need to take urgent decisions. The circumstances when each might be appropriate are described below. However, it is accepted that it is never possible to foresee all the possible circumstances that might arise and this means that the choice of response requires a judgement to be made. If in doubt, Board Members and employees will veer towards the more cautious.

Option 1: Special Board Meeting

13.2 In exceptional circumstances, this might be necessary. Such circumstances might be:

- a decision that would involve a significant departure from the business plan, existing policy or principle or major financial risk;
- a problem or issue so serious that the whole Board should decide an appropriate course of action;
- a significant possibility of major divergences of views.

Options 2: Chair's Action

13.3 This is the more usual way of dealing with decisions that are within the spirit of the business plan and in the event that procedures set out in section 12 and 13 cannot be followed. This may be appropriate in the following circumstances:

~~approval for a new venture or partnership;~~
~~major exceptions to policies or procedures;~~
~~decisions outside delegated authority to employees.~~

14 PROCEDURE

14.1 Where a decision is required which is outside the authority delegated to employees and there is an urgent need to proceed with a particular course of action, the following procedure shall be followed:

14.1.1 Approval to use the urgency procedure must be sought from the Chief Executive, or, in her/his absence, two of the other members of ET excluding anyone seeking the decision;

14.1.2 The Chief Executive will consult with the Chair (or Vice Chair in the Chair's absence) and the Chair will decide whether, given the significance of the decision, a special board meeting is required or whether the decision should be taken by Chair's Action under section 40 of the TMO's Standing Orders;

14.1.3 If the Chair (or Vice Chair in the Chair's absence) decides that a special board meeting is needed, this will be called in

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accordance with the TMO's ~~Rules and procedures~~
for Constitution for board meetings;

- 14.1.4 A written report will then be presented to the next scheduled meeting of the Board by the Chief Executive, which will set out any urgent actions taken together with a note of which method was used, which board member(s) were involved, and this shall be noted by the Board;

15 POWERS DELEGATED TO SENIOR STAFF

15.1 For the efficient and effective management of with the TMO, the Board has delegated certain powers to senior staff to make decisions (including financial commitments) within policies agreed by the Board or Committees.

15.2 Authority to commit expenditure is defined in the TMO's Financial Regulations.

~~15.3 The authorities specified herewith may not be delegated to subordinate staff without the approval of the Board.~~

16 CHIEF EXECUTIVE

16.1 The Chief Executive has delegated authority, within the powers set out in section 15 ~~and pursuant to decisions of the Board~~ to carry out all action necessary and desirable to implement the decisions of the Board and implement the TMO's Business Plan. This includes all the duties described in the Chief Executive's job description and other things that the TMO Board authorised and might be reasonably expected to be covered in his/her performance objectives. as follows:

- ~~• authorisation of contracts for or with:
 - ~~– the purchase of land or property;~~
 - ~~– leases and agreements to lease;~~
 - ~~– activities pursuant to the objectives of the Business Plan;~~~~
- ~~• revenue expenditure or the forgoing of income within budget or other limits set by the Board;~~
- ~~• employment of staff within the agreed establishment and terms and conditions of employment. Disciplinary action against staff in accordance with the TMO's procedures;~~

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- ~~• authorisation of all certifications required by Housing Corporation procedures (except for those which expressly require another signatory e.g. a Board Member);~~
- ~~• act as Secretary if agreed by the Board;~~
- ~~• nominations agreements;~~
- ~~• service level agreements with other bodies;~~
- ~~• authorisation of collateral warranties;~~
- ~~• appointment of consultants;~~
- ~~• all action necessary to implement decisions of the Board.~~

17 LEGAL ACTION

~~17.116.2~~ Legal action may be initiated by the Chief Executive, within the policies agreed by the Board, in consultation with the ET, ~~in the following cases:~~

~~planning Appeals;~~

~~to determine the employment of a contractor in the event of non-performance in accordance with the terms of a building contract and any further action necessary in bankruptcy or failure of the contractor;~~

~~against adjoining owners who are undertaking work that threaten the TMO's property;~~

~~arising out of insurance claims being pursued by THE TMO's insurers;~~

~~against employees or former employees for sums paid or advanced under a contract of employment;~~

~~to recover loss or expense suffered by THE TMO arising out of latent defects resulting from negligence or contractual default by a contractor developer or consultant;~~

~~for the pursuance of rent arrears or other debts or other breach of tenancy agreements;~~

~~17.2~~ The appropriate Director may sub-delegate to the manager with prime responsibility for the activity which is to be subject of legal action.

~~17.3~~ A commercial view of the risk arising from any legal action should be kept under review through seeking regular advice from a legal adviser

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~~acting on THE TMO's behalf.~~

18 AMENDMENT AND REVOCATION

- 18.1 The Board may alter, rescind or add to any part or element of this Code of Governance by a simple majority vote of those present at the relevant Board meeting at which it is discussed.
- 18.2 A copy of this Code of Governance and the Financial Regulations is available to Members and staff of the TMO.

~~19 INTERPRETATION~~

- ~~19.1 The ruling of the Chair of the Board as to the meaning or application of this Code of Governance shall be final.~~

VERSION CONTROL

Updated by	Updated on	Filename & path	Status
Angela Bosnjak-Szekeres	December 2012	T:\Company Secretary\New Company Secretary\5 Key Governance Documents\1 Regulations and Procedures\Code of Governance	

Agenda Item 8

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA TENANT MANAGEMENT ORGANISATION

TMO BOARD
8TH JANUARY 2013

FEEDBACK FROM THE COMMITTEES

REPORT BY COMPANY SECRETARY & GOVERNANCE MANAGER

1. Purpose

1.1 The Board is asked to:

1.1.1 Note the matters discussed and agreed by the Finance, Audit and Risk Committee at its meeting on 13th December.

FOR INFORMATION

2. The Committee agreed the minutes of the meeting held on 18th October 2012, noted the internal audit update and reviewed the Corporate Risk Register.
3. The Committee also considered the Repairs Internal Service Provider (ISP) Financial Plan and the draft 2013/14 budget.
4. The Committee discussed the ISP Financial Plan and agreed to recommend it to the Board for approval with the caveat that a statement of reassurance is provided to the Board regarding the robustness of the plan and the value for money that the ISP will offer the TMO.
5. Members were given a presentation about the draft budgets 2013/14 and agreed to recommend it to the Board for approval.
6. Jon Dee, who is retiring, was thanked for his services to the Board and the Finance, Audit and Risk Committee.

Angela Bosnjak-Szekeres
Company Secretary and Governance Manager

Agenda Item 10

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA TENANT MANAGEMENT ORGANISATION LIMITED

Confidential	
For Decision	
TMO Board 8th January 2013	
Report title:	TMO Internal Service Provider (ISP)
Authority for decision:	The Board has the authority under the constitution to make a decision about setting up a subsidiary to carry out the repairs service.
Recommendations:	<p>The Board is asked to approve the recommendations set out in the report as follows:</p> <ul style="list-style-type: none"> • The establishment of an Internal Service Provider (ISP) • Approve the Business Plan for the ISP • Approve the Constitution for the ISP • Appoint the Board Directors for the ISP • Approve the start up investment for the ISP of £700K
Regulatory/legal requirements:	The Board has the legal responsibility of ensuring that the organisations activities are carried out in accordance with the budget and business plan.
Business Plan link:	Growth strategy.
Equality Impact Assessment/comment:	Not applicable.
Resident consultation:	None required, the Board has the requisite constitutional power to set up a subsidiary.
Resource implications/VFM statement:	This has been considered in detail and the statement is included within the contents of the report.
Risk:	The Board has the responsibility of ensuring the risks to organisations activities are managed and monitored.
Appendices:	

Total number of pages including appendices:	
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Name, position and contact details of authors:	<p>Angela Bosnjak-Szekeres, Company Secretary</p> <p>Nurul Miah Head of ICT</p> <p>Peter Dunne Interim ISP Director</p> <p>Rupa Bholia Assistant Director of Finance</p>
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TMO REPAIRS INTERNAL SERVICE PROVIDER (ISP)

1. SUMMARY

- 1.1. This report contains the Business Plan for the proposed TMO Internal Service Provider (ISP). The plan is for the five year period starting 2013/14 to 2017/18 Years 1 to 5 of the proposed new business. The report also contains the detailed financial plan, Information and Communication Technology (ICT) plan and governance papers.
- 1.2. The financial part of the Business Plan has previously been submitted to and unanimously agreed by the Finance, Audit and Risk Committee (FAR) to recommend it to the Board for approval subject to an additional statement on Value for Money (VFM) and robustness of the plan being included. The financial plan is included in Appendix 1 of the report.
- 1.3. Major risks have been identified and Risk register is attached. The risks associated with this business plan have previously been identified. The ISP will maintain a dedicated risk register that will form part of the wider TMO Board and Committees reporting procedures on risk management.
- 1.4. Following Board Away days early in November 2012 two Board assurance groups have subjected all aspects of the ISP plans to close scrutiny providing opportunities for Board Members to obtain full understanding of the plans and to have influence in shaping the work.

2. BUSINESS PLAN

Sections contained within the Business Plan are as follows:

- Financial Plan and statement on Value for Money (VFM) and robustness of Operational and ICT Systems
- Management of Risk and Risk Register
- ICT strategy
- ISP commercial relationship with TMO
- Timetable for implementation

2.1. Financial Plan and statement on Value for Money (VFM) and operational robustness and ICT Systems

- 2.1.1. The Finance, Audit and Risk Committee has after detailed examination of the Financial Plan and consideration of the verification from Baker Tilly unanimously agreed to recommend it to the Board provided that the Board is given a statement on the robustness of the plan and VFM.
- 2.1.2. The full ISP financial plan is included as an appendix to this report (Appendix 1). In addition we have also included the summary of the sensitivity analysis report from Baker Tilly (Appendix 2). The Financial

plan forecasts that ISP will produce a surplus of £134k in the first year and £1,487k over a period of five years.

- 2.1.3. The ISP will need a start-up loan of £700k which will be repaid to the TMO over a five year period. It should be noted that this compares to the potential procurement cost of £700k should we decide to re- procure these services – this cost being non-recoverable. The powers under the TMO constitution allow for the TMO Board to provide a working capital to the ISP. The Cash Flow Statement for the first year within the Appendix 1 reflects the loan payment in month 1 of the first year and a repayment of the one fifth in the last month.

The statements requested by the Finance, Risk and Audit Committee are included in the section below.

2.2. Value for Money (VFM)

- 2.2.1. The proposed ISP will result in the TMO and RBKC not procuring another contractor and this will result in a VFM saving of almost £700k. The TMO will also be investing £700k in the ISP but this will be recovered over the 5 years of the Business Plan.
- 2.2.2. VFM will also be achieved through a clear focus on quality and closer management of the operatives through a stable and professional management team. We will be seeking to improve the quality and timeliness of the repairs resulting in an increase in satisfaction levels and confidence in the TMO. In the long term this will result in a reduction of repeat calls to the Customer Service Centre (CSC) which currently are running at approximately 33% of calls received.
- 2.2.3. Current payments to Willmott Dixon Partnership are based on annual price per property (PPP). Our proposed commercial relationship (ISP to RBKC via TMO) will be based on the National Housing Federation (NHF) Schedule of Rates which will provide a more robust route to VFM. To ensure that the ISP offers the best value for money we propose to benchmark these costs with other service providers. The NHF Schedule of Rates is a recognised market leading standard for social housing providers. This will also simplify the process of negotiation with sub-contractors and ensure the margins are delivered as per the Financial Plan.
- 2.2.4. RBKC has also confirmed an increase to the responsive repairs budget for the year 2013/14 by £500k plus inflation to reflect the true cost, as the previous provider had undervalued the contract. This will provide the ISP further resilience should the number of repair calls increase due to the success of the service. This increase is not included within the Financial Plan as the approval was received recently from RBKC. The budget now confirms ISP has all the relevant income in place to meet the financial requirements.

2.2.5. Included within the Financial Plan is a recharge of £165k for the TMO's existing staff overheads. The ISP will have shared back office services from TMO in return for this charge. This will give the ISP expertise in the areas like CEO, Engineering, Resident Engagement, Finance, ICT and HR.

2.3. Operational Robustness

2.3.1. The plan has assumed productivity levels which are slightly less than the levels already being achieved by WDP and we have used these levels of productivity across just 215 working days which is 8 days less than we are likely to achieve with the ISP workforce. In addition we have only included £3.63m out of a potential capacity of £4.07m income from the ISP operative's productivity.

2.3.2. We intend to negotiate a transition with WDP which commences after we obtain TMO Board approval for the ISP. This will give ISP a period of a minimum of 4 months and a maximum of 10 months for transition.

2.3.3. In return for a contract extension (of up to 6 months) we will negotiate with WDP to work cooperatively with us in the following areas:

- Systems and procedures
- ICT implementation
- Performance measures including Key Performance Indicators (KPIs) and value for money
- Staff communications

2.3.4. As we approach the point of handover in the autumn of 2013 we will have built a complete picture of existing productivity in the workforce. During this period we will also be building a relationship with the existing management of repairs operations and determining who is likely to transfer to the ISP under the Transfer of Undertaking (Protection of Employment) (TUPE) Regulations. In case for any likely gaps we will be commencing recruitment processes to ensure a smooth transition.

All systems will be in place for the launch of the ISP in autumn 2013.

2.4. ICT Robustness

2.4.1. In preparation for the procurement of an ICT system for the ISP, we have prepared a full and comprehensive specification which outlines our ICT requirements for running an efficient and effective service. The system will be required to interface with existing systems and suppliers, providing the necessary tools for seamless management of repairs.

2.4.2. The solution will include Personal Digital Assistants (PDA) for operatives, which will enable them to receive work, access their emails and also make telephone calls. The PDAs will enable the operative to vary jobs,

update the ISP on job progress, take photographs and add notes. The device may also be used to provide lone worker support.

- 2.4.3. As the PDA will become a vital tool for the operatives, it is essential that the correct unit is sourced. We will seek advice from system vendors, trial various devices and test functionality, reliability, and battery life before making a final decision. All operatives will also be given full training on the PDAs to understand the system and ensure buy-in. Supervisors will also be trained as 'Super Users', so that they are able to offer assistance and guide operatives where necessary.
- 2.4.4. A dynamic scheduling tool will be required for workforce scheduling. The system should enable office staff to plan operatives' diaries in advance, and be able to push jobs to the operatives' PDAs individually or as a batch for a given day, which also includes appointment time. The system will also be required to send text messages to the resident at predefined stages. In addition, the solution must provide back office staff with the ability to rearrange the diaries in accordance to job priority and operative location. Back office staff must also be able to easily follow operative's movement and also identify jobs that are over running so that they can proactively rearranged jobs in operative diaries.
- 2.4.5. All vehicles will require a tracking device. Office staff must be able to quickly identify the location of any vehicle. The information may also be used to assist with scheduling operative diaries. The ICT solution must provide interfaces with materials suppliers, so that we are able to enable our operatives the ability to purchase materials and specialist parts for a given job. The interface must be able to tie a purchase against a job and interface relevant data between systems at predefined intervals.
- 2.4.6. We have allowed for a total capital cost in our plan of £631k and an annual running cost of £82k. These figures were based on early estimates of likely costs from one potential provider. We have since involved a second potential provider and negotiations have reduced anticipated costs to well within the sums allowed for in our plan. We have also closely examined the implementation proposals which have been provided by our favoured supplier and have a high degree of confidence that the systems can be installed within the anticipated timescales.

2.5. Management of Risk

- 2.5.1. A Risk Register has been prepared for the ISP and attached as an appendix to this report (Appendix 3). The major risks identified are discussed below in detail, such as ICT set-up and contract transition from Willmott Dixon to the ISP. ICT set-up risk has been mitigated by following a rigorous process of specifying our requirements and ensuring the provider's system matches these requirements and is capable of delivery within our timescales.

- 2.5.2. The transition from WDP to the ISP risk has been mitigated by entering into early negotiations with WDP. These meetings have been very positive, with WDP signalling that they are willing to cooperate with the transition to an ISP.
- 2.5.3. Trade staff currently working on our repairs and voids contract for WDP are expected to transfer to the ISP. It is anticipated that most staff will wish to transfer to the ISP. Management and Administrative staff are not so predictable and until we enter into a dialogue with these staff we will not know the complete picture.
- 2.5.4. In broad terms TUPE provides rights of transfer to existing staff on their current terms and conditions. Existing salaries have been modelled in the financial plan for the ISP and pension provision has been modelled well in excess of the provision currently enjoyed by WDP staff.
- 2.5.5. The quality control and inspection processes for monitoring quality will (at least in the first instance) be continued on the TMO's side. The ISP will deploy systems and processes which will enable close monitoring of both financial and all other areas of performance i.e. quality of workmanship, customer satisfaction and KPI results. It will be a key feature of these systems that any slippage in performance will be made clear immediately, enabling action to be taken to retain high levels of performance.
- 2.5.6. Other risks identified are listed on the risk map and will be monitored regularly as part of the project plan.

2.6. ICT Strategy

- 2.6.1. Our ICT strategy has been based on seeking a solution which will provide us with:
- Complete range of 'contractor package' functionality
 - Costs which are competitive and affordable for ISP business
 - Implementation that is predictable and manageable with minimised risk
 - Procurement within Official Journal of European Union (OJEU) limits to enable rapid choice and achievement of best value for the business
- 2.6.2. With the above requirements in mind, we explored two options which were the most likely packages to deliver our requirements:
- Capita providing 'Open Contractor' working in partnership with 'Xmbrace Opti-time' to deliver a flexible and 'intelligent' work scheduling package
 - Causeway providing 'Vixen' working in partnership with 'Xmbrace Opti-time' to deliver a similar system that is currently in use by WDP.
- 2.6.3. Our evaluation concluded that the Capita Solution is a more complete package. Costs from Capita are lower than Causeway and so is risk

since TMO currently use Capita's housing management solution, 'Academy'.

Further detail of our specification and scoring matrix for the system is included in Appendix 4.

2.7. ISP Commercial Relationship with TMO

2.7.1. It is proposed that a commercial relationship will be formed between the ISP and the TMO. The basis of this relationship will be a set of agreements which form the basis of performance and payments mechanisms. Service Level Agreements (SLAs) will be developed to support TMO objectives in the following areas:

- Quality of work
- KPIs i.e. timeliness of repairs and voids work
- Customer satisfaction
- Value for money (incl. agreed target surpluses)
- Responsibilities and accountability as set out in the Appendix 6 (section on governance)

2.8. Timetable for implementation

2.8.1. The timetable for implementation of the ISP begins with the approval at the TMO Board meeting on 8th January 2013. Actions immediately following this approval will be:

- Completion of talks with RBKC to ensure their full support for the project
- Next round of talks with our existing contractor Willmott Dixon Partnerships (WDP) leading to recommendation for up to 6 month contract extension based on an agreed transition plan
- Further engagement with ICT supplier to finalise commercial terms and timeline for ICT mobilisation leading to placement of an order.
- Communications with staff

Regular progress reports will be presented to board meetings during the transition phase of the ISP project.

2.8.2. The Board is asked to approve the ISP Business Plan as set out in this report

3. Governance Arrangements

The TMO is a non-charitable “non-profit” company limited by guarantee. We are under a contract with RBKC to provide housing management and maintenance services for RBKC’s housing stock. To date, the maintenance-related services (such as responsive/reactive repairs, void management and part of the planned repairs) have been contracted from third parties.

The TMO Board made a decision in September 2012 to explore the option of creating its own wholly-owned subsidiary (ISP) which would deliver the services the TMO requires to meet its obligations under the contract with RBKC.

3.1. Power to establish subsidiary

3.1.1. The Board has the power under the TMO Constitution to establish a subsidiary ISP but that power may only be exercised where to do so, can be said to be furthering the TMO’s objects. The TMO’s primary object is the maintenance of RBKC’s housing stock but we have further objects (including the provision of housing services to other persons (and outside the Borough)) but only to the extent that such objects are not inconsistent with our primary object. Provided therefore, that establishing the ISP (and the activities to be undertaken by the ISP) do not adversely impact on the primary object, the Board has the requisite power to establish the ISP subsidiary.

3.1.2. The distinction made between the primary object and the TMO’s other objects means that the TMO will need to ensure that if and to the extent that the ISP is permitted to carry out activities for third parties, in doing so it does not adversely impact on the delivery or performance of the services required to maintain RBKC’s housing stock. The TMO will, therefore, want to have arrangements in place as between itself and the ISP which enable it to satisfy itself that no adverse impact may arise in such circumstances.

3.1.3. The TMO Board is asked to approve the formation of the ISP subsidiary to carry out the maintenance related services.

3.2. Local authority consent

3.2.1. Based on the TMO Constitution and the management agreement, RBKC’s consent is not required for the establishment of the ISP as a subsidiary of the TMO. However, under the terms of Clause 6.3 of Volume 1 Chapter 1 of the management agreement, RBKC’s consent is

required before the TMO can appoint another person to carry out any of the management functions accepted by the TMO under that contract.

- 3.2.2. Contracting with the ISP for the provision of certain repairs/void management, etc would, therefore, require RBKC's consent. It should be emphasised that the TMO will remain responsible and liable to RBKC for the services which are provided by the ISP irrespective of RBKC's consent to services being procured via the ISP.

3.3. ISP Board members and Board composition

- 3.3.1. It is important for the prospective directors of the ISP to recognise the duties that they will owe as directors, to the ISP. In particular they must recognise the need to act in the best interests of the ISP. A breach of a director's duties can leave the individual directors personally liable for the losses which arise as a consequence of such breach.
- 3.3.2. Equally, the TMO must not seek to orchestrate the decisions of the directors in such a way as to expose itself to the liabilities associated with "shadow directorship". (A "shadow director" is a person who has never been formally appointed to an organisation's board, but that organisation is accustomed to act in accordance with the directions and wishes of the "shadow director".) If the TMO is found to be a shadow director, then the TMO (corporately) can be held liable for any breach of any director's duties.
- 3.3.3. It would be unconventional for the board of a trading subsidiary (ISP) to have the same members as the board of its parent (common board). This reflects the fact that it increases the burden for the board members of the parent company; it blurs the distinction between the separate legal entities; and it increases the prospect of the parent company being regarded as a "shadow director" of the subsidiary, thus potentially exposing the parent to any losses or liabilities which accrue within the subsidiary.
- 3.3.4. We have received advice on governance arrangement from Devonshires that was distributed to Board Members. The advice highlighted the issues that the establishment of a common board or current TMO Board members sitting on the ISP Board would create. Please see below the points raised in the advice.

(Extracts from the advice by Devonshires solicitors)

The current constitutional arrangements for the TMO are not conducive to individuals who are currently on the TMO's main board also being nominated to the ISP's board. This is most pertinent in the case of resident board members – see below.

The key points to note are as follows:-

Article 20 of K&C TMO's constitution provides that a board member has an interest which is to be regarded as a conflicting interest if the interest arises as a result of the board member's status as a member, director, officer or employee of another organisation.

This means that under the terms of K&C TMO's current constitution, any board member of K&C TMO who also sits on the ISP's board will, where an agenda item relates to the ISP, need to withdraw from the meeting (unless expressly invited to stay for information purposes (but may not vote)) and may not be taken into account in determining the quorum for the meeting.

K&C TMO's board quorum is currently 7 out of a board of 15. The quorum provisions also require that there are no less than 4 resident board members present and that resident board members must constitute a majority of the board members present at that meeting. The maximum number of resident board members permitted under the constitution is 8.

This means that, under the terms of the current constitution, if a resident board member of K&C TMO is also a member of the ISP, K&C TMO's board meeting would not be quorate at the point at which it considers an item involving the ISP where all other board members who are not resident board members are in attendance. This reflects the fact that if one of the resident board members is also a board member of the ISP, the number of board members that can be considered for the purposes of the quorum is reduced to 14 and the number of resident board members that can be present and entitled to vote is reduced to 7, meaning that there is no resident majority.

It follows, therefore, that having a "common" board for K&C TMO and the ISP is not possible under the terms of the TMO's constitution as all board members would have to declare a conflicting interest and refrain from voting on any item involving the ISP at a TMO board meeting.

- 3.3.5. A trading subsidiary board usually functions most efficiently with just a few members. It would not be usual to give specific levels of representation to stakeholders (such as the local authority or residents)

on a trading subsidiary board. It is most common for housing organisations to establish small, focused “mixed” boards comprising of officers from the organisation with relevant expertise and external appointees specifically selected for their relevant skills.

3.3.6. It is therefore recommended that the **ISP** Board be made up of three **TMO** officers (2 Executive Directors and one other) and two external appointees (one independent and one tenant) who would be selected for their relevant business/commercial acumen and skills. The two external appointees will be appointed within the next 3-6 months and the Board will be asked to make the appointments.

3.3.7. It is recommended that the Board appoint Sacha Jevans, TMO Executive Director of Operations, Anthony Parkes, TMO Executive Director of Financial Services and ICT and Peter Dunne, Interim Director of ISP to the ISP Board.

3.4. TMO control over ISP, members and constitution

3.4.1. It is recommended to establish a private company limited by shares as a vehicle that is capable of distributing surpluses to its shareholders. The **TMO** would be the **ISP**'s sole shareholder. As such, the **TMO** will have absolute control over the **ISP** as it will make all decisions which are reserved for the shareholders of the organisation. The **TMO** can hold a nominal £1 share capital. If it needs to be increased at any stage this can be done easily. As 100% shareholder, the **TMO** will have total control of constitutional issues at general meetings and the right to appoint and remove all directors.

3.4.2. The constitution of the **ISP**, therefore, can be much shorter and more straightforward than the **TMO**'s constitution. Its objects under company law would typically be to act as a “general commercial company”. Otherwise, the articles of association will simply contain the mechanism for holding shareholders' general meetings and board meetings, and will enable the shareholder to appoint and/or remove board members.

3.4.3. The Board is asked to approve the ISP Constitution (attached in Appendix 5.)

3.4.4. The **TMO** also has the power to provide services to the **ISP** and to provide it with working capital. The **ISP** requires a loan of £700k from the **TMO** as a start up investment to be repaid over 5 year period.

- 3.4.5. The Board is asked to approve the loan to the ISP in the amount of £700K.**
- 3.4.6. Notwithstanding the fact that the TMO, as the sole shareholder of the ISP, will have absolute control of the ISP, it is important (not least because of the issues associated with “shadow directorship”), that there is clarity over the basis upon which decisions are to be taken on behalf of the ISP. This is best achieved by requiring the ISP to covenant not to take certain decisions without the consent of the TMO as the parent. Appendix 6 shows a list of the types of covenants that one might expect to see as between a parent and a wholly owned subsidiary, provided to us in the advice report from Devonshires. These covenants would be incorporated into the contract agreement between the TMO and the ISP.
- 3.4.7. Whilst there are certain decisions regarding the ISP which will be retained by the TMO’s Board, such as the decision to appoint and/or remove directors and to agree all ISP business plans, the TMO will also want to ensure that the performance and financial viability of the ISP is being properly monitored. This role can be delegated to the Operations Committee (insofar as matters relate to serve delivery) and the Finance, Audit and Risk Committee (insofar as matters relate to the financial performance of the ISP).
- 3.4.8. The Committees’ Terms of Reference will need to be amended to provide for their extended roles and to require them to report to the TMO’s Board at appropriate intervals on the performance of the ISP.

Appendix 1 – Financial Plan

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013**

Option ISP (INTERNAL SERVICE PROVIDER) - Inc Rewire & Individual Boilers

Basic ISP costs (TMO set up its own ISP, managing the function internally and providing it with support services) assuming start up in October 2013.

DESCRIPTION	DETAIL	REF	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total	% Inflation
Receipt to ISP from TMO	Based on number and outturn costs for repairs agreed as attributable to the ISP (6)	1	5,828,399	6,061,535	6,303,996	6,556,156	6,818,402	31,568,487	4%
Receipt to ISP from TMO	Kitchens & Bathrooms			300,000	300,000	300,000	300,000	1,200,000	0%
Subcontract Profit	10% Profit on subcontracted works		180,544	187,765	195,276	203,087	211,210	977,882	10% of Subcontracting amount
Subcontracted Specialist Trades	Subcontract work	2	(1,805,436)	(1,877,654)	(1,952,760)	(2,030,870)	(2,112,105)	(9,778,825)	4%
Full Material cost	ISP unlikely to be able to procure materials as the same rate as major external contractor	3	(1,059,111)	(1,245,475)	(1,289,534)	(1,335,356)	(1,383,010)	(6,312,487)	4%
Direct ISP staffing costs	Based on agreed staffing structure (1)	4	(1,783,530)	(1,960,327)	(2,019,137)	(2,079,711)	(2,142,102)	(9,984,807)	3%
Overhead (Staffing costs)	Indirect Staffing and additional staffing through TMO	5	(406,710)	(418,912)	(431,479)	(444,423)	(457,756)	(2,159,280)	3%
ICT Set Up Costs	Capital Cost - Assumed spread over 5 years	6	(126,200)	(126,200)	(126,200)	(126,200)	(126,200)	(631,000)	0%
ICT Overhead	Annual Revenue Cost	7	(82,114)	(86,220)	(90,531)	(95,057)	(99,810)	(453,732)	5%
Set up costs (other) Fixed	For example, purchase of plant and equipment, offices, legal, external support. Assumed spread over 5 years (4)	8	(56,500)	(56,500)	(56,500)	(59,325)	(59,325)	(288,150)	0%
Annual Overhead	For example, leasing of plant and equipment, offices, legal, external support.	9	(377,008)	(398,276)	(414,207)	(430,775)	(448,006)	(2,068,272)	4%
Productivity Contingency	10% Year 1 reducing to 2% Year 5		(178,353)	(156,826)	(121,148)	(83,188)	(42,842)	(582,358)	
Net Surplus	After Recovery of TMO Overheads		133,979	222,911	297,776	374,337	458,456	1,487,459	
			2%	4%	5%	6%	7%	5%	

Option ISP (INTERNAL SERVICE PROVIDER) - CAPITAL WORKS - Rewire, Individual Boilers & Kitchens/ Bathroom

DESCRIPTION	DETAIL	13/14	14/15	15/16	16/17	17/18	5 Year Total	% Inflation
Receipt to ISP from TMO	Capital	1,560,000	1,622,400	1,687,296	1,754,788	1,824,979	8,449,463	4%
Receipt to ISP from TMO	Kitchens & Bathrooms		300,000	300,000	300,000	300,000	1,200,000	0%
Total Capital Turnover		1,560,000	1,922,400	1,987,296	2,054,788	2,124,979	9,649,463	
Subcontract Payments	Subcontract work	(1,170,000)	(1,216,800)	(1,265,472)	(1,316,091)	(1,368,735)	(6,337,097)	
Material Costs		(187,200)	(338,688)	(346,476)	(354,575)	(362,998)	(1,589,936)	4%
Direct Labour Costs		(159,600)	(287,679)	(296,309)	(305,199)	(314,355)	(1,363,142)	3%
Capital Team Vehicles		(24,285)	(25,256)	(26,266)	(27,317)	(28,410)	(131,534)	4%
Net Surplus on Capital		18,915	53,977	52,773	51,607	50,483	227,754	

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013
RECEIPT TO ISP**

TYPES of WORK Description	2011-12 Figures		
	In house Revenue	Subcontract	TOTAL VALUE
AIDS AND ADAPTATIONS	139,536	128,803	268,339
ALL TRADES	614,072		614,072
ASBESTOS	755	3,019	3,774
BRICKWORK	4,710		4,710
CARPENTRY	185,051		185,051
CONCRETE	5,851		5,851
DRAINAGE	146,554	146,554	293,109
ELECTRICAL	527,430		527,430
EXTERNAL WORKS	42,366		42,366
FENCING	4,854		4,854
FINISHES	141,862		141,862
FLOORING	248		248
GENERAL BUILDING	501,000		501,000
GLAZING	16,827		16,827
HEALTH AND SAFETY	15,965	63,859	79,824
LOCKS	25,318	7,995	33,313
MANUAL ORDERS	180,720		180,720
METAL WORK	14,951	59,805	74,756
MISCELLANEOUS	5,518		5,518
PEST CONTROL	21,081		21,081
PLAYGROUNDS	6,082	10,812	16,894
PLUMBING	216,930		216,930
ROOFING	10,499	41,996	52,495
SCAFFOLDING	37,038	148,153	185,191
SIGNAGE	265		265
VOID WORKS	625,317		625,317
WATER MAINS	2,433		2,433
Capital Works (Rewire/ Boiler)	375,000	1,125,000	1,500,000
Total Value	3,868,233	1,735,996	5,604,229
Inflation @ 4% for 2013/14	4,022,962	1,805,436	5,828,399
		REF 2	REF 1

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013**

Material Costs										
	Description		Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total		
In-House Revenue	Non Revenue	Subcontracted	3,632,962	3,778,281	3,929,412	4,086,589	4,250,052	19,677,296		
In-house Capital	Non Capital	Subcontracted	390,000	705,600	721,824	738,697	756,245	3,312,366		
Total Inhouse Works			4,022,962	4,483,881	4,651,236	4,825,286	5,006,297	22,989,662		
ISP unlikely to be able to procure materials as the same rate as major external contractor	Full Material cost for in-house routine repairs (20% x 120%)		871,911	906,787	943,059	980,781	1,020,013	4,722,551		
	Capital Progamme Material Costs for In-house capital works (40% x 120%)		187,200	338,688	346,476	354,575	362,998	1,589,936		
Total Material Cost 2013/14 - REF 3			1,059,111	1,245,475	1,289,534	1,335,356	1,383,010	6,312,487		

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013
DIRECT ISP STAFFING COSTS**

Job Title	No. of Post	Oncosted Salary Budget	Oncosted Salary Budget
		Year 1	Year 2-5
Service Director	1	106,400	109,592
Production Manager	1	53,200	54,796
Commercial Manager	1	53,200	54,796
Scheduler/Planner	2	74,480	76,714
CCO/RLO	1	46,550	47,947
Voids/Major Works Supervisor	1	46,550	47,947
Repairs Supervisor	1	46,550	47,947
Admin Support (Finance)	1	33,250	34,248
Trades Team (Voids/Major)	14	558,600	575,358
Trades Team (Repairs)	14	558,600	575,358
Trades Team (Capital) Rewires and Boilers	4	159,600	164,388
Trades Team (Capital) 14/15 Kitchens & Capitals	3		123,291
H& Safety Advisor	1	46,550	47,947
Total for 13/14	45	1,783,530	1,960,327
		REF 4	

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013
OVERHEAD STAFFING COSTS (via TMO)**

Department	12/13 - Payroll costs Budgeted	ISP Existing staff recharged percentage	ISP New staff recharged (Oncosted Salary)	ISP Overhead Existing Staff	ISP Total Staff
CEO	728,069	5%	-	36,403	36,403
Finance	416,019	5%	65,000	20,801	85,801
ICT	423,833	5%	100,000	21,192	121,192
Engineering	515,991	10%	-	51,599	51,599
Residents Engagement	197,589	5%	-	9,879	9,879
HR	499,794	5%	65,000	24,990	89,990
2012-13 Costs			230,000	164,864	394,864
Inflation @ 3% 2013/14				REF 5	406,710

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013
ICT SET-UP COSTS**

Description	Capital Cost	Annual Cost
1. ISP Management system	66,000	11,600
1. Systems integration and interfacing Impemetation and configuration Project management and training	93,100	
2. Mobile working for operatives and inspectors e.g. Total Mobile	10,500	2,100
2. Systems integration and interfacing Impemetation and configuration Project management and training	26,600	
3. Scheduling tool e.g. Optitime (15 diaries)	18,250	5,650
3. Systems integration and interfacing Impemetation and configuration Project management and training	39,900	
4. Contractor portal and 3 stores bar coding stations	16,000	4,000
4. Systems integration and interfacing Impemetation and configuration Project management and training	6,650	
Systems interfaces	52,000	10,400
Software contingency	40,000	
Server and SAN upgrade including licenses	25,000	5,000
Software client licenses	4,500	
Vehicle tracking system estimate	36,000	7,200
System hardware support - DLO system		3,000
Finance System Development (Interface + System)	10,000	3,000
HR system Payroll service		7,000
HR system Payroll setup cost	1,400	
HR system Licenses	2,000	
HR system - Analysis report development	3,000	
HR System project consultant (Setup of system)	7,000	
Telephone channel expansion	10,000	2,000
PDA's or mobile hand-held units	20,500	3,000
Text messaging (E.g. Deeplake)	40,000	4,000
Office based operations staff equipment - desktop / laptop / telephone (premises and office costs not included)	24,000	
Office based operations staff - Blackberry / contract cost	3,000	2,700
Printers	600	
MFD's		1,464
NHF SOR	75,000	10,000
	631,000	82,114 REF 7
	Per Year 2013/14 - REF 6	126,200

TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013

SET-UP COSTS & ANNUAL OVERHEAD		
Description	At set up	Annual
38 cars		98,966
Fuel per annum		93,600
Van Insurance + Public liability		20,000
Van Safe	6,000	
Labour force tools for	15,000	
Annual Tool Allowance		4,500
Uniforms inc Health & Safety		9,000
Sundry Items inc ladders	5,000	
Vehicle fit outs inc branding	13,500	
Legal Costs setup	10,000	10,000
Office costs 10 spaces		18,942
External support	100,000	12,000
Staff training	10,000	10,000
Depot	10,000	100,000
Grand Total	169,500	377,008 REF 9
Over 3 years - /year cost from 2013/14	56,500 REF 8	
From 2016/17 Inflation @ 5%	59,325	

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013**

ADDITIONAL DOCUMENT - AVERAGE JOB COST

Responsive Repairs	No of Resp	
	Repairs	Amount
ALL TRADES	1,113	614,072
BRICKWORK	58	4,710
CARPENTRY	3,366	185,051
CONCRETE	78	5,851
DRAINAGE	672	146,554
ELECTRICAL	3,179	527,430
GLAZING	281	16,827
MANUAL ORDERS	655	180,720
MISCELLANEOUS	15	5,518
PLUMBING	5,551	216,930
ROOFING	133	10,499
	15,101	1,914,162
Average Costs of jobs during 2011-12	127	

VOID Repairs	No of Resp	
	Repairs	Amount
VOID WORKS	267	625,317
Average Costs of jobs during 2011-12	2,342	

Other Works	No of Resp	
	Repairs	Amount
AIDS AND ADAPTATIONS	277	139,536
FENCING	76	4,854
FINISHES	558	141,862
FLOORING	1	248
LOCKS	209	25,318
WATER MAINS	2	2,433
	1,123	314,251
Average Costs of jobs during 2011-12	280	
GENERAL BUILDING	505	501,000
Average Costs of jobs during 2011-12	992	
Total Average for Other Works	636	

ISP Income

A quick breakdown of how this is worked out for ISP. ISP income of £4.26m assumed excluding £1.5m of capital programme works. Of this £4.26m we expect £0.64m to be made in payment for subcontracted works. **This leaves £3.62m of works to be justified by the workforce with some contingency.**

To do this we have made the following calculations in regards to average job cost and the number of jobs each operative should complete per day:

Income generated:

20 operatives for Responsive works @ £127 average cost/job and 4 jobs/day, over 215 working days. = Income generated £2.18m

4 operatives for voids @ £2342 average cost/job and 0.4 jobs/day, over 215 working days. = Income generated £0.8m

4 operatives for Other work @ £636 average cost/job and 2 jobs/day, over 215 working days. = Income generated £1.09m

Total potential income generation of £3.87m vs non sub contracted revenue works including voids of £4.07m

No of Working Days		
Days in a year		365
Less	Weekends	-104
Less	Bank Holidays	-8
Less	Annual Leave	-25
	Balance	<u>228</u>
* Assumed 215 working days in the ISP Financial Plan		

**TENANT MANAGEMENT ORGANISATION (ISP FINANCIAL PLAN)
TMO BOARD
8TH JANUARY 2013**

Cash Flow YEAR 1 -ISP

Month:	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	TOTAL
Receipts													
1	Loan from TMO	700,000											700,000
2	Monthly Mgmt Fee (1/12 of Fee in advance)	485,700	485,700	485,700	485,700	485,700	485,700	485,700	485,700	485,700	485,700	485,700	5,828,399
3	Subcontract 10% margin		15,045	15,045	15,045	15,045	15,045	15,045	15,045	15,045	15,045	15,045	165,498
4													-
	Total Receipts	1,185,700	500,745	500,745	500,745	500,745	500,745	500,745	500,745	500,745	500,745	500,745	6,693,897
Payments													
5	Direct Payroll costs	148,628	148,628	148,628	148,628	148,628	148,628	148,628	148,628	148,628	148,628	148,628	1,783,530
6	Overhead Staffing costs	33,893	33,893	33,893	33,893	33,893	33,893	33,893	33,893	33,893	33,893	33,893	406,710
7	Materials Costs	-	88,259	88,259	88,259	88,259	88,259	88,259	88,259	88,259	88,259	88,259	970,852
8	IT overhead (Annual Manitenance contracts)	-	82,114	-	-	-	-	-	-	-	-	-	82,114
9	IT Set-up costs	500,000	131,000	-	-	-	-	-	-	-	-	-	631,000
10	Other Set-up costs	288,150	-	-	-	-	-	-	-	-	-	-	288,150
11	Annual Overhead (Plan, leasing etc)	31,417	31,417	31,417	31,417	31,417	31,417	31,417	31,417	31,417	31,417	31,417	377,008
12	Subcontractor payments	-	150,453	150,453	150,453	150,453	150,453	150,453	150,453	150,453	150,453	150,453	1,654,983
13	Repayment of Loan to TMO (over 5 years)	-	-	-	-	-	-	-	-	-	-	140,000	140,000
14	Other Contingency payments	-	14,363	14,863	14,363	14,863	14,863	14,863	14,863	14,863	14,863	14,863	163,490
	Total Payments	1,002,087	680,626	467,512	607,512	6,497,838							
	Cashflow Surplus/Deficit (-)	183,612	- 179,881	33,233	- 106,767	196,059							
	Opening Monthly Net Cash Balance	-	183,612	3,731	36,964	70,197	103,430	136,662	169,895	203,128	236,361	269,594	302,826
	Closing Monthly Net Cash Balance	183,612	3,731	36,964	70,197	103,430	136,662	169,895	203,128	236,361	269,594	302,826	196,059

Key

1	Loan from TMO	Upfront Loan to ISP
2	Monthly Mgmt Fee (1/12 of Fee in advance)	Contract sum paid to ISP (1/12) per month in the middle of the month similar to current payment arrangements
3	Subcontract 10% margin	Margin on Sub-contract Works
6	Direct Payroll costs	Salary for direct staff in the ISP payroll
6	Overhead Staffing costs	Overhead staffing for back-office functions & central overhead
7	Materials Costs	Paid on 30days credit
8	IT overhead (Annual Manitenance contracts)	Annual Contract sum paid upfront at the beginning of the year
9	IT Set-up costs	Initial set-up costs
10	Other Set-up costs	Initial set-up costs
11	Annual Overhead (Plan, leasing etc)	Costs for Leasing, petrol , etc
12	Subcontractor payments (90%)	Paid on 30days credit
13	Repayment of Loan to TMO (over 5 years)	Payment of 1/5 of the Loan amount at end of Financial year

**Appendix 2 – Summary of the sensitivity analysis
report from Baker Tilly**

Kensington & Chelsea TMO

Formation of Internal Service Provider

Baker Tilly Key Assumptions Analysis - Overview

Key Assumption	Error and Likelihood	Impact of Error
Responsive Income £4.3m	Income may be understated	Surplus may be understated
10% s/c mark up	May be reduced / increased	Potential £90k hit to surplus
No growth included	Income may be understated	Surplus may be understated
£1.5m capital spend included	Low Risk	Any impact on surplus unlikely
Yr 2 on £300k Kitchen & Bathrooms	Low Risk	Any impact on surplus unlikely
15% Responsive sub contracted	Low Risk	Potential £60k hit to surplus
75% Capital works sub contracted	Low Risk	Potential £60k hit to surplus
Responsive Materials 24%	Risk that Costs Overstated	Surplus may be understated
Capital Materials 48%	Risk that Costs Overstated	Surplus may be understated
Staffing Costs	Risk that overstated	Surplus may be understated
ICT Cost Assumptions	Low Risk	Any impact on surplus unlikely
Recharge of TMO staff time	Low Risk	Any impact on surplus unlikely
Capitalisation of set up costs	Capitalisation unlikely	Potential hit to surplus 1 st Year



Appendix 3 – ISP Risk Register

ISP Risk Assessment

Department: ISP
 Date: 21 December 2012
 Owner: Executive Team

Owner key: DISP Director of Internal Service Provider
 DFS Director of Financial Services

Likelihood (L)		
Level	Description	Degree
1	Very Unlikely	Low
2	Unlikely	Low
3	Likely	Medium
4	Very Likely	High
5	Almost Certain	High

Impact (I)		
Level	Description	Degree
1	Minor	Low
2	Disruptive	Low
3	Significant	Medium
4	Serious	High
5	Major	High

Risk Category (RC)					
Likelihood	Impact				
	1	2	3	4	5
1	1	2	3	4	5
2	2	4	6	8	10
3	3	6	9	12	15
4	4	8	12	16	20
5	5	10	15	20	25

Low Risks	
Medium Risks	
High Risks	

Risk No.	Risk Identified	Likelihood	Impact	Risk Rating	Existing Control Measures	Confidence in controls	Residual Risk	Probability	Impact	Risk Rating	Owner	Action
1	Failure to deliver a fit for purpose ICT setup on time.	1	5	5	Specification is inclusive of all ISP requirements and ensures that the system provider can meet the required timescales.	H	Delay in implementation would set back the startup of the ISP and would result in a reputational risk.	1	5	5	DFS	There is an inclusion of sufficient financial provision for the delivery of the ICT setup and a careful selection of external providers to mitigate the risk.
2	Failure to successfully manage the transition from the current contractor to the ISP.	1	5	5	KCTMO have entered into early negotiation with the current contractor who have assured KCTMO of their cooperation and support.	H	Issues come to light which have previously not been considered or loss of support from the current contractor.	1	5	5	DISP	Tolerate with confidence in existing working arrangements.
3	Capabilities of staff on TUPE list is unknown.	3	2	6	Confidence in skills of the potential TUPE list based on the performance of the current contractor.	M	"Potential" TUPE list may not be the "actual" TUPE list.	2	2	4	DISP	Treat in discussions with the current contractor.
4	An initial dip in performance upon transition of the service to the ISP.	4	3	12	A robust project plan and good transfer arrangement with the current contractor.	H	The ISP failing to show a continuing improvement in satisfaction with the service amongst tenants and leaseholders.	3	2	6	DISP	Tolerate with confidence in the setup arrangements for delivery of the service.
5	Failure of the financial plan.	1	5	5	A robust audited financial plan detailing all areas of income and expenditure constantly reviewed and appraised through the project management process.	H	Unforeseen expenditure is identified during the implantation phase of the ISP.	1	3	3	DFS	Tolerate with confidence in the prudence provided within the financial plan.
6	Failure to make timely decision.	1	3	3	A single project leader has been identified for the project with the authority to ensure that the ISP Board and the TMO Executive Team make timely decisions.	H	Delays still occurring in the decision making process.	1	3	3	DISP	Tolerate with confidence in decision of the executive lead and the support secured via the appointed project manager.
7	Failure to follow regulatory compliance in relation to the works undertaken.	2	5	10	Robust policies, procedures and guidance will be issued to all staff.	H	Staff fail to adhere to the guidance issued.	2	5	10	DISP	Tolerate with confidence based on the guidance and training.
8	Serious injury or death of a resident, staff member, contractor or customer.	2	5	10	Health & Safety policy will be in place with associated guidance. KCTMO H&S Committee regularly report to ET. All new staff will receive mandatory H&S training.	M	Staff and residents do not follow guidance.	2	5	10	DISP	Tolerate with confidence based on the guidance and training.

Appendix 4 – ICT Strategy

ICT Strategy

Our ICT strategy has been based on seeking a solution which will provide us with:

- Complete range of 'contractor package' functionality
- Costs which are competitive and affordable for ISP business
- Implementation that is predictable and manageable with minimised risk
- Procurement within OJEU limits to enable rapid choice and achievement of best value for the business

With the above requirements in mind, we explored two options which were the most likely packages to deliver our requirements:

- Capita providing 'Open Contractor' working in partnership with 'Xmbrace Opti-time' to deliver a flexible and 'intelligent' work scheduling package
- Causeway providing 'Vixen' working in partnership with 'Xmbrace Opti-time' to deliver a similar system that is currently being used by WDP.

Capita – Open Contractor

Open contractor provides a complete solution for an ISP set-up based on benchmarking data from Housemark. It is listed as the leading system and is being used by 50 other similar organisations.

We contacted Capita and requested a demonstration of the complete solution. During the demonstration we were able to see how Open Contractor and Xmbrace Opti-time works seamlessly with total mobile to provide a complete solution.

We followed this up with a site visit which has a similar set-up to our requirements. During the visit we had a chance to look at the detailed functionality in action and question any shortcomings. The management of the reference site was very positive of the system and the support they receive from Capita. We were also able to see Open Contractor interface with the material suppliers and Capita housing system operate as expected. These interfaces are key requirements to enable the system to function and support the service delivery.

Causeway – ViXen

Vixen is currently being used by Wilmot Dixon. The system is used to manage responsive repair jobs and schedule operatives. The system is currently used in limited capacity to vary any changes to the jobs being raised by TMO.

We contacted Causeway with our specifications and requested a system demonstration. During the demonstration it was apparent that the core system will require enhancements and developments to meet our specifications.

To complete our understanding we also requested Wilmot Dixon to demonstrate the system. This provided us with an opportunity to analyse how Vixen is

currently being used for our contract. The demonstration confirmed that Vixen system would require enhancements and development to deliver a complete solution. It also highlighted that considerable enhancements will be required to interface with our housing system.

In addition based on our current experience of technical support from Causeway, it is an area of concern as we have had an interface issue outstanding for over two months.

Conclusion

If the Board approves the ISP proposition we will as an early action be placing an order with Capita who have indicated that they are willing to commence work immediately with a completion date well within our proposed timetable for launch of the ISP.

ISP - ICT Requirements Matrix

Key			
Available without any enhancements required	✓	Standard feature	2
Function available via another application or tool	✓ {xxxx}	Enhancement req	1
Not available but can be developed	✗ (Development required)	Development req	0

Requirements			Rating	
			Causeway - Vixen	Capita - Open Contractor
Works Orders				
1	Provides the facility to allow jobs to be interfaced into the system against multiple contracts/Schedule of rates	✓ (Enhancement required to extend the range of the functional interface)	1	2
2	Job progression through user defined stages, which is also interfaced out into the Housing system	✓	2	2
3	Vary jobs and interface into housing system.	✓ (Enhancement to interface required)	1	2
4	Ability to use multiple Schedule of rates	✓	2	2

5	Ability to monitor job status whilst retaining confidentiality of schedules and job costing	✓	✓	2	2
6	Ability to produce job invoices which can be sent to external systems	✓ (Via TradeX eTrading solution)	✓	2	2
Job costing					
7	Provides breakdown by job	✓	✓	2	2
8	Provides breakdown by Operative	✓	✓	2	2
9	Provides breakdown by trade	✓	✓	2	2
10	Gives control of all revenues and expenditure on contracts and related jobs	✓	✓	2	2
11	Cost commitment and budget/forecasting facilities to monitor actual performance against expectations. Including:	✓	✓	2	2
11a	Profit and loss	✓	✓	2	2
11b	Estimated and actual expense	✓	✓	2	2
11c	Drill down to source transition	✓	✓	2	2
11d	Up-to-date information	✓ (Enhancement will be required to update Capita Academy)	✓	1	2
Interface with our Housing system					
12	Update job stages	✓ (Enhancement to the interface will be required)	✓	1	2
13	Job variations	✓	✓	2	2
14	Appointment information	✓	✓	2	2
15	Notes	✓	✓	2	2
16	Financial data	✓	✓	2	2

17	Keep Property and Tenancy data in sync with Capita Housing system	✗ (Development required)	✓	0	2
Interface with our finance system Microsoft Dynamics GP					
18	Provide data required to process invoices for payables (sub-contract & material) and receivables (to client)	✓ (Enhancement required)	✓ (Enhancement required)	1	1
Efficient use of operative time via a dynamic scheduling tool and PDAs					
19	Scheduling tool that interfaces with the housing system	✗ (Development required)	✓	0	2
20	Ability to send (i) all jobs to the PDA (ii) one job at a time	✓ (Depends on how the scheduler allocates job(s))	✓ (Depends on how the scheduler allocates job(s))	1	1
21	Operative should be able to vary a job via the PDA using SORs	✗ (Development required)	✓	0	2
22	Add notes against the job via the PDA.	✓	✓		
23	Manual and dynamic scheduling of appointments	✓ (Via Opti-time)	✓ (Via Opti-time)	2	2
Staff management					
24	Time sheets	✓	✓	2	2
25	Bonus - calculation of incentive payments	✓	✓	2	2
26	Interface to external payroll system	✓ (Enhancement required)	✓ (Enhancement required)	1	1
Stores & Purchasing, stock control					
27	Maintain an inventory of materials, located in warehouses/stores/vans:	✓	✓	2	2

27a	Stocked and non-stocked items	✓ (Van stock managed via E-Van module)	✓		2	2
27b	Stock history	✓	✓		2	2
27c	imprest stock	✗ (Development required)	✓		0	2
27d	Stock taking	✓	✓		2	2
27e	Stock replenishment	✓	✓		2	2
Purchase Order Processing						
28	Covers all stages from placing of an order with a supplier to delivery of goods and receipt of the suppliers invoice.	✓ (Operative can order stock via PDA. Orders can be sent electronically via Causeway Tradex eTrading solution)	✓		2	2
Reporting services						
29	Publish reports. Users should be able to run pre-defined reports with variable parameters where required	✓ (Via Vision reporting tool)	✓		2	2
30	Produce user defined reports	✓ (Via Vision reporting tool)	✓ (Via Bi-Query)		2	2
Text Service						
31	Ability to send text message at different stages of the process	✓	✓ (Via Opti-Time or other 3rd party tool)		2	1
Sub-contractors						
32	Ability to log jobs to sub-contractors	✓	✓		2	2
33	Sub-contractor web portal	✗ (Development required)	✓		0	2

Technical Requirements					
34	Main Database provides complete solution	<p style="text-align: center;">X</p> <p style="text-align: center;">(requires copy from C'isam to SQL)</p>	✓		
				0	2

Total: 65 80

Percentage: 77% 95%

Appendix 5 – ISP Constitution

Draft: 20 December 2012

The Companies Act 2006

A private company limited by shares

Articles of Association

of

[Repairs ISP]

Adopted by a Special Resolution of the Company on [date]



30 Finsbury Circus
London EC2M 7DT

T : [REDACTED]
F : [REDACTED]
W : www.devonshires.com

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The Companies Acts
A private company limited by shares
Articles of Association
of
[KENSINGTON & CHELSEA ISP]

PART 1

INTERPRETATION AND LIMITATION OF LIABILITY

1 Defined terms and Interpretations

1.1 In the Articles, unless the context requires otherwise:

Articles	means the Company's articles of association in force from time to time;
associate	has the meaning given to it by section 1159 of the Companies Act 2006;
bankruptcy	includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy;
Board	means the Board of directors of the Company;
director	means a member of the Board of the Company
chair	has the meaning given in Article 28;
Companies Acts	means the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the Company;
Company	means [TMO ISP Limited] a company limited by [shares] which is incorporated in England (Company number: XXXXXXXX) governed by the Articles from time to time;
Controlling Shareholder	means a registered holder for the time being of not less than [75]% in nominal value of the equity share capital of the Company from time to time;
director	means a director of the Company and, in these Articles, includes the directors and any person occupying the position of director, by whatever name called;
document	includes, unless otherwise specified, any document sent or supplied in electronic form;

electronic form	has the meaning given in section 1168 of the Companies Act 2006;
Objects	means the objects of the Company as set out in Article 3;
ordinary resolution	has the meaning given in section 282 of the Companies Act 2006;
officer	includes the chair and secretary of the Company and any director for the time being and such other persons as the Board may appoint as officers from time to time;
Parent	means The Royal Borough of Kensington & Chelsea Tenant Management Organisation Limited, a company limited by guarantee, incorporated in England (with company no.: 03048135), or its successor in title from time to time. The Parent shall, for the time being hold one share in this Company and shall be the only member of the Company;
participate	in relation to a Board meeting, has the meaning given in Article 26;
Company Secretary	means the officer appointed by the Board to be the secretary of the Company or any other person authorised by the Board to act as secretary's deputy;
shareholder	means a shareholder of the Company and in this context shall be a member as defined in section 112 of the Companies Act 2006;
special resolution	has the meaning given in section 283 of the Companies Act 2006;
subsidiary	has the meaning given in section 1159 of the Companies Act 2006; and
writing	means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise.

1.2 Unless the context otherwise requires, other words or expressions contained in these Articles bear the same meaning as in the Companies Act 2006 as in force on the date when these Articles become binding on the Company.

1.3 The relevant model articles (within the meaning of section 20 of the Companies Act 2006) are deemed to be fully excluded and replaced by the provisions of these Articles.

1.4 Except where the contrary is stated or the context otherwise requires, any reference in the Articles to a statute or statutory provision includes any order, regulation, instrument or other subordinate legislation made under it for the time being in force, and any reference to a statute, statutory provision, order, regulation, instrument or other subordinate legislation includes any amendment, extension, consolidation, re-enactment or replacement of it for the time being in force.

1.5 Words importing the singular number only include the plural and vice versa. Words importing the masculine gender include the feminine and neuter gender. Words importing persons include corporations.

2 Liability of shareholders

The liability of each shareholder is limited to the amount, if any, unpaid on the shares held by them.

3 Objects of the Company

The Objects of the Company shall be to:

3.1 maintain, improve, demolish or convert the housing stock owned and/or managed by the Parent from time to time, together with any other amenities or facilities for the benefit of residents of such housing stock, either exclusively or together with persons who are not residents of such housing stock;

3.2 provide amenities and services of any description for residents of housing stock owned and/or managed by the Parent from time to time either exclusively or together with persons who are not residents of such housing stock;

3.3 do such other things as the Parent may request, including the provision of housing-related or other services for third parties whether in the Royal Borough of Kensington & Chelsea or elsewhere.

4 Powers

4.1 Subject to obtaining such prior consents as the law or its Parent may require, the Company shall have the power to do anything that a natural or corporate person may lawfully do which is necessary or expedient in furtherance of its Objects unless prohibited in these Articles.

4.2 Without limiting the scope of Article 4.1, in furtherance of the Objects but not otherwise, the Company shall have power to:

4.2.1 enter contracts and arrangements of any nature with any party or body;

4.2.2 borrow money from any person for the Objects of the Company, subject to the prior consent of the Parent, such consent not to be unreasonably delayed or withheld;

4.2.3 To raise money from any person for the Objects of the Company;

4.2.4 charge or mortgage all or any part of the assets of the Company subject to the prior written consent of the Parent;

4.2.5 invest or apply any money held by the Company in such manner as the Company shall in its absolute discretion determine as though the Company was beneficially entitled to such funds and monies;

4.2.6 purchase, hire or otherwise acquire and hold, any property, maintain and alter such property and to sell, lease or otherwise dispose of or mortgage any such property;

- 4.2.7 appoint or employ staff, consultants, agents, contractors or others to perform any function of the Company;
 - 4.2.8 grant pensions to employees and to pay to funds or schemes, whether established by the Company or not, established for the provision of pension and retirement benefits in respect of employees of the Company and their spouses and children or other dependents;
 - 4.2.9 insure and arrange insurance cover for, and, to the extent allowed by law, to indemnify its directors, shareholders, members of any Committee set up by the Company employees and any other person acting on behalf of the Company, staff against any liability by them incurred by them in the course of the performance of their duties on behalf of the Company as the Company shall think fit provided that no such insurance or indemnity shall extend to any claim arising from fraud, wrongdoing or wilful neglect omission or default on the part of any person;
 - 4.2.10 establish subsidiary companies whether carried on for profit or not and to provide any such company with capital and to manage and provide services of any nature to such company;
 - 4.2.11 enter into joint venture agreements with any person or organisation;
 - 4.2.12 subscribe for or otherwise acquire shares in any company whether or not quoted on any recognised stock exchange;
 - 4.2.13 do all such other acts and things as are necessary or desirable to the attainment of any of the Objects of the Company or the exercise of any of its powers.
- 4.3 All of the Objects and powers set out in this Clause 4 shall be given the widest interpretation and none of such Objects shall be in any way limited or restricted by reference to or inference from any other Object or power set out and no Object or power shall be considered to be subsidiary to any other Object or power and each Object shall stand as an Object as though each clause contained the objects of a separate company.
- 4.4 The Company may do all or any of the things or matters aforesaid either as principals, agents contractors or otherwise and by or through agents, brokers, sub-contractors or otherwise and either alone or in conjunction with others;
- 4.5 The Company may do all such other things as in the opinion of the Company are or may be incidental or conducive to the attainment of the Objects or any of them.

PART 2
SHARES AND DISTRIBUTIONS
SHARES

5 Issue of New Shares

The directors shall not exercise any power of the Company to allow shares or other securities in, or to grant rights to subscribe for, or convert into, shares or other securities of, the Company without the prior written consent of a Controlling Shareholder (if any). Without limitation, the powers of the directors under section 550 of the Act are limited accordingly.

6 Powers to issue different classes of share

- 6.1 Subject to the Articles, but without prejudice to the rights attached to any existing share, the Company may issue shares with such rights or restrictions as may be determined by ordinary resolution.
- 6.2 The Company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the Company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

7 All shares to be fully paid up

- 7.1 No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the Company in consideration for its issue.
- 7.2 This does not apply to shares taken on the formation of the Company by the subscribers to the Company's memorandum.

8 Company not bound by less than absolute interests

Except as required by law, no person is to be recognised by the Company as holding any share upon any trust, and except as otherwise required by law or the Articles, the Company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.

9 Share certificates

- 9.1 The Company must issue each shareholder, free of charge, with one or more certificates in respect of the shares which that shareholder holds.
- 9.2 Every certificate must specify—
- 9.2.1 in respect of how many shares, of what class, it is issued;
 - 9.2.2 the nominal value of those shares;
 - 9.2.3 that the shares are fully paid; and
 - 9.2.4 any distinguishing numbers assigned to them.
- 9.3 No certificate may be issued in respect of shares of more than one class.

9.4 If more than one person holds a share, only one certificate may be issued in respect of it.

9.5 Certificates must—

9.5.1 have affixed to them the Company's common seal, or

9.5.2 be otherwise executed in accordance with the Companies Acts.

10 Replacement share certificates

10.1 If a certificate issued in respect of a shareholder's shares is—

10.1.1 damaged or defaced, or

10.1.2 said to be lost, stolen or destroyed,

that shareholder is entitled to be issued with a replacement certificate in respect of the same shares.

10.2 A shareholder exercising the right to be issued with such a replacement certificate—

10.2.1 may at the same time exercise the right to be issued with a single certificate or separate

10.2.2 certificates;

10.2.3 must return the certificate which is to be replaced to the company if it is damaged or

10.2.4 defaced; and

10.2.5 must comply with such conditions as to evidence, indemnity and the payment of a

10.2.6 reasonable fee as the directors decide.

11 Share transfers

11.1 Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by the directors, which is executed by or on behalf of the transferor.

11.2 No fee may be charged for registering any instrument of transfer or other document relating to or affecting the title to any share.

11.3 The company may retain any instrument of transfer which is registered.

11.4 The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.

11.5 The directors may refuse to register the transfer of a share, and if they do so, the instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

DIVIDENDS AND OTHER DISTRIBUTIONS

12 Procedure for declaring dividends

- 12.1 The Company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends.
- 12.2 A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.
- 12.3 No dividend may be declared or paid unless it is in accordance with members' respective rights.
- 12.4 Unless the shareholders' resolution to declare or directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.
- 12.5 If the Company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.
- 12.6 The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.
- 12.7 If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

13 Calculation of dividends

- 13.1 Except as otherwise provided by the articles or the rights attached to shares, all dividends must be:
 - 13.1.1 declared and paid according to the amounts paid up on the shares on which the dividend is paid; and
 - 13.1.2 apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.
- 13.2 If any share is issued on terms providing that it ranks for dividend as from a particular date, that share ranks for dividend accordingly.
- 13.3 For the purposes of calculating dividends, no account is to be taken of any amount which has been paid up on a share in advance of the due date for payment of that amount.

14 Payment of dividends and other distributions

- 14.1 Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:
 - 14.1.1 transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;
 - 14.1.2 sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the

distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide;

- 14.1.3 sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or
 - 14.1.4 any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.
- 14.2 Dividends may be declared or paid in any currency and the directors may agree with any distribution recipient that dividends which may at any time or from time to time be declared or become due on his shares in one currency shall be paid or satisfied in another, and may agree the basis of conversion to be applied and how and when the amount to be paid in the other currency shall be calculated and paid and for the Company or any other person to bear the costs involved.
- 14.3 In the Articles, “the distribution recipient” means, in respect of a share in respect of which a dividend or other sum is payable:
- 14.3.1 the holder of the share; or
 - 14.3.2 if the share has two or more joint holders, whichever of them is named first in the register of members; or
 - 14.3.3 if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transferee.
- 15 **No interest on distributions**
- 15.1 The Company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:
- 15.1.1 the terms on which the share was issued, or
 - 15.1.2 the provisions of another agreement between the holder of that share and the Company.
- 16 **Non-cash distributions**
- 16.1 Subject to the terms of issue of the share in question, the Company may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, shares or other securities in any company).
- 16.2 For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:
- 16.2.1 fixing the value of any assets;
 - 16.2.2 paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and
 - 16.2.3 vesting any assets in trustees.

17 Waiver of distributions

Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a share by giving the Company notice in writing to that effect.

CAPITALISATION OF PROFITS

18 Authority to capitalise and appropriation of capitalised sums

18.1 Subject to the articles, the directors may, if they are so authorised by an ordinary resolution:

18.1.1 decide to capitalise any profits of the Company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of the Company's share premium account or capital redemption reserve; and

18.1.2 appropriate any sum which they so decide to capitalise (a "capitalised sum") to the persons who would have been entitled to it if it were distributed by way of dividend (the "persons entitled") and in the same proportions.

18.2 Capitalised sums must be applied:

18.2.1 on behalf of the persons entitled, and

18.2.2 in the same proportions as a dividend would have been distributed to them.

18.3 Any capitalised sum may be applied in paying up new shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.

18.4 A capitalised sum which was appropriated from profits available for distribution may be applied:

18.4.1 in or towards paying up any amounts unpaid on existing shares held by the persons entitled; or

18.4.2 in paying up new debentures of the Company which are then allotted credited as fully paid to the persons entitled or as they may direct.

18.5 Subject to the Articles the directors may:

18.5.1 apply capitalised sums partly in one way and partly in another:

18.5.2 make such arrangements as they think fit to deal with shares or debentures becoming distributable in fractions under this article (including the issuing of fractional certificates or the making of cash payments); and

18.5.3 authorise any person to enter into an agreement with the Company on behalf of all the persons entitled which is binding on them in respect of the allotment of shares and debentures to them under this Article.

PART 3
DIRECTORS
BOARD MEMBERS

19 Directors' general authority

19.1 Subject to the Articles, the directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the Company. They shall direct the affairs of the Company in accordance with its Objects and Articles and ensure that the Board's functions are properly performed.

19.2 The Board may (with the prior approval of the Parent and in accordance with any group policies and regulations) make any suitable arrangements for the management of the Company's affairs and adopt standing orders and pass bye laws as may be necessary to enable it to carry out the business of managing the Company.

20 Composition of the Board, Appointments and Removals

20.1 Director's appointments must either be made by the Parent or receive the approval in writing of the Parent before they can take effect.

20.2 The Board shall consist of a minimum of three and not more than five directors.

20.3 The Parent shall have the right (acting in its absolute discretion) to appoint and/or remove and/or replace any or all directors of the Company from time to time by notice in writing to the Company.

20.4 No individual may act as a director until they have signed and delivered to the Board such documents as the Board may from time to time require.

21 Termination of director's appointment

21.1 A person ceases to be a director if:

21.1.1 they cease to be a director by virtue of any provision of the Companies Act 2006 or are prohibited from being a director by law;

21.1.2 a bankruptcy order is made against that person;

21.1.3 a composition is made with that person's creditors generally in satisfaction of that person's debts;

21.1.4 they have been convicted of an indictable offence which is not, or cannot be, spent or they have been convicted of any other offence at any time which in the opinion of the Board brings the Company into disrepute or which is considered by the Board to be incompatible with the role of director or Committee member and the Board resolves (by a two-thirds majority) that they should be removed;

21.1.5 being a non-executive director, their performance contract, agreement for services or similar agreement with the Company is terminated;

- 21.1.6 a registered medical practitioner who is treating that person gives a written opinion to the Company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;
 - 21.1.7 by reason of their mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have; or
 - 21.1.8 notification is received by the Company from the director that the director is resigning from office, and such resignation takes effect in accordance with its terms; or
 - 21.1.9 the Parent removes that director, by serving notice in writing to the Company,
- 21.2 and any person and any director who at any time falls into one of the categories listed above, shall immediately cease to be a director.
- 22 Directors may delegate**
- 22.1 Subject to the Articles, the directors may delegate any of the powers which are conferred on them under the Articles to the Parent; or to such person or Committee, by such means (including by power of attorney) and to such an extent as they (with the prior consent of the Parent) think fit.
 - 22.2 If the Board so specifies, any such delegation may authorise further delegation of the Board's powers by any person to whom they are delegated.
 - 22.3 The Board may (with the prior consent of the Parent) revoke any delegation in whole or part, or alter its terms and conditions.

DECISION-MAKING BY THE BOARD

23 Board to take decisions collectively

The general rule about decision-making by the Board is that any decision of the Board must be either a majority decision of its members at a meeting or a decision taken in accordance with Article 24.

24 Resolutions in writing

A resolution sent to all directors or all members of a Committee and signed, or confirmed electronically by at least three of the directors [or three-quarters of the members of a Committee] shall be as valid and effective as if it had been passed at a properly called and constituted meeting of the Board or Committee and may consist of documents in the same form and signed or confirmed electronically by one or more persons.

25 Calling a Board meeting

- 25.1 Any director may call a Board meeting by giving notice of the meeting to all the Board in accordance with any policies, bye-laws or regulations set by the Board or by authorising the Company secretary to give such notice, subject to Article 25.4.
- 25.2 Notice of any Board meeting must indicate:

- 25.2.1 its proposed date and time;
 - 25.2.2 where it is to take place; and
 - 25.2.3 if it is anticipated that the Board participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.
- 25.3 Notice of a Board meeting must be given to each director, but need not be in writing.
- 25.4 Notice of a Board meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the Company not more than 7 days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.
- 25.5 The Board shall meet at least four times every calendar year.
- 26 Participation in Board meetings
- 26.1 Subject to the Articles, directors participate in a Board meeting, or part of a Board meeting, when—
- 26.1.1 the meeting has been called and takes place in accordance with the Articles, and
 - 26.1.2 they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.
- 26.2 In determining whether Board are participating in a Board meeting, it is irrelevant where any director is or how they communicate with each other.
- 26.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.
- 27 Quorum for Board meetings
- 27.1 At a Board meeting, unless a quorum is participating, no proposal is to be voted on, except a proposal to call another meeting. The Board may (with the approval of the Parent) make rules and bye-laws relating to quorum requirements for Board meetings from time to time.
- 27.2 If a quorum is not present within half an hour from the time appointed for a Board meeting then the meeting shall proceed to business PROVIDED THAT any decision taken at such meeting shall not be valid and binding unless and until ratified by a subsequent Board Meeting at which a quorum is present or by a duly authorised committee of the Board or by a written resolution of the Board.
- 27.3 If the number of directors falls below the number necessary for a quorum the remaining directors may continue to act as the Board for a maximum period of six months. At the end of that time the only power that the Board may exercise shall be to call a general meeting of the Company to bring the number of directors up to that required by these Articles.
- 28 Chairing of directors' meetings
- 28.1 The Board may appoint one of their number to chair their meetings.

28.2 The person so appointed for the time being is known as the chair. The Board may also appoint one of their members as a deputy chair who shall, in the chair's absence, chair any Board meetings.

28.3 The Board may terminate the chair's appointment at any time.

28.4 If the chair is not able to participate in a Board meeting within ten minutes of the time at which it was to start, the participating directors must appoint one of themselves to chair it.

29 Casting vote

If the numbers of votes for and against a proposal are equal, the chair or any other director chairing the meeting shall have a casting vote.

30 Conflicts of interest

30.1 No director, member of a committee or officer shall have any financial interest in any contract or other transaction with the Company or the Parent, or be granted a benefit by the Company if such interest or benefit would be in breach of or inconsistent with these rules or any determination, specification, guidance, standards or code of practice of the regulator, or any code of conduct and/or governance adopted by the Board or any legal requirement of applicable to the Company from time to time.

30.2 Any director or member of a committee having an interest in any arrangement between the Company and someone else shall disclose their interest, before the matter is discussed by the Board or any committee. Unless it is expressly permitted by these Articles they shall not remain present at any such discussion unless requested to do so by the Board or committee, and they shall not have any vote on the matter in question. Any decision of the Board or of a committee shall not be invalid because of the subsequent discovery of an interest which should have been declared.

30.3 Every director and member of a committee shall ensure that the Company Secretary at all times has a list of:-

30.3.1 all other bodies in which they have an interest as:

- (a) a director, member of the board or committee of management or officer;
- (b) a member of a firm;
- (c) an official or elected member of any statutory body;
- (d) the owner or controller of more than two per cent of the shares of a company the shares in which are publicly quoted or more than ten per cent of any other company;

30.3.2 any other significant or material interests

which in each case would or could affect any arrangement with the Company.

30.4 If a proposed decision of the directors is concerned with an actual or proposed transaction or arrangement with a company in which a director is interested, that director is not to be counted as participating in the decision-making process for quorum or voting purposes.

- 30.5 But if Article 30.6 applies, a director who is interested in an actual or proposed transaction or arrangement with the Company is to be counted as participating in the decision-making process for quorum and voting purposes.
- 30.6 This Article applies when:
- 30.6.1 the Company by ordinary resolution disapplies the provision of the Articles which would otherwise prevent a director from being counted as participating in the decision-making process;
- 30.6.2 the director's interest cannot reasonably be regarded as likely to give rise to a conflict of interest; or
- 30.6.3 the director's conflict of interest arises from a permitted cause.
- 30.7 For the purposes of this Article 30, the following are permitted causes:
- 30.7.1 a guarantee given, or to be given, by or to a director in respect of an obligation incurred by or on behalf of the Company or any of its subsidiaries;
- 30.7.2 subscription, or an agreement to subscribe, for securities of the Company or any of its subsidiaries, or to underwrite, sub-underwrite, or guarantee subscription for any such securities;
- 30.7.3 arrangements pursuant to which benefits are made available to employees and directors or former employees and directors of the Company or the Parent or any of its subsidiaries which do not provide special benefits for directors or former directors;
- 30.7.4 membership of the Board or a Committee or being a director or officer of the Parent,
- provide always that the director in question has made a prompt and prior disclosure of the nature and extent of their interest to the Board.
- 30.8 For the purposes of this Article, references to proposed decisions and decision-making processes include any Board meeting or part of a Board meeting.
- 30.9 Subject to Article 30.10, if a question arises at a meeting of the Board or of a Committee of the Company as to the right of a particular director to participate in the meeting (or part of the meeting) for voting or quorum purposes, the question may, before the conclusion of the meeting, be referred to the chair whose ruling in relation to any director other than the chair is to be final and conclusive.
- 30.10 If any question as to the right to participate in the meeting (or part of the meeting) should arise in respect of the chair, the question is to be decided by a decision of the directors at that meeting, for which purpose the chair is not to be counted as participating in the meeting (or that part of the meeting) for voting or quorum purposes.
- 30.11 Any decision of the Board or of a Committee shall not be invalid because of the subsequent discovery of an interest which should have been declared.

31 Records of decisions to be kept

The directors must ensure that the Company keeps a record, in writing, for at least 10 years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.

32 Board members' discretion to make further rules

Subject to the Articles, and with the prior consent of the Parent, the Board may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

33 Alternate Directors

No director may appoint an alternate director or directors.

PART 4

ADMINISTRATIVE ARRANGEMENTS

34 Means of communication to be used

- 34.1 Subject to the Articles, anything sent or supplied by or to the Company under the Articles may be sent or supplied in any way in which the Companies Act 2006 provides for documents or information which are authorised or required by any provision of that Act to be sent or supplied by or to the Company.
- 34.2 Subject to the Articles, any notice or document to be sent or supplied to a director in connection with the taking of decisions by directors may also be sent or supplied by the means by which that director has asked to be sent or supplied with such notices or documents for the time being.
- 34.3 A director may agree with the Company that notices or documents sent to that director in a particular way are to be deemed to have been received within a specified time of their being sent, and for the specified time to be less than 48 hours.

35 Company seals

- 35.1 The secretary shall keep the seal. It shall not be used except under the Board's authority. It must be affixed by one director signing and the secretary countersigning or in such other way as the Board resolves.
- 35.2 The Board may decide by what means and in what form any common seal is to be used.
- 35.3 Unless otherwise decided by the Board, if the Company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.
- 35.4 For the purposes of this Article, an authorised person is—
- 35.4.1 any director or director of the Company;
 - 35.4.2 the Company secretary; or
 - 35.4.3 any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

36 Right to Inspect Accounts and Other Records

Except as provided by law or authorised by the directors or an ordinary resolution of the Company, no person is entitled to inspect any of the Company's accounting or other records or documents merely by virtue of being a member.

37 Provision for employees on cessation of business

The directors may decide to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries (other than a director or former director or

shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that subsidiary.

INDEMNITY AND INSURANCE

38 Indemnity

38.1 Subject to Article 38.2, a relevant director of the Company or an associated company may be indemnified out of the Company's assets against—

38.1.1 any liability incurred by that director in connection with any negligence, default, breach of duty or breach of trust in relation to the Company or an associated company,

38.1.2 any liability incurred by that director in connection with the activities of the Company or an associated company in its capacity as a trustee of an occupational pension scheme (as defined in section 235(6) of the Companies Act 2006),

38.1.3 any other liability incurred by that director as an officer of the Company or an associated company.

38.2 This Article does not authorise any indemnity which would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law.

38.3 In this Article:

38.3.1 companies are associated if one is a subsidiary of the other or both are subsidiaries of the same body corporate, and

38.3.2 a "relevant director" means any director or former director (including any director or former director) of the Company or an associated company.

39 Insurance

39.1 The directors may decide to purchase and maintain insurance, at the expense of the Company, for the benefit of any relevant director in respect of any relevant loss.

39.2 In this Article:

39.2.1 a "relevant director" means any director or former director (including any director or former director) of the Company or an associated company,

39.2.2 a "relevant loss" means any loss or liability which has been or may be incurred by a relevant director in connection with that director's duties or powers in relation to the Company, any associated company or any pension fund or employees' share scheme of the Company or associated company, and

39.2.3 companies are associated if one is a subsidiary of the other or both are subsidiaries of the same body corporate.

40 Amendment of Articles of Association

The Articles of Association may be amended by the Company in accordance with the requirements of the Companies Act 2006.

41 Single Member Company

For as long as the Parent is the only member of this Company, decisions of the Company will be recorded in accordance with section 357 of the Companies Act 2006.

Appendix 6 – Covenants

1 COVENANTS

1.1 Positive covenants

[Subsidiary] covenants with the Parent that it will:

- 1.1.1 comply with all best practice recommendations as are applicable to the services it provides and all financial matters and comply with all advice of any competent authority;
- 1.1.2 adopt, implement and comply with strategic objectives and policies (including without limitation policies for the maintenance of housing stock) within and consistent with a framework set by the Parent;
- 1.1.3 obtain the approval of the Parent as to the form of its own strategic objectives and policies before adopting them;
- 1.1.4 adopt, implement and comply with standing orders, procedures and terms of reference which are set by the Parent from time to time;
- 1.1.5 make such amendments to its strategic objectives, policies, standing orders, procedures and terms of reference as the Parent may require from time to time and not make any amendments to those documents without the consent of the Parent;
- 1.1.6 enter into any agreement or arrangement which the Parent determines is necessary or expedient to give effect to and implement [Subsidiary]'s strategic objectives, policies and Business Plan, in each case in a form provided or approved by the Parent, unless [Subsidiary] (acting reasonably) has obtained independent advice to the effect that the agreement or arrangement cannot lawfully be entered into or implemented;
- 1.1.7 appoint auditors approved by the Parent;
- 1.1.8 comply with all laws, regulations and regulatory standards and expectations applicable to it;
- 1.1.9 comply with all agreements, covenants, restrictions, deeds and documents to which it is party or which bind it or any of its assets;
- 1.1.10 use its reasonable endeavours to achieve any objectives set out in the Business Plan;

1.2 Negative Covenants

[Subsidiary] covenants with the Parent that it will not, in each case unless (a) the Parent has given its specific consent or (b) the relevant matter is included in or specifically anticipated by the latest Business Plan of [Subsidiary] which has been approved by the Parent:

- 1.2.1 acquire or form any subsidiary, associate, affiliate or related company or appoint or remove any member of the governing body of any such body or enter into any merger, amalgamation or consolidation or joint venture or partnership;
- 1.2.2 cease or threaten to cease to carry on all or a material part of its business or make any substantial change in the scope or nature of its business or operations or any material disposal of its assets or any gift or donation exceeding £[] in any year;
- 1.2.3 enter into any loan or any transaction having the commercial effect of a borrowing (whether as lender or borrower) or any derivative or contract for differences or investment;
- 1.2.4 enter into any transaction (including any agreement) which is outside the ordinary course of [Subsidiary]'s business under which the amount payable or receivable (when aggregated with the amount payable or receivable under other related transactions) exceeds £[];
- 1.2.5 consider at its Board any report which has not been approved by a duly authorised representative of the Parent;

- 1.2.6 change [Subsidiary]'s accounting reference date, registered office, auditors, secretary or bankers;
- 1.2.7 enter into any contract with a third party for the provisions of services by the Subsidiary;
- 1.2.8 appoint any employees or consultants;
- 1.2.9 enter into any development agency agreement or building contract or other documents relating to developments, refurbishment, repair management or maintenance;
- 1.2.10 delegate any of its powers or functions to any committee or officer otherwise than in accordance with the standing orders and/or terms of reference previously approved by the Parent; or
- 1.2.11 take any action which could bring it into disrepute.

2 BUSINESS PLANNING

- 2.1 In each calendar year, the Parent shall prepare a revised draft Business Plan in consultation with [Subsidiary] and will consider any reasonable revisions requested by [Subsidiary]. Promptly after the Business Plan has been prepared, [Subsidiary] will arrange for its Board to approve it (such approval not to be unreasonably withheld) and adopt it. Each draft Business Plan will be accompanied by a commentary on any significant variations from the last approved Business Plan.
- 2.2 Any Business Plan must demonstrate that, amongst other things, [Subsidiary] can meet all of its obligations to the Parent and its other contractual commitments from its own resources and must comply with all relevant legislation and regulations.
- 2.3 Until a new Business Plan is adopted by [Subsidiary], [Subsidiary] shall continue to comply with the latest Business Plan approved by the Parent.
- 2.4 [Subsidiary] shall implement its Business Plan and shall not take any action not anticipated or incorporated in the Business Plan without the prior consent of the Parent.