

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

Agenda

Meeting of the Board of Directors ("Board") of the Company
to be held on 4 January 2016 at 6:30pm
at Board Room, 346 Kensington High Street, London W14 8NS

Agenda Item	Report Name	Presenter	Action	Enclosure
	PART A -- OPEN			
1.	Notice, Apologies and Quorum	Chair	-	-
2.	Declarations of Interest*	Chair	-	-
3.	Minutes of the meeting held on 26 November 2015	Chair	Decision	√
4.	Matters Arising	Chair	Discussion	√
	PART B - CONFIDENTIAL			
5.	Minutes of Confidential Meeting held on 10 September 2015	Chair	Decision	√
6.	Matters Arising	Chair	Discussion	√
7.	Group Budget 2016/17	Assistant Director of Financial Services	Decision	√
8.	HRA Budget 2016/17	Assistant Director of Financial Services	Decision	√
9.	Chief Executive's Report	Chief Executive	Decision	√
10.	Committees' Update	Company Secretary	Note	√
11.	Subsidiary Update	Company Secretary	Note	√
12.	AOB	Chair	-	-
13.	Date of the next meeting – 31 March 2016	-	-	-

Notes:

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

PART A- OPEN

Item 3

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

Minutes of a meeting of the Board of Directors ('**Board**') of the Company held
on 26 November 2015 at 6.30 pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

Resident Board Members	Fay Edwards	- Chair
	Tony Annis	
	Anne Duru	
	Brendan Tracey	
	Kush Kanodia	

Council-Nominated Board Members	Paula Fance
	Jeff Zitron

Independent Board Members	Peter Chapman
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APOLOGIES:	Cllr Maighread Condon-Simmonds
	Deborah Price
	Maria Escudero-Barbaza
	Mary Benjamin

IN ATTENDANCE:	Robert Black	Chief Executive
	Yvonne Birch	Executive Director of People & Performance
	Barbara Matthews	Executive Director of Financial Services & ICT
	Sacha Jevans	Executive Director of Operations
	Rupa Bhola	Assistant Director, Financial Services
	Fola Kafidiya-Oke	Head of Governance & Company Secretary
	Janet Seward	Policy & Improvement Manager
	John Parrott	Interim Project Communications Officer
	Gill Petford	Executive Manager
	Daniel Asamoah	Minutes

1. NOTICE, APOLOGIES AND QUORUM

- 1.1 The Board noted that the notice of the meeting had been duly issued to the members of the Board entitled to receive notice and attend Board meetings.
- 1.2 The Board also noted that apologies have been received from Cllr. Maighread Condon-Simmonds, Cllr. Judith Blakeman, Deborah Price, Mary Benjamin, Maria Escudero-Barbaza, Anthony Preiskel, and Simon Brissenden.
- 1.3 The meeting was quorate according to the provisions of the Articles of Association of the Company.

2. DECLARATION OF INTEREST

- 2.1 There were no interests declared for the items being considered.

3. MINUTES OF PREVIOUS MEETING

- 3.1 The Board **RESOLVED TO** approve the minutes of the confidential meeting held on 10 September 2015 as a correct and accurate record of the meeting.

4. MATTERS ARISING

4.1 Analysis of Board Member Election Voting

The Board noted that a report on the analysis of board member election was on the agenda for the meeting and had been included in the meeting pack.

5. RBKC MID-YEAR REVIEW REPORT

- 5.1 Robert Black presented the report outlining the outcome of the mid-year review undertaken by RBKC for the 2015/16 financial year. He highlighted that the report had been presented to RBKC's Scrutiny Committee and had been approved for issue.
- 5.2 The Board **AGREED TO** note the contents of the report.

6. PARKING REVIEW UPDATE

- 6.1 John Parrott presented an update of the Parking Review project being undertaken by the Company. He highlighted that RBKC's Traffic Management Order was now in force.
- 6.2 The Board noted that some estates had been excluded from the review for a variety of reasons. The excluded estates would not be monitored for parking offences, and there will be no enforcement when the new parking policy commence. Wandon Road was currently excluded because the estate fell within the boundary of the London Borough of Hammersmith & Fulham and it was dependent on the local authority issuing their Traffic Management Order to cover the estate's parking enforcement.

6.3 John Parrot explained that with the exception of Wandon Road, all of the excluded estates could be included in the Traffic Management Order in the future upon the request by the residents. The physical works, which include putting up signage and road painting, was set to commence on 30 November 2015 for three weeks. Residents had been notified via notice boards, and letters will be sent out to all permit holders affected. Also, an article was being published in the *Link* magazine. It was intended to extend the go live date of the new parking arrangements to the mid-January 2016.

6.4 Kush Kanodia commented the new policy and its go-live date, in particular, should be communicated. Tony Annis suggested that the ARB meeting scheduled for December 2015 should be used as a forum to communicate the go-live date for the new arrangements, to residents.

6.5 The Chair commended Yvonne Birch and John Parrott for their efforts on implementing the project.

6.6 The Board **AGREED TO** note the contents of the report.

7. PERFORMANCE REPORT – Q2 2015

7.1 Yvonne Birch presented the performance report for the period to September 2015. The update highlighted that:

- the void turnaround performance times had improved.
- the call centre performance had improved.
- there had been a dip in non-emergency repairs due to an issue with the trades in the period.
- gas safety compliance was low during the month however it had improved to 100% in October.
- there had been an increase in ASB cases reported and the reasons were highlighted in the report.
- there had been an increase in complaints however this was due to the re-categorisation of the existing complaints following the introduction of the new complaints policy which reviewed the definition of complaint.
- the number of membership sign-ups was excellent for the period when compared to the same period in the previous financial year.
- Rent collection was below the target as a result of the ongoing issues with the Agresso financial system.

7.2 Paula Fance questioned the performance figures for the capital programme as there was no data in the report to provide assurance to the Board about its completion. Yvonne Birch explained that there have been delays in rolling out the works contracts because of the LVT case earlier in the year.

7.3 Kush Kanodia queried why the percentage target for answering calls within 30 seconds was low at 62%. Sacha Jevans explained that performance had improved in October and she was really pleased about this because the team was more stable with the recruitment of permanent staff, and sickness had reduced with low turnover. Sacha Jevans further stated that the in-house trainer had made a real difference to the quality of calls because

new employees were required to spend two weeks on training before proceeding to take calls. The CRM system would improve the contact centre once launched because the team would have information at hand to help residents. Robert Black also commented that the focus had been on improving the quality of calls and the balance was quantity versus length of call.

- 7.4 It was agreed to spend an hour before the next meeting of the Operations Committee to consider CRM and the customer contact centre. It was agreed that Olivia Hutchison would be invited to the meeting.
- 7.5 The Board **RESOLVED** to note the contents of the report.

Item 4

MATTERS ARISING

NO.	MEETING DATE	MINUTE NUMBER	ACTION	BY WHOM	BY WHEN	UPDATE
1.	26/11/15	7.2	Provide further information on the impact of the future Housing sector changes, on the capital programme	Executive Team	TBC	
2.	26/11/15	7.3	Present to the Operations Committee on CRM and the Contact Centre	Yvonne Birch	January 2016	

Item 5

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

Minutes of a Confidential meeting of the Board of Directors ('Board') of the
Company held on the 26 November 2015 at 6.30 pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

Resident Board Members	Fay Edwards	- Chair
	Tony Annis	
	Anne Duru	
	Brendan Tracey	- Left at 7.50pm
	Kush Kanodia	
Council-Appointed Board Members	Paula Fance	
	Jeff Zitron	
Independent Board Members	Peter Chapman	

APOLOGIES:

Mary Benjamin
Cllr. Maighread Condon-Simmonds
Anthony Preiskel
Deborah Price
Cllr. Judith Blakeman
Simon Brissenden
Maria Escudero-Barbaza

IN ATTENDANCE:

Robert Black	Chief Executive
Yvonne Birch	Executive Director of People & Performance
Barbara Matthews	Executive Director of Financial Services & ICT
Sacha Jevans	Executive Director of Operations
Rupa Bhola	Assistant Director, Financial Services
Fola Kafidiya-Oke	Head of Governance & Company Secretary
Janet Seward	Policy & Improvement Manager
Gill Petford	Executive Manager
Daniel Asamoah	Minutes

8. MINUTES OF THE CONFIDENTIAL MEETING HELD ON 10 SEPTEMBER 2015

- 8.1 The Board **RESOLVED TO** approve the minutes of the confidential meeting held on 10 September 2015 as a correct and accurate record of the meeting.

9. MATTERS ARISING

9.1 Measurable outcomes for CRM Project

Barbara Matthews informed the Board that a report had been presented at the Finance, Audit and Risk Committee on 15 October 2015. Draft objectives were being considered and would be presented to the committee at a future meeting.

9.2 Procurement of Cleaning Contract

Sasha Jevans informed the Board that following the decision of the Board to proceed to re-procure the cleaning contract for a term of 4+2, the Company had been advised to consider procuring on a 5+5 term to achieve the best value in the procurement exercise. The Board was also informed that RBKC had agreed to procure the new cleaning contract on the basis of a London Living Wage requirement for tenderers. As a result, the Company was proceeding to procure on a 5+5 year term and on the basis of a London Living Wage requirement.

10. CHIEF EXECUTIVE'S REPORT

- 10.1 Robert Black presented his update report to the Board. He drew the attention of the Board to the report which included a round-up of the activities of the Chair in the last quarter.
- 10.2 Robert Black gave the Board an update on the Adair Fire incident. He stated that the Police had confirmed that the fire was being investigated as a case of arson. The Police Tasking force had agreed to patrol and pay attention to the building and any adjacent properties to prevent a recurrence. In the meantime, the rebuilding work had commenced and the Company was waiting for the outcome of the fire brigade investigation. The Company was also looking at its joint working with the RBKC Emergency Services Team.
- 10.3 Peter Chapman expressed on behalf of the Board an appreciation for the employees of the Company who pitched in to help with the incident and reaching a resolution for the residents.
- 10.4 Barbara Matthews highlighted that RBKC had escalated the issues to the Head of BT Global because it was considered to be a significantly serious issue at the current time. She also informed the meeting that RBKC had agreed to fund some additional rent income team and finance team support dedicated to handling the workload arising from the continuing Agresso issues. The Board was assured that the Company was not entirely reliant on the Agresso system for the management of its financial obligations hence the direct impact on the Company's financial operations was minimal.
- 10.5 The Board **AGREED TO** note the contents of the report

11. BUDGET MONITORING REPORT

11.1 Rupa Bhola presented an update on the financial position of the Company, its subsidiary, and the HRA managed budgets, for the period to October 2015.

11.2 The Board noted that:

The Company

- there was a projected surplus of £85k in comparison to the forecast budget of £16k.
- the current forecast for the year shows £37k, £1k above the original budget surplus at the start of the year.
- the total income was £72k better than the forecast due to an additional fee agreed with RBKC to cover the cost of the two Neighbourhood Support Officers and an additional CAS Supporting People income.
- the total staff cost was £167k over forecast, mainly due to recruitment of senior posts and a drive to recruit the full establishment of customer service staff.
- Other costs were £124k below budget due to depreciation, accommodation costs arising from the impact of the extended rent free period on the offices, and legal costs.

The Subsidiary

- projected income was £150k ahead of the budget.
- RD has a surplus of £94k at the end of October 2015 which is in line with budget.
- actual staff costs was £23k below budget due to the interim management costs.

HRA

- A cost of £1.257k was to be deferred to the 2016/17 financial year.
- The debt levels were rocketing predominantly due to the Agresso issues.

11.3 The Board **AGREED TO** note the contents of the report

12. CORPORATE RISK MAP 2015-2016

12.1 Janet Seward presented the revised Corporate Risk Map 2015-2016 to the Board. She informed the Board that the risk map had been reviewed by Senior Management and Executive Management Teams and had been considered by the Finance, Audit and Risk Committee who recommended its adoption by the Board.

12.2 The Board noted that the Committee had requested a review of the risk matrix in the register and the Internal Auditor had confirmed that the processes used to populate the risk register adequately reflected the Company's risks and risk appetite. The risk map now consisted of eight risks.

12.3 Brendan Tracey raised a concern on the consideration behind the probability allocated to some of the risks entered on the risk map. Peter Chapman further expressed a concern with the probability and outcome for the risk relating to the capital programme.

12.4 The Board agreed to hold a session with a facilitator from Zurich to assess the risk map, the probabilities, and the residual risks. Janet Seward was mandated to arrange the session with Zurich in the first quarter of 2016.

12.5 The Board **RESOLVED TO** adopt the proposed Corporate Risk Map of the Company recommended by the Finance, Audit and Risk Committee which would be further reviewed in 2016.

13. BUSINESS PLAN 2014-2017 – DELIVERY PLAN

13.1 Janet Seward presented the delivery plans for the strategies arising from the Business plan of the Company. The Board were reminded that the five strategies were:

- Customer strategy;
- People strategy;
- Community investment strategy;
- Growth strategy; and
- Value for money strategy

13.2 Jeff Zitron suggested that the Company consider less rigid or softer indicators other than the structured key performance indicators, to measure the satisfaction of employees and residents with the outcomes of the five strategies. Yvonne Birch agreed to consider some measures of the impact of strategies and report back to the Board.

13.3 The Board **AGREED TO** note the contents of the report.

14. KENSINGTON & CHELSEA TMO REPAIRS DIRECT – CHARGING MODEL

14.1 Barbara Matthews presented a report setting out the proposal to amend the Charging Model for the works undertaken under the Measured Term contract between the Company and its subsidiary, Kensington and Chelsea TMO Repairs Direct Limited (Repairs Direct). The Board was informed that it was proposed to amend the charging model because the Schedule of Rates which was currently being used was not suitable for a contractor that had a sole client i.e. Repairs Direct only had one customer, the Company.

14.2 The report highlighted the basis for the choice of the proposed model amongst the options available. Barbara Mathews assured the Board that the proposed model had been considered by RBKC and agreed to be used as the basis for payment of invoices issued. The proposed model's overriding advantages were the saving in time and administrative cost of processing the invoices currently issued, and the ability for Repairs Direct to work efficiently and improve the quality of service provided.

14.3 Peter Chapman questioned whether the sub-contracting for materials and services was market-tested. Barbara Matthews responded that the sub-contracting materials were currently being market-tested. Jeff Zitron questioned whether there had been any precedent for the use of the proposed model by Direct Labour Organisations (DLOs) who contracted for the provision of repair services. He reminded the Company that the proposed model could knock down a few of the pillars for the rationale of having a commercial subsidiary that delivered services efficiently and effectively.

- 14.4 The Board was concerned that the use of the proposed model and questioned what model was intended to be used when Repairs Direct expanded to other contracted customers. Peter Chapman questioned why there was no information provided on the impact of the current cost model on the business of Repairs Direct and a projected effect of the proposed model on the business of Repairs Direct. His concern was that that the proposal was not commercially-driven and suggested that it might be better to propose a set of indicators to be monitored by the Board on the use of the proposed model.
- 14.5 Barbara Matthews reiterated that the proposed model was aimed at satisfying both RBKC and the Company's aim of improving the quality of the repairs service and providing value for money. The Board requested a report on the measurement of the commerciality of the proposed cost model particularly in comparison to a comparable organisation.
- 14.6 The Board **RESOLVED TO:**
- i. agree and approve a new charging model in respect of the cost for works undertaken by Repairs Direct under the Measured Term Contract dated 14 January 2014 entered into by and between KCTMO and Repairs Direct;
 - ii. agree and approve an amendment of the Measured Term Contract dated 14 January 2014 entered into by and between Repairs Direct and KCTMO to incorporate the new charging model with effect from the date of execution by both parties to the contract; and
 - iii. authorise any two members of the Executive Team or one member of the Executive Team and the Company Secretary to execute and sign the amended Measured Term Contract for and on behalf of KCTMO.
- 15. MODULAR MANAGEMENT AGREEMENT (MMA) – EXECUTIVE APPROVAL**
- 15.1 Fola Kafidiya-Oke informed the Board that the revision of the MMA had been completed by the Company and RBKC, and subsequently agreed and approved by the Cabinet Member for Housing, Property and Regeneration. The Board agreed to take the report on the revised MMA as read.
- 15.2 Robert Black commended Fola Kafidiya-Oke for her effort in seeing contract reach the completion of the project
- 15.3 The Board **RESOLVED TO**
- i. agree and approve the Modular Management Agreement (MMA) to be entered into by and between the Company and the Royal Borough of Kensington and Chelsea (RBKC) in respect of the management of the properties of RBKC;
 - ii. authorise any two members of the Executive Team or a member of the Executive Team and the Company Secretary to execute the MMA for and on behalf of the Company.
- 16. BOARD MEMBER ELECTIONS & AGM 2016**
- 16.1 Robert Black presented ta report on the Board member elections and Annual General Meeting 2016. The Board noted that the report outlined the plans and timeline for the Board Member Elections and AGM 2016.

16.2 The Board was invited to consider and determine which ratio (6:2 or 5:3) it was looking to adopt for its residents Board member election. The attention of the Board was also drawn to the KCTMO Leadership Academy which was being launched by the Company Secretariat and the Resident Engagement team to run a series of training all year round to develop the residents who wanted to join one of the governance routes in the Company.

16.3 The Board **RESOLVED TO:**

- (i) agree and approve running the 2016 Board member election on the principle of a 6:2 Resident Board membership;
- (ii) merge the voting period of the Board member election and the AGM notice period;
- (iii) setting up and promoting the KCTMO Developing Leaders Programme, and running the Resident Capacity Building Training within the programme;
- (iv) run the 2016 Board Member Election and AGM Notice Period timetable on the timetable presented to the meeting; and agree to have a 10am start time for the 2016 AGM

17. NEW COMMITTEES' TERMS OF REFERENCES

17.1 Robert Black presented the report which set out a proposal to adopt new terms of references for the Finance, Audit & Risk, and Operations committees of the Board.

17.2 The Board noted that the terms of references had been reviewed following the review of the constitution of the Company and the evolution of the Company in its business and operations.

17.3 The Board **RESOLVED TO:**

- (i) agree and approve the adoption of the revised terms of reference for the Finance, Audit & Risk Committee s to the exclusion of any other versions; and
- (ii) agree and approve the adoption of the revised terms of reference for the Operations Committee to the exclusion of any other versions

18. BOARD COMMITTEE MEMBERSHIP

18.1 Fola Kafidiya-Oke presented a report on the revised membership of the committees of the Board following nominations from the Board members. The Board was invited to consider the revised membership giving consideration to the mix of skills for each committee. The Board noted that there was no vacancy on the Appointments and Remuneration Committee and it was not proposed to revise the membership of that committee.

18.2 The Board **RESOLVED TO** agree the revised membership of its committees as set out in the report.

19. 2016 BOARD & COMMITTEE MEETINGS' SCHEDULE

- 19.1 The Board noted the schedule of meeting dates for the Board in 2016 The Board also noted that the 2016 AGM would be held on 17 September 2016.

20. SUBSIDIARY MINUTES

- 20.1 The Board **NOTED** the update on the activities of the subsidiary board.

21. ANY OTHER BUSINESS

- 21.1 Robert Black informed the Board that the Company's staff Christmas party was scheduled for 10 December 2015 and the invitation was being extended to the members of the Board who were welcome to attend.

22. DATE OF NEXT MEETING

- 22.1 The next meeting of the Board is scheduled for 4 January 2016.

Item 6

MATTERS ARISING (Confidential Meeting)

NO.	MEETING DATE	MINUTE NUMBER	ACTION	BY WHOM	BY WHEN	UPDATE
1.	26/11/15	12.4	Arrange a risk register review session for the Board	Janet Seward	March 2016	
2.	26/11/15	13.2	Provide measurable targets on the impact of the business plan in 2016	Yvonne Birch	TBC	
3.	26/11/15	14.5	Present a report measuring the commerciality of the proposed cost model particularly in comparison to a comparable organisation.	Barbara Matthews	TBC	

Item 7

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

Confidential	
For Decision	
Board Report 4 January 2016	
Report title:	Group Budgets 2016/17
Authority for decision:	The Board has the responsibility to set the financial direction of the company.
Recommendations:	<p>It is recommended that the Board pass a resolution in the following form:</p> <p>“The Board RESOLVED TO:</p> <ul style="list-style-type: none"> (i) approve the TMO budget as presented for the 2016/17 financial year (ii) approve the revised budget for Kensington and Chelsea TMO Repairs Direct Limited (RD) for the 2015/16 financial year (iii) approve the budget for RD for the 2016/17 financial year.”
Regulatory/legal requirements:	The Board have legal responsibility of ensuring the organisations resources are used in accordance with the budget and business plan.
Business Plan link:	Growth and Value for Money
Equality Impact Assessment/comment:	None required
Resident consultation:	None required.
Resource implications/VFM statement:	This is the subject of the report.
Risk:	The CRM project may cost the TMO additional amounts than forecasted in the budget and reduce the surplus budget to a deficit position. There are outstanding costs for certain projects (intranet & website) which are not incorporated into the report.
Appendices:	2
Total number of pages including appendices:	12
Name, position and contact details of author:	Rupa Bhola Assistant Director of Finance

1. Purpose of the Report

1.1 The purpose of this report is to present the Board with the Group, TMO and RD budgets for 2016/17 and RD revised budget for 2015/16 as reviewed, agreed and recommended for approval by the Finance, Audit & Risk Committee.

2. Group Position

Group Budget	2015/16	2016/17
	£ 000's	£ 000's
TMO	36	1
Repairs Direct	160	172
Group Total	193	173

2.1 The overall position for the TMO Company in 2016/17 is a surplus budget of £1k.

TMO BUDGET	2015/16	2016/17
	£ 000's	£ 000's
Management Fee	10,718	10,825
Other Income	3,253	3,373
Staff Costs	9,509	9,756
Other Costs	4,426	4,405
Net Surplus	36	37
CRM Mobilisation	-	36
Surplus	36	1

*No costs are been built in for the intranet and website projects to be undertaken in 2016/17.

2.2. Assumptions

The budgets are prepared on the following assumptions:

- 1% inflation increase on salaries 2016/17 including performance related pay (2015/16: 1.2% increases). This is in line with RBKC guidelines and is reflected by increases across all Payroll costs budgets.
- 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.

- 2.3. TMO Summary** – There overall position for the TMO Company in 2016/17 is a surplus budget of £1k. This is a £35k decrease in budgeted surplus from 2015/16.

The surplus position of £1k incorporates an amount of £36k for CRM mobilisation. These costs have been budgeted to provide assistance with staffing during the mobilisation and launch phase of the Customer First project. Prior to including these costs within the budget for 2016/17 the TMO would had a surplus of £37k.

In 2016/17 we have budgeted for one additional post. This is a cost neutral addition to the staffing structure with a saving being generated within the relevant department's budget.

Departmental details can be seen in appendix 1 of the report.

3. Repairs Direct Revised Budgets 2015/16

- 3.1.** The original budget for 2015/16 was based on the five year Financial Plan approved by the RD Board in September 2014.

The revised budgeted position for 2015/16 remains at a surplus of £160k, however reflects all the forecast changes as per the most up to date budget monitoring information.

- 3.2** Changes included £382k extra income from the Electrical Works contract for this year and also some extra income from responsive repairs jobs. The majority of these jobs are subcontracted works and therefore there is a proportionate increase in subcontractor costs.

4. Repairs Direct Proposed Budgets 2016/17

4.1. Assumptions

The budgets are prepared with the following assumptions:

- 1% inflation increase on turnover
- 1% inflationary increase on subcontractor, material and transport costs.
- 2% inflationary increase on ICT overheads including annual support costs.
- 1% inflationary increase on remaining expenditure budgets including staff costs.
- Electrical works contract not expected to continue for 2016/17.

- 4.2.** The proposed budget for the 2016/17 financial year is a net surplus of £172k. Please refer to annex 2 for the details.

5. Conclusion

- 5.1** The Committee is requested to consider the recommendations on the first page of the report.

APPENDIX 1

Kensington & Chelsea TMO TMO Budgets 2016/17

		Values	
Directorate	Sub division	Budget 2015/16	Budget 2016/17
CEO	INCOME OTHER	10,672,779	10,866,871
	PAYROLL COSTS	850,716	852,615
	OTHER COSTS	272,200	282,200
CEO Total		9,549,863	9,732,056
Financial Services	INCOME OTHER	1,113,358	1,115,502
	PAYROLL COSTS	1,590,412	1,609,437
	OTHER COSTS	2,553,988	2,621,167
Financial Services Total		3,031,042	3,115,102
Operations	INCOME OTHER	2,064,257	2,074,019
	PAYROLL COSTS	5,707,968	5,945,411
	OTHER COSTS	1,188,570	1,110,261
Operations Total		4,832,281	4,981,653
People & Performance	INCOME OTHER	120,846	141,755
	PAYROLL COSTS	1,359,847	1,384,397
	OTHER COSTS	411,450	391,660
People & Performance Total		1,650,452	1,634,302
Grand Total		36,088	1,000

Kensington & Chelsea TMO

TMO Budgets 2016/17

			Values	
Directorate	Department	Sub division	Budget 2015/16	Budget 2016/17
CEO	CEO	INCOME OTHER	10,672,779	10,866,871
		PAYROLL COSTS	850,716	852,615
		OTHER COSTS	272,200	282,200
	CEO Total		9,549,863	9,732,056
CEO Total			9,549,863	9,732,056
Financial Services	Finance	INCOME OTHER	757,648	768,575
		PAYROLL COSTS	606,713	605,416
		OTHER COSTS	620,238	623,750
	Finance Total		469,303	460,591
	Home Ownership	INCOME OTHER	169,000	179,000
		PAYROLL COSTS	444,979	455,360
		OTHER COSTS	125,750	125,750
	Home Ownership Total		401,730	402,110
	HUB Costs	INCOME OTHER	45,000	45,000
		OTHER COSTS	582,000	583,167
	HUB Costs Total		537,000	538,167
	ICT	INCOME OTHER	141,710	122,927
		PAYROLL COSTS	538,720	548,661
		OTHER COSTS	807,000	883,000
	ICT Total		1,204,010	1,308,734
	KHS	INCOME OTHER	0	0
		OTHER COSTS	419,000	405,500
	KHS Total		419,000	405,500
Financial Services Total			3,031,042	3,115,102
Operations	Assets & Regeneration	INCOME OTHER	951,500	959,910
		PAYROLL COSTS	1,170,597	1,160,356
		OTHER COSTS	287,000	287,000
	Assets & Regeneration Total		506,097	487,446
	CAS	INCOME OTHER	557,000	557,000
		PAYROLL COSTS	365,275	360,735
		OTHER COSTS	93,950	91,600
	CAS Total		97,775	104,665
	Customer Contact and Access	PAYROLL COSTS	686,752	744,538
		OTHER COSTS	75,000	70,000
	Customer Contact and Access Total		761,752	814,538
	Hostels	INCOME OTHER	11,565	11,815
		PAYROLL COSTS	120,787	125,572
		OTHER COSTS	3,900	2,900
	Hostels Total		113,122	116,657
	Housing General	INCOME OTHER	60,000	60,000
		PAYROLL COSTS	340,901	340,566
		OTHER COSTS	426,300	426,300
	Housing General Total		707,201	706,866
	Housing North	INCOME OTHER	3,000	4,000
		PAYROLL COSTS	803,909	822,209

			Values	
Directorate	Department	Sub division	Budget 2015/16	Budget 2016/17
		OTHER COSTS	17,150	14,450
	Housing North Total		818,059	832,659
	Housing South	PAYROLL COSTS	837,058	991,309
		OTHER COSTS	44,350	41,850
	Housing South Total		881,408	1,033,159
	Income Management	INCOME OTHER	120,000	115,000
		PAYROLL COSTS	0	0
		OTHER COSTS	162,820	122,820
	Income Management Total		42,820	7,820
	Lanc West	INCOME OTHER	0	0
		PAYROLL COSTS	259,343	260,854
		OTHER COSTS	67,900	42,841
	Lanc West Total		327,243	303,695
	Landscape and Environment	PAYROLL COSTS	266,566	260,381
		OTHER COSTS	0	0
	Landscape and Environment Total		266,566	260,381
	Partnering	INCOME OTHER	60,192	60,794
		PAYROLL COSTS	591,370	608,393
		OTHER COSTS	750	750
	Partnering Total		531,928	548,349
	SHELTERED	INCOME OTHER	229,000	230,500
		PAYROLL COSTS	224,280	229,595
		OTHER COSTS	8,250	8,250
	SHELTERED Total		3,530	7,345
	Stable Way	INCOME OTHER	72,000	75,000
		PAYROLL COSTS	41,130	40,902
		OTHER COSTS	1,200	1,500
	Stable Way Total		29,670	32,598
Operations Total			4,832,281	4,981,653
People & Performance	HR	INCOME OTHER	78,445	79,230
		PAYROLL COSTS	309,861	314,818
		OTHER COSTS	210,000	204,210
	HR Total		441,416	439,798
	Planning & Performance	INCOME OTHER	30,000	40,000
		PAYROLL COSTS	721,015	733,717
		OTHER COSTS	132,650	132,150
	Planning & Performance Total		823,665	825,867
	RI	INCOME OTHER	12,401	22,525
		PAYROLL COSTS	328,971	335,862
		OTHER COSTS	68,800	55,300
	RI Total		385,370	368,637
People & Performance Total			1,650,452	1,634,302
Grand Total			36,088	1,000

KCTMO REPAIRS DIRECT
REVISED BUDGET 15/16 and future years
3 December 2015

DESCRIPTION	DETAIL	REF	2015/16 Original Budget	2015/16 Revised Budget	2016/17 Proposed Budget	% Inflation
In-house Income*	Based on number and outturn costs for repairs	1	2,974,125	2,950,000	3,275,000	1%
Subcontract Income	Subcontracted works	2	2,244,370	2,650,000	2,325,000	1%
	TOTAL INCOME		5,218,495	5,600,000	5,600,000	1%
Subcontracted Specialist Trades	Subcontract work	3	1,859,125	2,225,000	1,883,250	1%
Material cost	Material costs	4	575,794	455,500	556,750	1%
Direct ISP staffing costs	Based on agreed staffing structure (1)	5	1,638,220	1,824,000	1,943,024	1%
Overhead (Staffing costs)	Indirect Staffing and additional staffing through TMO	6	406,839	406,837	410,905	1%
Transport Costs	For example, Van lease, fuel, insurance and tracking	7	239,850	219,150	221,342	1%
ICT Set Up Costs *	Capital Cost - Assumed spread over 5 years assume 2014-15 1st year	8	80,000	77,000	77,770	1%
ICT Overhead	Annual Revenue Cost	9	66,625	45,000	45,450	2%
Annual Overhead	For example, leasing of plant and equipment, offices, legal, external support.	10	191,092	187,472	189,347	1%
Non Rechargeable Costs	Costs that cannot be recharged to RBKC eg: investment in the local community projects				100,000	0%
Net Surplus before Tax	After Recovery of TMO Overheads		160,950	160,041	172,162	
	TAX @ 20%		32,190	32,008	34,432	
Net surplus after Tax			128,760	128,033	137,730	
	TMO Loan Balance from £700k @ end of year		452,838	456,565	241,065	
	% Suplus on Revenue excl Non Rech Costs		3.1%	2.9%	4.9%	

Assumptions*

1. Approximately £5m turnover will come from the HRA Revenue budgets and £600k turnover from Capital Programme to fund High value voids and other capital works for 2015/16 and 2016/17 and reviewed annually.
2. One-off Electrical Works of £200k in 2015/16 only

TURNOVER, SUBCONTRACTOR COSTS, MATERIAL COSTS

TYPES of WORK	2015/16 INCOME Figures			2015/16 Sub-contrator Figures	Margin on Sub-cont work	Material Costs	2016/17 INCOME Figures			2016/17 Sub-contrator Figures	Material Costs
Description	In house Revenue	Subcontract	TOTAL VALUE				In house Revenue	Subcontract	TOTAL VALUE		
AIDS AND ADAPTATIONS & FRS	125,000	75,000	200,000	59,250	19%	18,750	75,000	125,000	200,000	101,250	12,750
DAY to DAY Responsive	2,300,000	1,600,000	3,900,000	1,296,000	19%	358,000	2,500,000	1,400,000	3,900,000	1,134,000	425,000
CAPITAL WORKS		450,000	450,000	364,500	19%	-	-	450,000	450,000	364,500	-
ELECTRICAL - (OTHER)*		200,000	200,000	170,000	15%	-					-
VOID WORKS - MINOR & CAP.	525,000	525,000	1,050,000	425,250	19%	78,750	700,000	350,000	1,050,000	283,500	119,000
Post Inspect & Budget Adj	-	200,000	200,000	90,000	55%	-					-
Total Value	2,950,000	2,650,000	5,600,000	2,225,000		455,500	3,275,000	2,325,000	5,600,000	1,883,250	556,750
	Ref 1	Ref 2		Ref 3		Ref 4				Ref 3	Ref 4
2016/17	3,275,000	2,325,000	5,600,000	1,883,250		556,750	3,275,000	2,325,000	5,600,000	1,883,250	556,750

ELECTRICAL - (OTHER)*
 Is expected to be in 15-16 only

DIRECT STAFFING COSTS

Category	Job Title	Values		No of Staff 16/17	Salary 16/17
		Sum	Salary 15/16		
Senior Management	Managing Director	1	140,000	1	96,000
Senior Management Total		1	140,000	1	96,000
Admin	Customer Complaint Officer	1	28,000	1	27,891
	Senior Services Administer	1	28,000	1	28,473
	Service Administrator	2	55,000	3	77,827
	Services Manager	1	32,000	1	48,480
Admin Total		5	143,000	6	182,671
Commercial Team	Commercial Assistant	1	29,000	1	27,270
	Commercial Fin. Analyst Manager	1	115,000	1	66,000
	Quantity Surveyor	1	56,000	1	60,600
	Trainee			1	21,600
Commercial Team Total		3	200,000	4	175,470
Health & Safety	Health & Safety Manager (Shared TMO 50:50)	1	50,000	1	54,000
Health & Safety Total		1	50,000	1	54,000
Operations	Charge Hand	1	31,000	1	31,052
	Ele Q.Manger			1	44,400
	Operations Manager	1	100,000	1	73,200
	Planned Manager			1	72,000
	Repairs Manager	1	31,000		-
	Responsive Supervisor	2	84,000	2	84,924
	Surveyor			1	54,000
	Voids Supervisor	3	107,000	3	132,410
Operations Total		8	353,000	10	491,986
Operative	Carpenter	1	37,000	1	37,498
	Electrician	6	197,000	6	197,363
	Multi-Trade Operative	1	29,000	1	29,516
	Painter and Decorator	4	107,000	4	107,452
	Plasterer	3	86,000	3	86,460
	Plumber	4	135,000	4	134,154
	Voids taken from other trades	8	297,000	8	297,163
Operative Total		27	888,000	27	889,606
Contingency	Productivity Contingency		50,000		53,291
Contingency Total			50,000		53,291
Grand Total		45	1,824,000	49	1,943,024
			REF 5		

OVERHEAD STAFFING COSTS (via TMO)

Department	15/16 - Payroll costs Budgeted	ISP Existing staff recharged percentage	ISP New staff recharged (Oncosted Salary)	ISP Overhead Existing Staff	ISP Total Staff	
CEO	865,782	5%	-	43,289	43,289	
Finance	606,516	5%	65,000	30,326	95,326	
ICT	538,766	5%	100,000	26,938	126,938	
Partnering	591,223	8%	-	44,342	44,342	
Residents Engagement	329,087	5%	-	16,454	16,454	
HR	309,757	5%	65,000	15,488	80,488	
2015/16					406,837	REF 6
Budget adjust for 2016/17 - 1%			2,300	1,768	4,068	
2016/17			232,300	178,605	410,905	

SET-UP COSTS & ANNUAL OVERHEAD		
Description	Annual	
Vans Lease costs	115,000	
Fuel per annum	48,000	
Van Insurance	50,000	
Van Tracking	6,150	
Grand Total	<u>219,150</u>	REF 8

ANNUAL OVERHEAD		
Description	Annual	
Labour force tools for		
Depreciation on Software	77,000	Ref 8
SOFTWARE MAINTENANCE	45,000	Ref 9
Annual Tool Allowance	4,040	
Uniforms	7,070	
Legal Costs	14,140	
Office costs 10 spaces	20,200	
Consultant	20,200	
Staff training	10,100	
Storage	20,200	
Recruitment	16,160	
Statutory Audit	10,100	
Telecom and Mobile costs	10,520	
Other Overheads	54,742	
Grand Total	187,472	
	REF10	

Item 8

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

Confidential	
For Decision	
Board Report 4 January 2016	
Report title:	HRA Budgets 2016/17
Authority for decision:	The Board has the responsibility for ensuring that the company meets its contractual obligations.
Recommendations:	<p>It is recommended that the Board consider the contents of this report and upon due consideration, pass the following resolutions:</p> <p>"The Board RESOLVED TO:</p> <ul style="list-style-type: none"> (i) agree the revisions to the 2015/16 HRA budgets; (ii) agree the proposed HRA budgets for the 2016/17 financial year; (iii) agree to recommend the revisions to the 2015/16 HRA budgets to RBKC; (iv) agree to recommend the proposed HRA budgets for 2016/17 to RBKC;
Regulatory/legal requirements:	The Board has the responsibility of ensuring the HRA resources are used in accordance with the mandate of RBKC.
Business Plan link:	Growth and Value for Money
Equality Impact Assessment/comment:	None required
Resident consultation:	None required.
Resource implications/VFM statement:	This is the subject of the report.
Risk:	The impact of not meeting the budgets can make the small surplus budget into a deficit budget.
Appendices:	2
Total number of pages including appendices:	29
Name, position and contact details of author:	Rupa Bhola Assistant Director of Finance

1. Purpose of the Report

1.1 The purpose of this report is to present the TCC Managed (HRA) Revised Budget for 2015/16 and Proposed Budget for 2016/17.

2. HRA Budgets - Introduction

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.

2.1 The original net budget for 2015/16 splits down between budgeted income of £59.079 million and budgeted expenditure of £21.148 million to produce a net income budget of £37.931 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.

2.2 The following table summarises the overall position for 2015/16 and 2016/17:

	2015/16 Original Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure	21,148	19,555	21,727
Income	59,079	58,780	60,184
Net Managed TCC Budgets	37,931	39,224	38,457

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

3. HRA Revised Budget 2015/16

For the current year, the revised net TCC managed budget is £1.293 million higher than the original budget. The main factors resulting in the variance are:

- Planned Maintenance – This is forecast to underspend by £1.257 million. This comprises:
 - External Decorations – An underspend of £1 million is currently predicted in this financial year. On site operations halted due to the contractor going into liquidation in July 2015. This has impacted on the delivery of the programme of works scheduled for 2015/16. A new contractor will continue with the programme once finalised, however, it is expected that a large proportion of the work will be delayed until the next financial year.

Budget provision for 2016/17 will therefore need to reflect the slippage on the current year's programme.

- Estate Lighting – An underspend of £100,000 is anticipated as the contract for estate lighting was terminated following a legal dispute with the contractor. An interim contract was let which focused on the core service resulting in a lower level of expenditure. The service is being provided by the interim contractor until the re-procurement process is complete.
- Central Programmed Heating work – a full asset survey undertaken by the new communal heating contractor has enabled a more appropriate works program to be implemented. As a result, expenditure will be £97,000 less than was assumed when the budget was set.
- Individual Heating – ongoing savings of £70,000 have been achieved following the retendering of the contract for the installation of new boilers in tenants' properties.
- District Heating - ongoing savings of £70,000 have been achieved following the retendering of the contract for the annual servicing of communal boilers.
- Other smaller variations amount to an overspend of £80,000.
- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £307,000 less than was assumed in the budget reflecting both lower usage and lower prices.
- Provision for Bad and Doubtful debts – the provision has been reduced by £77,000 reflecting the steady level of overall debt.
- Car Park Management – the costs of engaging the current contractor will continue until the Traffic Management Order is in place. These costs should not arise in 2016/17.
- Other Expenditure/Special Services – An overspend of £103,000 is predicted. This comprises £83,000 for additional costs associated with system development and project management for the Traffic Management Order and £20,000 relating to witness statements in respect of the anti-social behaviour cases.
- Rental income from commercial properties is projected to be £69,000 lower than was assumed in the original budget. This is mainly due to delays in the completion of leases for storage facilities.

- Income from charges for garages and other parking facilities is £114,000 more than budgeted, reflecting a higher take up of the facilities. The TMO's monthly magazine to tenants (The Link) has reminded tenants that these facilities are available to rent.
- Income from charges for Heating and Hot Water services is forecast to be £470,000 less than assumed in the original budget. Charges are based on activity over the previous 3 years. The variation reflects differences in prices and usage compared to those assumed when income budgets were set.
- Each year, the annual accounts include accruals for energy invoices yet to be received. The accounts include provisions totalling more than £1m for energy provided at Lancaster West and Aston House. Six years have now elapsed since the energy was provided, so statutory limitations now apply and the energy providers are unable to pursue the Council. Charges were made to tenants and leaseholders on the assumption that invoices would be received. An exercise to determine the amounts to be refunded is currently underway and all refunds will be made by the end of the financial year.
- Income from Major Works is £110,000 lower than was assumed in the original budget – this includes a refund of £87,000 to a number of leaseholders due to a contractor going into liquidation before works commenced. This income had been assumed at the time the original budget was set.
- Release of funding held within performance bond – in 2006 a contract was let for lift replacements. The contractor subsequently went into receivership and another contractor was engaged to complete the works. This contract included a performance bond totalling £295,000. A successful claim for the whole value of the bond has been made, reflecting the additional costs that have arisen.

4. Budget 2016/17

The proposed TCC managed budget for 2016/17 is for net income of £38.457 million. This surplus is £526k more than assumed in the original budget. The main factors resulting in the proposed changes are:

- Planned Maintenance – This is forecast to overspend by £613,000. This comprises:
 - External Decorations – An overspend of £1 million is predicted in the next financial year. This is due to a slippage from the current year (see above).
 - The balance is mainly due to ongoing savings following the re-procurement of contracts for Programmed Heating.
- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £250,000 less than was assumed in the original budget. This reflects both lower usage and lower prices. The budget provision includes provision for price increases of 2% in 2016/17.

- Contract Cleaning – the new contract is being procured on the basis that the London Living Wage will be paid to employees. The new contract is expected to start from October 2016. The estimated impact of this is an additional £200,000 for 6 months. Inflation of 2% has been assumed on the current contract.
- Car Park management – following the establishment of the Traffic Management Order, the car park management function will be undertaken within the Council's Car Parking Service. The cost of this service will be deducted from the permit income which will be available to the HRA, provided appropriate expenditure can be demonstrated.
- Income from dwelling rents is expected to be £740,000 lower than was assumed in the current year's original budget. This reflects the rental reduction of 1% which was announced in the Chancellor's budget and the loss of income from properties being sold under the Right to Buy regime. A void level of 1.5% has been assumed.
- Rental income from commercial properties is expected to increase by £169,000 (compared to the original budget). This reflects the additional income arising from the leasing of vacant spaces for storage purposes.
- Income from charges for garages and other parking facilities has been increased by £122,000, this assumes the greater use of facilities in the current year will continue.
- Income from Tenants Service Charges is forecast to be £166,000 more than was assumed in the current year's original budget. Of this, £130,000 arises from the plan to procure the new cleaning contract on the basis that the London Living Wage is paid to employees. The new contract is expected to be implemented mid way through 2016/17.
- Income from leaseholder service charges is forecast to be £104,000 that was assumed in the original budget. This includes £55,000 from the plan to procure the new cleaning contract on the basis that the London Living Wage is paid to employees.
- Major Works Service Charges – additional income totalling £1.837 million is anticipated, resulting from the in year decision from the Upper Tribunal on the ability to use framework contractors for work on leaseholder properties. All works which involved invoicing to the leaseholders were delayed and the full programme will not be completed in the current year. The work will therefore complete and be invoiced in 2016/17 and will be in addition to the original planned works for 2016/17. This budget includes the effect of the revised management fee being introduced for major works.

- Income from Heating and Hot Water Charges is forecast to be 613,000 less than was assumed in the current year's original budget. Charges are based on activity over the previous 3 years. The variation reflects differences in prices and usage compared to those assumed when the current year's budget was set.

5. Conclusion

- 5.1 The Committee is asked to consider the recommendations on the first page of this report.

APPENDIX 1

TENANT MANAGEMENT ORGANISATION DIVISIONAL REPORTING HRA BUDGETS 2016/17

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Budget	% Variation Original & Estimate
Description	2015/16 £'000	2015/16 £'000	2016/17 £'000	2016/17 £'000
Dwelling Rents - Rent and Hostels	43,936	43,852	43,249	-2%
Commercial Properties Rent Income	3,258	3,189	3,427	5%
Garages Rent Income	758	872	880	16%
Tenants Service Charges	4,335	4,337	4,501	4%
Leaseholder Service Charges	2,584	2,577	2,688	4%
Major Works Service Charges - Leaseholders	814	999	2,651	226%
Heating and Hot Water Charges	2,312	1,841	1,699	-27%
Insurance Charges - Leaseholders	1,023	1,035	1,055	3%
Other Contributions Towards Expenditure	30	30	30	0%
Other Charges for Services & Facilities	4	4	4	0%
Lanc West Management Fee Funded by Reserves	0	0	0	
Car Park Management Income	0	30	0	100%
Community Alarm Service Grant	26	13	0	100%
TCC Managed Budgets Income	59,079	58,780	60,184	2%
Planned Maintenance	6,279	5,022	6,892	10%
Responsive Maintenance	5,905	5,905	5,942	1%
Aids and Adaptations	150	125	150	0%
Area Revenue Works	199	199	199	0%
Electricity, Heating, and Hot Water	3,663	3,356	3,413	-7%
Contract Cleaning	2,303	2,303	2,543	10%
Refuse Collection	157	157	157	0%
Pest Control	244	244	244	0%
Provision for Bad Debts	500	423	500	0%
Rents, Rates, Taxes & Other Charges	192	192	193	0%
Car Park Management	35	60	0	-100%
Other Expenditure - Special Services	304	406	329	8%
Concierge Costs	299	260	260	-13%
Legal Costs	218	218	220	1%
Digital TV	480	465	465	-3%
Community Alarm Service for Sheltered Schemes	220	220	220	100%
TCC Managed Budgets Expenditure	21,147	19,555	21,727	3%
Total TCC Managed Budgets	37,931	39,224	38,457	1%

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

TMO BOARD – 4 JANUARY 2016

TENANTS CONSULTATIVE COMMITTEE - 5 JANUARY 2016

HOUSING AND PROPERTY SCRUTINY COMMITTEE – 6 JANUARY 2016

REPORT BY THE DIRECTOR FOR HOUSING

HOUSING REVENUE ACCOUNT - BUDGET REPORT 2016/17

This report sets out the proposed budget for the Housing Revenue Account (HRA) in 2016/17.

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

FOR COMMENT

1. BACKGROUND AND FINANCIAL CONTEXT

- 1.1 Self Financing, the new regime for funding social housing within the Housing Revenue Account (HRA), was introduced in April 2012. This both improved the financial outlook for HRAs and provided more certainty regarding future sources of income.
- 1.2 As a result, recent budgets have been prepared within a more optimistic regime. However, following the recent change in Government, a number of policy changes have been announced which will have significant financial implications for the HRA.
- 1.3 The changes have reduced future levels of income, introduced greater uncertainty regarding the financial outlook for the HRA and removed our abilities to make some local decisions.
- 1.4 The key changes which will have financial implications for the HRA are:
 - a) Reductions in social rents (see section 3);
 - b) The Sale of High Value voids linked to the extension of the Right to Buy Regime for tenants of Registered Providers;
 - c) Introduction of Pay to Stay and
 - d) Changes to Benefits

- 1.5 The full impact of these cannot yet be ascertained as details on how they will operate in practice have yet to be published. The HRA Business Plan provides some further details and commentary. However, we have highlighted in this report where we believe there will be an impact in 2016/17.
- 1.6 The results of the initial financial modelling over the medium term are set out in section 5. These will need to be refreshed once the implications of the above policy changes become clearer.

2. BUDGETS – 2015/16 AND 2016/17

- 2.1 Management arrangements for budgets within the HRA are set out in the management agreement with the TMO. This provides for a number of budgets within the HRA to be managed by the TMO. Budgets within the HRA fall into the following three categories:
- The management costs of the TMO - these are met from an agreed management fee which is charged to the HRA;
 - Budgets managed by the TMO on behalf of the Council known within the agreement as Tenants Consultative Committee (TCC) budgets. These include the major budgets covering repairs, maintenance and energy and income from rents, service charges and commercial lettings and
 - Council managed HRA budgets including capital financing charges and the provision for depreciation.
- 2.2 An overall statement of HRA budgets for the current year and 2016/17 is set out in Appendix 1. Total gross expenditure in 2016/17 is budgeted at £48.407 million with income budgeted to be £57.787 million. This results in a budgeted surplus of £9.380 million which is added to the Working Balance. In 2016/17, it is planned to transfer £15.391 million from the Working Balance to the Major Repairs Reserve as a contribution towards the Capital Programme, this is partly funded from contributions from leaseholders. The net effect in 2016/17 is to reduce the Working Balance by £3.360 million.

2.3 The following table summarises the changes to the Working balance in both 2015/16 and 2016/17:

Heading	2015/16 Original Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
TMO management fee	10,631	10,718	10,825
Gross expenditure budgets managed by TMO	21,148	19,555	21,727
Gross expenditure budgets managed by the Council	16,165	16,019	15,855
Total Budgeted Gross Expenditure	47,944	46,292	48,407
Income budgets managed by the TMO	-58,265	-58,075	-57,533
Income budgets managed by the Council	-254	-254	-254
Total Income Budgets	-58,519	-58,329	-57,787
Net Budgeted Surplus	-10,575	-12,037	-9,380
Contribution towards the Major Repairs Reserve to fund Capital Expenditure	18,661	14,695	15,391
Contribution from leaseholders towards Major Works	-814	-704	-2,651
Overall Change in Working Balance	7,272	1,954	3,360

2.4 Further details on the current year's budget and the proposed budget for 2016/17 are set out in the following appendices:

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

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

2.6 The Government has announced that funding for Discretionary Housing Payments will be increased, recognising the changes being made to welfare benefits. Details are not yet available, however, there remains a risk that the Discretionary Housing Fund is insufficient to meet local demand arising from these changes.

3. POLICY FOR SETTING RENT LEVELS FOR HRA DWELLINGS

Rent Policy from April 2015

- 3.1 In 2002/2003, the Government introduced its “rent restructuring” regime where rents were set in line with a national formula which was used to calculate a target/formula rent for each property.
- 3.2 The assumption was that actual rents would move to target rent in equal steps. However, the Government introduced a number of guidelines (known as caps and limits) to protect tenants from excessive increases in rents. These constraints have resulted in many rents in the Royal Borough being set at levels which were considerably below their target/formula rent.
- 3.3 In order to generate additional resources to fund capital expenditure, the Royal Borough introduced a revised rent policy in April 2014 which would result in most properties converging with their target/formula rent over the five year period 2014/15 to 2018/19.
- 3.4 In May 2014, the Government announced changes to the national rent setting policy, following a consultation process. The key change was to remove the concept of moving towards target/formula rent. However, as it was not a legal requirement to adhere to this policy, the Royal Borough decided to continue to implement its policy of moving to target/formula rent over the 5 year period.
- 3.5 This approach meant that the calculation of target/formula rents continued to remain in line with the Government’s approach, but a more local approach was used to determine actual rents chargeable to households.

Rent Policy from April 2016

- 3.6 The Chancellor’s budget statement in July announced that social rents will reduce by 1% in each of the next 4 years (2016/17 to 2019/20). This change surprised the housing sector as in October 2013, a 10 year rent agreement was published setting rent increases at CPI + 1%.
- 3.7 This change is being introduced through the Welfare Reform and Work Bill. It requires both Registered Providers and local authorities to reduce rents for social housing by 1% per annum over 4 years, commencing in 2016/17 from a frozen 2015/16 baseline. The frozen baseline is based on rents charged at 8 July 2015.
- 3.8 Recently published documentation suggests that we will be able to move rents for vacant dwellings to Target Rent (less 1% each year).

- 3.9 It appears that local authorities will not have an ability to set their rents differently from the method shown above. This is a change in approach, in that previously we have been able to set rents in a manner determined locally, provided we didn't exceed the Limit Rent.
- 3.10 This announcement is particularly harsh for the Royal Borough as we had planned to continue to move individual dwelling rents to Target Rent levels, this will now not be possible unless the dwelling becomes vacant.
- 3.11 As a result of these changes, the average rent level in 2016/17 is now £122.77
- 3.12 The rules regarding rent increases following the end of the 4 year period are unclear and are unlikely to be clarified in the short term.
- 3.13 The policy introduced in April 2014 agreed that vacant properties would be re-let at target rent unless the target rent exceeded £250 per week. In this case the decision regarding the level of rent to be set is delegated to the Director of Housing who will make a decision taking into account the household's income and employment status. This policy will continue under the new rent policy.
- 3.14 Given the calculation of future rents is now on a statutory basis, an Equalities Impact Assessment is now no longer required.

4. CHARGES FOR GARAGES AND OTHER PARKING FACILITIES

- 4.1 A Members Working Group has been established by the Housing and Property Scrutiny Committee to review and make recommendations regarding income generated from garage and other parking facilities within the HRA. However, the Working Group will not be reporting its findings in time for any proposals to be incorporated into the 2016/17 budget.
- 4.2 Each year the Cabinet Member for Finance sets a minimum increase for fees and charges across the Council. A higher increase has normally been applied to charges for garages and parking facilities within the HRA as the increase has been linked to the average increase in social rents. However, applying this approach would result in a reduction of 1%.
- 4.3 It is therefore proposed that for 2016/17, the increase be linked to the rate being set by the Cabinet Member for Finance and Strategy which is an increase of 1%.
- 4.4 The proposed charges from April 2016 are set out in Appendix 7.

5. FINANCIAL OUTLOOK – MEDIUM TERM

- 5.1 Predicting levels of income and expenditure over the medium to longer term is always extremely difficult and inevitably predictions for the early years will be more accurate.
- 5.2 However, the uncertainty of how much the local authority needs to contribute towards the cost of rolling out the RTB regime to Registered Providers and the rules associated with the new arrangement make it almost impossible to allow for the financial implications of this policy change.
- 5.3 Financial modelling, excluding the impact of the local authority contribution towards the roll out of the RTB regime, suggests that at the end of the next 5 years the cumulative surplus could be **in the region of £23.4 million** (compared to an assumed surplus of £45.2 million when financial modelling was undertaken last year). Whilst this can still be considered a fairly healthy surplus, it is significantly lower than what we were predicting last year.
- 5.4 Appendix 6 provides further details of the surpluses anticipated over the next 5 years.
- 5.5 The Business Plan will continue to be refreshed as the detailed arrangements for funding the extension of the RTB regime become clearer.

6. COMMENTS BY DIRECTOR OF LEGAL SERVICES

- 6.1 The Council is required by the provisions of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA) in accordance with proper practices. The sums which are to be debited and credited to the HRA are prescribed by law and are not a matter for discretion. This means that the HRA is effectively “ring fenced”. The amounts which may be credited include rents and other charges such as heating and hot water. The Council is also under a duty to budget to prevent a debit balance arising on the HRA.
- 6.2 As set out in the report the Welfare Reform and Work Bill requires that registered providers of social housing must reduce the amount of rent payable by a tenant of social housing by at least 1% per annum over 4 years, commencing in 2016. This statutory provision will restrict the ability of the Council to set rents.

7. RECOMMENDATIONS

7.1 Following discussion at the TMO Board, the Tenants Consultative Committee and the Housing and Property Scrutiny Committee, a Key Decision will be taken by the Cabinet Member for Housing, Property and Regeneration to determine the budget for 2016/17 and the level of charges to be set in 2016/17. The Scrutiny Committee is asked to comment on the budget set out in this report and, in particular, on the following recommendations:

- (i) Charges to tenants for garages/car parking facilities are increased by 1% and
- (ii) The HRA Working Balance and other reserves are retained at the level set out in Appendix 5.

Laura Johnson
Director of Housing

Nicholas Holgate
Town Clerk and Executive Director of Finance

Background papers used in the preparation of this report:

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

Contact officer: Mr S Mellor on [REDACTED]

APPENDIX 1

HOUSING REVENUE ACCOUNT (HRA)				
	Original Budget	Revised Budget	Estimate	% Variation Original & Estimate
	2015-16	2015-16	2016-17	2015-16
	£'000	£'000	£'000	£'000
TMO Management Fee	10,631	10,718	10,825	2%
Total TMO Management Fee	10,631	10,718	10,825	2%
TCC Managed Budgets				
Planned Maintenance	6,279	5,022	6,892	10%
Responsive Maintenance	5,905	5,905	5,942	1%
Aids and Adaptations	150	125	150	0%
Area Revenue Works	199	199	199	0%
Electricity, Heating, and Hot Water	3,663	3,356	3,413	-7%
Contract Cleaning	2,303	2,303	2,543	10%
Refuse Collection	157	157	157	0%
Pest Control	244	244	244	0%
Provision for Bad Debts	500	423	500	0%
Rents, Rates, Taxes & Other Charges	192	192	193	0%
Car Park Management	35	60	0	-100%
Other Expenditure - Special Services	304	406	329	8%
Concierge	299	260	260	-13%
Supporting People Expenditure	220	220	220	0%
Legal Costs	218	218	220	1%
Digital TV	480	465	465	-3%
TCC Managed Budgets Expenditure	21,148	19,555	21,727	3%
Dwelling Rents - Rent and Hostels	-43,936	-43,852	-43,248	-2%
Commercial Properties Rent Income	-3,258	-3,189	-3,427	5%
Garages Rent Income	-758	-872	-880	16%
Tenants Service Charges	-4,335	-4,337	-4,501	4%
Leaseholder Service Charges	-2,584	-2,577	-2,688	4%
Heating and Hot Water Charges	-2,312	-1,841	-1,699	-27%
Insurance Charges - Leaseholders	-1,023	-1,035	-1,055	3%
Community Alarm System	-26	-13	0	0%
Other Contributions Towards Expenditure	-30	-30	-30	0%
Other Charges for Services & Facilities	-4	-34	-4	0%
Funding released from Bond	0	-295	0	0%
TCC Managed Budgets Income	-58,265	-58,075	-57,533	-1%
Total TCC Managed Budgets	-37,117	-38,520	-35,806	-4%
Council Managed Budgets				
Capital Charges	10,838	10,684	10,247	-5%
Depreciation - Dwellings and Non Dwellings	2,673	2,673	2,830	0%
Insurance Costs	1,378	1,378	1,419	3%
Recharges from Corporate Services	318	318	318	0%
Recharges from Housing Services	789	789	871	10%
Audit Fees	20	20	20	0%
Burgess Field (Supporting People)	103	103	103	0%
Consultancy budget	13	20	13	0%
Rent, rates, other and subscriptions	34	34	34	0%
Council Managed Budgets Expenditure	16,165	16,019	15,855	-2%
Supporting People Grant	-205	-205	-205	0%
Interest income	-49	-49	-49	0%
Council Managed Budgets Income	-254	-254	-254	0%
Total Council Managed Budgets	15,911	15,765	15,601	-2%
Contribution to (-) or from (+) HRA working balance (excluding Capital)	-10,575	-12,037	-9,380	-11%
Transfer to Major repairs reserves	18,661	14,695	15,391	
Contribution from Leaseholders towards Major Works	-814	-704	-2,651	
Contribution to (-) or from (+) HRA working balance	7,272	1,954	3,360	
HRA Balance b/fwd	-21,499	-21,499	-19,545	-9%
Contribution to (-) or from (+) HRA working balance	7,272	1,954	3,360	-54%
TOTAL HRA Working Balance	-14,227	-19,545	-16,185	14%

TMO MANAGEMENT EXPENSES

- 1.1 The management costs incurred by the TMO in fulfilling its responsibilities under the Management Agreement are funded from the HRA by way of a fixed management fee approved by the Council annually. The total management fee for 2015/16 is £10.631 million.
- 1.2 The TMO Management Fee has been increased by £86,000 to fund two Neighbourhood Support Officers. In effect, this function transferred from the Council with a corresponding reduction in recharges from Housing Services.
- 1.3 The Management Fee for 2016/17 has been set at £10.825 million.
- 1.4 The Chancellor's budget in July indicated that increases in public sector pay over the next 4 years would be limited to 1% each year. An overall inflationary provision of 1% has been allowed for 2016/17. This provision will be used to fund pay awards and other inflationary increases on non-pay budgets e.g. utilities.
- 1.5 In order to support the welfare changes, two welfare reform officer posts were created initially for a two year period but were then extended for a further year to March 2016. However, Universal Credit has yet to be fully rolled out and the benefit cap is reducing further to £23,000. These officers provide support and advice, mainly for tenants, and assistance to claim for Discretionary Housing Payments. It is therefore planned to extend these posts for a further 2 years to March 2018 (at a cost of £82,000 per year), thereby ensuring the changes are implemented as smoothly as possible and to mitigate the risk of income loss to the Council.
- 1.6 An additional project officer has been funded to support the Parking Review and the Members Working Group on parking facilities. This work will continue throughout 2016/17. A number of projects are now being implemented resulting in additional income of approximately £11m over the life of the leases.
- 1.7 The Pay to Stay proposals are scheduled to be introduced from April 2017. It is expected that local authorities will be allowed some provision for costs arising from the administration of this scheme. However, there is a risk that any provision is insufficient and that local authorities will not be fully protected from debts arising. A start date of April 2017 will require some preparatory work to be undertaken during 2016/17 and an adjustment to the management fee may be required in year.

MANAGED TCC BUDGETS

Summary Position

- 1.1 These budgets, managed by the TMO on behalf of the Council, comprise the major running costs relating to the management of the stock (repairs and maintenance, utilities, cleaning and refuse, etc.) and the income collected in the form of rents, service charges and other charges.
- 1.2 The original net budget for 2015/16 splits down between budgeted income of £59.079 million and budgeted expenditure of £21.147 million to produce a net income budget of £37.931 million. Although managed during the year by the TMO, the expenditure and income on these budgets is included in the Council's HRA. Any variance at the year-end therefore impacts on the HRA working balance.
- 1.3 The following table summarises the overall position for 2015/16 and 2016/17:

	2015/16 Original Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure	21,147	19,555	21,727
Income	-59,079	-58,780	-60,184
Net Managed TCC Budgets	-37,931	-39,224	-38,457

Revised Budget 2015/16

- 2.1 For the current year, the revised net TCC managed budget is £1.293 million higher than the original budget. The main factors resulting in the variance are:
 - Planned Maintenance – This is forecast to underspend by £1.257 million. This comprises:
 - External Decorations – An underspend of £1 million is currently predicted in this financial year. On site operations halted due to the contractor going into liquidation in July 2015. This has impacted on the delivery of the programme of works scheduled for 2015/16. A new contractor will continue with the programme once finalised, however, it is expected that a large proportion of the work will be delayed until the next financial year. Budget provision for 2016/17 will therefore need to reflect the reprogramming of the current year's programme.
 - Estate Lighting – An underspend of £100,000 is anticipated as the contract for estate lighting was terminated following a legal

dispute with the contractor. An interim contract was let which focused on the core service resulting in a lower level of expenditure. The service is being provided by the interim contractor until the re-procurement process is complete.

- Central Programmed Heating work – a full asset survey undertaken by the new communal heating contractor has enabled a more appropriate works program to be implemented. As a result, expenditure will be £97,000 less than was assumed when the budget was set.
 - Individual Heating – ongoing savings of £70,000 have been achieved following the retendering of the contract for the installation of new boilers in tenants' properties.
 - District Heating - ongoing savings of £70,000 have been achieved following the retendering of the contract for the annual servicing of communal boilers.
 - Other smaller variations amount to an overspend of £80,000.
- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £307,000 less than was assumed in the budget reflecting both lower usage and lower prices.
 - Provision for Bad and Doubtful debts – the provision has been reduced by £77,000 reflecting the steady level of overall debt.
 - Car Park Management – the costs of engaging the current contractor will continue until the Traffic Management Order is in place. These costs should not arise in 2016/17.
 - Other Expenditure/Special Services – An overspend of £103,000 is predicted. This comprises £83,000 for additional costs associated with system development and project management for the Traffic Management Order and £20,000 relating to witness statements in respect of the anti-social behaviour cases.
 - Rental income from commercial properties is projected to be £69,000 lower than was assumed in the original budget. This is mainly due to delays in the completion of leases for storage facilities.
 - Income from charges for garages and other parking facilities is £114,000 more than budgeted, reflecting a higher take up of the facilities. The TMO's monthly magazine to tenants (The Link) has reminded tenants that these facilities are available to rent.
 - Income from charges for Heating and Hot Water services is forecast to be £470,000 less than assumed in the original budget. Charges are based on activity over the previous 3 years. The variation reflects

differences in prices and usage compared to those assumed when income budgets were set.

- Each year, the annual accounts include accruals for energy invoices yet to be received. The accounts include provisions totalling more than £1m for energy provided at Lancaster West and Portobello Court Estate. Six years have now elapsed since the energy was provided, so statutory limitations now apply and the energy providers are unable to pursue the Council. Charges were made to tenants and leaseholders on the assumption that invoices would be received. An exercise to determine the amounts to be refunded is currently underway and all refunds will be made by the end of the financial year.
- Income from Major Works is £110,000 lower than was assumed in the original budget – this includes a refund of £87,000 to a number of leaseholders due to a contractor going into liquidation before works commenced. This income had been assumed at the time the original budget was set.
- Release of funding held within performance bond – in 2006 a contract was let for lift replacements. The contractor subsequently went into receivership and another contractor was engaged to complete the works. This contract included a performance bond totalling £295,000. A successful claim for the whole value of the bond has been made, reflecting the additional costs that have arisen, thereby releasing the provision back into the HRA.

Budget 2016/17

3.1 The proposed TCC managed budget for 2016/17 is for net income of £38.457 million. This surplus is £526k more than assumed in the original budget. The main factors resulting in the proposed changes are:

- Planned Maintenance – This budget has increased by £613,000. This comprises:
 - External Decorations – Additional spend of £1 million is predicted in the next financial year. This is due to reprogramming the works from the current year (see above).
 - The balance is mainly due to ongoing savings following the re-procurement of contracts for Programmed Heating.
- Electricity, Heating and Hot Water – expenditure on energy is predicted to be £250,000 less than was assumed in the original budget. This reflects both lower usage and lower prices. The budget provision allows for price increases of 2% in 2016/17.
- Contract Cleaning – the new contract is being procured on the basis that the London Living Wage will be paid to employees. The new contract is expected to start from October 2016. The estimated impact of this is an additional £200,000 for 6 months. Inflation of 2% has been assumed on the current contract.

- Car Park management – following the establishment of the Traffic Management Order, the car park management function will be undertaken within the Council's Car Parking Service. The cost of this service will be deducted from the permit income which will be available to the HRA, provided appropriate expenditure can be demonstrated.
- Income from dwelling rents is expected to be £688,000 lower than was assumed in the current year's original budget. This reflects the rental reduction of 1% which was announced in the Chancellor's budget and the loss of income from properties being sold under the Right to Buy regime. A void level of 1.5% has been assumed.
- Rental income from commercial properties is expected to increase by £169,000 (compared to the original budget). This reflects the additional income arising from the leasing of vacant spaces for storage purposes.
- Income from charges for garages and other parking facilities has been increased by £122,000, this assumes the greater use of facilities in the current year will continue.
- Income from Tenants Service Charges is forecast to be £166,000 more than was assumed in the current year's original budget. Of this, £130,000 arises from the plan to procure the new cleaning contract on the basis that the London Living Wage is paid to employees. The new contract is expected to be implemented mid way through 2016/17.
- Income from leaseholder service charges is forecast to be £104,000 more than was assumed in the original budget. This includes £55,000 from the plan to procure the new cleaning contract on the basis that the London Living Wage is paid to employees.
- Major Works Service Charges – additional income totalling £1.837 million is anticipated, resulting from the in year decision from the Upper Tribunal on the ability to use framework contractors for work on leaseholder properties. All works which involved invoicing to the leaseholders were delayed and the full programme will not be completed in the current year. The work will therefore complete and be invoiced in 2016/17 and will be in addition to the original planned works for 2016/17. This budget includes the effect of the revised management fee being introduced for major works.
- Income from Heating and Hot Water Charges is forecast to be £613,000 less than was assumed in the current year's original budget. Charges are based on activity over the previous 3 years. The variation reflects differences in prices and usage compared to those assumed when the current year's budget was set.

COUNCIL MANAGED BUDGETS

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

Financing HRA Debt

- 2.1 Prior to the introduction of Self-Financing, the methodology for determining capital financing charges to be met from the HRA was prescribed. Under Self-Financing, these charges must be determined locally.
- 2.2 It was anticipated, that over the medium term, significant surpluses would 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 seemed inappropriate when access to short term funding from the Council's General Fund was available.
- 2.3 The financial outlook for the HRA has deteriorated considerably, following recent policy announcements, although there is considerable uncertainty regarding their financial implications. It is therefore planned to review our approach to debt financing once the position becomes clearer.
- 2.4 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.
- 2.5 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.

- 2.6 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 for 5 years to fund the settlement payment, on this loan a rate of 1.24% is being charged. This arrangement ends in 2016/17, from 2017/18 rates similar to those charged on other loans from the Council's General Fund to the HRA will apply.
- 2.7 In 2016/17, the overall debt to be financed is £210.164 million. Of this, £138.268 million will be funded from loans from the Public Works Loans Board, with the balance being funded through use of the Council's cash reserves within the General Fund.
- 2.8 Based on the methodology outlined above, the average interest rate chargeable to the HRA on actual external debt is estimated to be 6.5% and on internally funded debt (except that financing the Self – Financing settlement) a rate of 1.9% is currently forecast.
- 2.9 In 2004/05, Government changes to Capital Financing accounting included the abolition of the HRA's statutory annual duty to repay 2% of debt. There are no plans to repay debt over the medium term. However, this will be reviewed each year as part of HRA business planning.

Funding the HRA Capital Programme

- 3.1 As part of Housing subsidy, an allocation to fund capital expenditure on HRA properties was received each year. This was known as the Major Repairs Allowance (MRA). Local authorities were allowed to use the level of MRA as a proxy for depreciation.
- 3.2 Under Self-Financing, local authorities must determine the annual funding to be allocated to the capital programme. They also need to determine the level of depreciation chargeable to the HRA which must be in accordance with appropriate accounting practices.
- 3.3 In conjunction with Corporate Finance a depreciation charge of £2.83 million on dwellings and non-dwellings has been calculated. This provision provides a source of funding to meet capital expenditure requirements within the HRA stock.
- 3.4 The 2016/17 budget includes a further contribution towards the HRA Capital Programme in 2016/17. An overall revenue contribution of £12.386 million has been assumed in the 2016/17 budget, this includes the depreciation provision set out above. The planned uses of this funding are set out in the HRA Business Plan.

Summary Position

- 4.1 The following table summarises the revised budget for the current year and the proposed budget for 2015/16:

	2015/16	2015/16	2016/17
	Original Budget £'000	Revised Budget £'000	Proposed Budget £'000
Expenditure	16,165	16,019	15,855
Income	-254	-254	-254
Net Council Managed Budget	15,911	15,765	15,601

Revised Budget 2015/16

- 5.1 In terms of the current year, the revised budget indicates a decrease of £146,000 which is primarily due to:
- Capital Charges – a decrease of £153,000 in the cost of debt charges (interest costs on borrowing to fund the outstanding debt), is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget.

Budget 2016/17

- 6.1 The proposed Council managed budgets for 2016/17 indicates a decrease of £310,000. The main factors are:
- Capital Charges – a decrease of £591,000 in the cost of debt charges (interest costs on borrowing to fund the outstanding debt) is due to a decrease in the interest rate used to calculate the debt charges from that used in the original budget. 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 1.9%.
 - Depreciation – the £157,000 increase in dwellings depreciation is mostly due to the revaluation of the Council's dwelling stock
 - Charges made by Housing Services - an increase of £82,000. This is mainly due to additional resources within the regeneration team.

APPENDIX 5

HRA WORKING BALANCE AND RESERVES

Working Balance

- 1.1 As at 1 April 2015, the working balance was £21.499 million. As a result of the projected drawdown from the working balance of £1.954 million (see table in paragraph 2.3), the forecast for the working balance as at 31 March 2016 is £19.545 million. The proposed budgets for 2016/17 (see table in paragraph 2.3) would result in a drawdown from the working balance of £3.360 million resulting in a projected working balance at the end of 2016/17 of £16.185 million.
- 1.2 The projected movements in the working balance up to March 2017 can therefore be summarised as follows:

HRA Working Balance		
		£'000
	Opening balance (1 April 2015)	21,499
<i>add</i>	Projected outturn variance 2015/2016	-1,954
<i>equals</i>	Projected Working Balance (31 March 2016)	19,545
<i>Less</i>	Budgeted drawdown from Working Balance 2016/2017	-3,360
<i>equals</i>	Projected Working Balance (31 March 2017)	16,185

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

HRA Reserves

2.1 The following table summarises the level of HRA reserves:

Heading	1 April 2015 (Actual) £'000	31 March 2016 (Forecast) £'000	31 March 2017 (Forecast) £'000
TMO Managed Reserves			
Controlled Repairs/Area Revenue Works Reserve	263	263	263
Major Repairs Reserve	608	0	0
Total	871	263	263

Major Repairs Reserve

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

	Original Budget	Revised Budget	Estimate
Major repairs reserves (MRR)	2015-16	2015-16	2016-17
	£'000	£'000	£'000
Brought Forward	0	-608	0
HRA Depreciation transfer to MRR	-2,673	-2,673	-2,830
HRA transfer to MRR	-18,661	-14,695	-15,391
Capital expenditure funded by MRR	21,334	17,976	18,221
Carried Forward	0	0	0

2.3 The provision for 2015/16 includes a contribution of £4.3 million from the Major Repairs Reserve towards the refurbishment of Grenfell Tower.

APPENDIX 6

HOUSING REVENUE ACCOUNT BUSINESS PLAN - 2015/16 to 2020/21

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 2015			-21,499
Income received in 2015/16	-59,033		
Expenditure in 2015/16	60,987		
Surplus arising in 2015/16		1,954	
Balance at 31st March 2016			-19,545
Income received in 2016/17	-60,437		
Expenditure in 2016/17	63,797		
Deficit arising in 2016/17		3,360	
Balance at 31st March 2017			-16,185
Income received in 2017/18	-60,526		
Expenditure in 2017/18	61,609		
Surplus arising in 2017/18		1,083	
Balance at 31st March 2018			-15,102
Income received in 2018/19	-58,805		
Expenditure in 2018/19	55,947		
Surplus arising in 2018/19		-2,858	
Balance at 31st March 2019			-17,960
Income received in 2019/20	-58,164		
Expenditure in 2019/20	55,626		
Surplus arising in 2019/20		-2,539	
Balance at 31st March 2020			-20,499
Income received in 2020/21	-58,651		
Expenditure in 2020/21	55,737		
Surplus arising in 2020/21		-2,913	
Balance at 31st March 2021			-23,413

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

- The charge to the HRA where debt is financed internally is in accordance with the methodology set out in Appendix 4 paragraph 2.5 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;
- Inflation assumptions over the period are as follows: an annual increase of 1% on the TMO Management Fee from 2017/18 and an annual increase of 1.5% on other expenditure budgets and
- Over the 5 years 2016/17 to 2020/21, revenue contributions of £62.5 million are assumed to be made to the Main Capital Programme. This can be broken down over the 5 years as follows:

2016/17	£16.5m
2017/18	£16m
2018/19	£10m *
2019/20	£10m *
2020/21	£10m *

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

- Additional revenue contributions totalling £2.4 million have been made towards other schemes within the Capital Programme.

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

- A 1% increase in the cost of financing debt internally would reduce the surplus at the end of the period by £4.036 million to £19.377 million.
- A 1% increase in the cost of expenditure (excluding debt financing charges) met by the HRA would reduce the surplus by £1.933 million to £21.480 million.
- The combined effect of the above two scenarios would decrease the surplus by £5.969 million to £17.444 million.

CHARGES FOR PARKING PERMITS

Charges for Tenants and Leaseholders (TLSC) from 1 April 2016

Facility	Current Standard Charge per week – Tenants and Leaseholders	Proposed Standard Charge per week – Tenants and Leaseholders
	(TLSC)	(TLSC) from 1 April 2016
Self-Contained Garage – North (excluding Lancaster West)	12.74	12.87
Self-Contained Garage – South	25.03	25.28
Self-Contained Garage - Lancaster West	21.73	21.95
Self-Contained Garage – Norwood Green, Southall	6.68	6.75
External Hardstand – North (inc. Lancaster West)	5.09	5.14
External Hardstand – South	6.55	6.62
Indoor Car Park Bay – Elm Park Gardens	25.39	25.64
Indoor Car Park Bay – Walnut Tree House	13.68	13.82
Indoor Car Park Bay – Warwick Road	11.62	11.74
Indoor Car Park Bay – Worlds End	16.71	16.88
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	8.9	8.99
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Charges for Other Users (OUSC) from 1 April 2016

Facility	Current Standard Charge per week – Other Users (OUSC)	Proposed Standard Charge per week – Other Users (OUSC) from 1 April 2016
Self-Contained Garage – North (excluding Lancaster West)	31.85	32.17
Self-Contained Garage – South	62.59	63.22
Self-Contained Garage -Lancaster West	54.32	54.86
Self-Contained Garage – Norwood Green, Southall	16.69	16.86
External Hardstand – North (inc. Lancaster West)	12.72	12.85
External Hardstand – South	16.38	16.54
Indoor Car Park Bay – Elm Park Gardens	63.48	64.11
Indoor Car Park Bay – Walnut Tree House	34.19	34.53
Indoor Car Park Bay – Warwick Road	29.04	29.33
Indoor Car Park Bay – Worlds End	41.78	42.20
Indoor Car Park Bay – Swinbrook Estate (new charge to be introduced when bays created)	22.24	22.46
Charges to tenants and leaseholders with a disabled persons purple badge	Nil	Nil

Item 9

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

Confidential	
For information	
Board Report 4th January 2016	
Report title:	Chief Executive's Report
Authority for decision:	The Board has ultimate responsibility for monitoring the performance of the Company.
Recommendations:	It is recommended that the Board note the contents of the report.
Regulatory/legal requirements:	None.
Business Plan link:	Keeping abreast of performance initiatives within the organisation, and external development affecting social housing.
Equality Impact Assessment/comment:	Equality and diversity issues are taken into consideration.
Resident consultation:	n/a
Resource implications/VFM statement:	Keeping up to date on the latest developments in social housing is important for shaping the business. Improved performance will help the Company to achieve its VFM objectives.
Risk:	Failure to engage with the external housing sector could have an adverse effect on the Company in keeping abreast of developments within the sector. There is also reputational risk if performance fails to improve across the Company.
Appendices:	0
Total number of pages including appendices:	4
Name, position and contact details of author:	Robert Black, Chief Executive Ext [REDACTED]

1. CHIEF EXECUTIVE & CHAIR OF THE TMO BOARD'S DIARIES

I would like to start by wishing you all a very Happy & Healthy New Year. Since the last Board meeting it has been a busy time for me and the Chair and this is what we have been doing:

Chief Executive

Along with Jen Lester, our Head of H R and Organisational Development I met with Jonathan Austin from Best Companies to get some feedback following our recent survey. The outcome is we have been awarded 'One to Watch', and when he went through the results with us it was clear to see the progress we have made. For a start we had 84% of colleagues complete their survey with the highest in our group having a return of 72%. At this stage we have only got the top headlines and further information will come later in the year. I have asked Best Companies to come in and do a presentation to Board on the results.

Following on from the Board away day I have met with Radojka Miljevic and the Chair to discuss the outcomes from the November Board Away Day. This was a very useful meeting and we are now putting an action plan together which will be brought back to the Board and and we will look to hold a follow up session in the New Year.

Chair

The Chair attended the opening of the new Community Room at Henry Dickens Court to see the changes.

As mentioned the Chair met with Radojka to discuss the away day session and how best to take this forward. As part of this process the Chair is going to have a 1-1 with each individual Board Member in the New Year on a regular basis and Gill will be in touch with everyone in January, to arrange these.

The Chair attended the TMO Staff Christmas Party and the Reception in the Mayor's Parlour. It was a shame they were on the same night but she managed to attend both and enjoyed the music and dancing in the Canalside Deli.

2. WRAP (Workshop to Raise Awareness of Prevent)

Recently the Government announced changes which made addressing and preventing radicalism a statutory duty of local authorities. While this sits with RBKC as the Housing provider we recently took part in a workshop to raise our awareness of Prevent, the Government's counter terrorism strategy. It was facilitated by Oliver Levinson, the Bi-Borough Prevent Officer for the London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea and Westminster City Council. The team delivers work including:

- Training for frontline staff in recognising, referring and responding to radicalisation.
- A variety of projects to build capacity, increase resilience and improve understanding of extremism and radicalisation with partners such as schools, colleges, frontline staff, community groups, venues and parents.

- A referral service for concerns called Channel which acts as an early radicalisation.

We are looking to roll this training out across the company and going forward we will be working more closely with the Bi-borough Prevent Team. In terms of context RBKC and a number of London boroughs are seen as having a risk of this happening.

3. GRENFELL TOWER

The refurbishment works at Grenfell Tower are ongoing and the work being done inside residents' homes is almost complete: the new double glazed windows are installed and all residents are now connected to the new heating and hot water system. The new communal entrance will be commissioned early in the New Year and the nursery and boxing club will soon be able to move into their new premises.

There have been some delays in the works relating to demolition works and the requirement to amend the planning permission to increase the number of hidden homes from seven to nine. In recent months, two of Rydon's subcontractors went into liquidation which caused considerable delay to the completion of the steelwork to the new entrance area and the installation of the cladding. These works are now due to complete early in 2016.

The final piece of work will be the completion of the environmental works that were omitted from the KALC project. These works are outside of the scope of the original Grenfell Tower refurbishment project and the cost of £86k will be additional to the project budget. These works are programmed to complete in March 2016.

Unfortunately the tower does not have any external access to the communal areas; therefore the only way of transporting operatives and materials through the building is via the passenger lifts, causing delays at peak times. Some of the works are noisy, such as the demolition works and drilling through the concrete frame of the building. Although noisy work is limited to the hours of 9am and 4pm, there has been some disruption for tenants

In December the Labour Party put forward a motion asking the Council to recognise the disruption experienced by residents and award them a similar allowance that residents would receive for having to move because of regeneration, this is called home loss payment and is an allowance worth £4.5k. Currently in this project the residents have been offered £50 offered by the TMO but if any damage happens or curtains or blinds need reconfigured due to the work our contractor will deal with them on an individual case. The Council discussed this and the outcome was not to pay them this amount while recognising the disturbance they have had to endure during this £12M refurbishment. A petition was then presented which was signed by 60 residents asking for an independent review of the TMO due to the problems they have had with the contractor and the TMO. RBKC have reviewed this and it will be discussed at the next scrutiny Committee in 5th January. At this stage we are carrying out a door knocking exercise on Friday 18th and Monday 21st December to pick up on any issues around hot water and heating and anything else which has been raised and we will update the Board at our meeting.

5. FIRE AT ADAIR TOWER UPDATE

We have been advised by the London Fire Brigade that RBKC/TMO will be served with two Enforcement Notices as a result of the fire risk assessments the brigade undertook following the fire at Adair Tower. One Enforcement Notice will cover Adair Tower and one will cover Hazelwood Tower. The two towers were built to the same design having two separate staircases, one for accommodation access, the main staircase and one for emergency, the escape staircase.

We have yet to receive the actual notices but have been advised that the key matters of concern relate to the design of the main staircase ventilation system and the lack of self closers on the individual flat front doors. It is expected that we should receive the notices in the next week or so.

Robert Black has updated Laura Johnson, Director of Housing for RBKC, who has briefed Cllr Feilding-Mellen.

Three of our managers who were involved in the incident on the day attended a useful debrief meeting with RBKC Housing team members to review the emergency planning procedure and assess what could be changed or improved. Revised TMO emergency procedures are now being drafted.

6. REPAIRS DIRECT MANAGING DIRECTOR RECRUITMENT

We held second interviews on Wednesday 16th December for the Managing Director's role for Repairs Direct. We had four final candidates and we are in the process of formalising the verbal offer made to one of the candidates and subsequently accepted, and will provide a further update at a future Board meeting.

7. RBKC MANAGED SERVICES

Some progress has been made on the missing/unallocated/misallocated customer payments. The leaseholder service charge payments previously misallocated to Council Tax accounts have now been reallocated and the account mapping amended to ensure these payments are now allocated to leaseholder service charge accounts. The automatic allocation of payments between major works service charges and other service charges is still to be resolved.

For tenants the account mapping is still to be resolved but some progress is being made on the identification of unallocated payments. Full reconciliation of the cash received will be undertaken by the Finance team over the Christmas period.

Item 10

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

**OPERATIONS COMMITTEE
(the 'Committee')**

Minutes of a meeting of the Committee of the Company
held on 1 October 2015 at 6.30 pm
at 346 Kensington High Street, London, W14 8NS

PRESENT:

Resident Board Members Tony Annis - Chair
Mary Benjamin
Fay Edwards
Kush Kanodia
Deborah Price
Brendan Tracey

Council Appointed Board Members Cllr Judith Blakeman

Independent Board Members Peter Chapman

APOLOGIES Simon Brissenden

IN ATTENDANCE:

Teresa Brown (TB)	Director of Housing
Peter Maddison (PM)	Director of Assets and Regeneration
Siobhan Bowman	Assistant Director Home Ownership
Janet Seward (JS)	Policy & Improvement Manager
Yvonne Birch	Executive Director People and Performance
Fola Kafidiya-Oke	Head of Governance & Company Secretary

1. NOTICE, APOLOGIES AND QUORUM

- 1.1 The Chair noted that notice had been given to the members of the Committee entitled to receive notice and attend the meeting. The Chair further noted that the meeting was quorate in accordance with the Terms of Reference of the Committee.

2. MINUTES OF THE MEETING HELD ON 30 JULY 2015

- 2.1 The Committee **RESOLVED TO** agree and approve the minutes of the meeting held on 30 July 2015 as a true and accurate record of the meeting.

3. MATTERS ARISING

- 3.1 The Board considered the matters arising for the Committee and noted the following:

Voids Process – the Committee clarified that the report requested was an overview of the voids turnaround process including the options available with regards to amending the layout where it may be considered necessary for improved use of the space.

Contact Centre Benchmarking – Siobhan Bowman confirmed that she has received some information which would help with benchmarking the customer contact centre and she would present this to a future meeting of the Committee. Peter Chapman queried whether it was only information relating to the customer contact centre that had been sought. It was confirmed that the Company was still looking at benchmarking across all of its services.

Revised Complaints Policy Target Times – It was confirmed that the response target time would be 15 working days.

Revised Complaints Policy – The amendments to paragraph 2.7 of the proposed policy had been actioned.

4. DECLARATIONS OF INTEREST

- 4.1 The members of the Committee present confirmed that they had no interests which they were under a duty to disclose.

5. PERFORMANCE REPORT – Q2 2015/16

- 5.1 Siobhan Bowman presented the quarterly Performance report to the Committee highlighting the following:

- there were still issues affecting income collection due to the new Agresso system;
- the re-let time performance figures had improved;
- membership sign-up performance figures had improved in comparison to the same period in the previous financial year;
- electrical testing compliance has been under-performing for the last 7 months however it had become apparent through benchmarking that most providers performed at 70%-75%; and
- there have been issues around water safety compliance due to the contractor's compliance with recent changes in legislation rather than the set KPIs. The compliance with the new legislation by the contractor had caused a distortion in the performance figures. It was clarified that the Company was still statutorily compliant however the contractor was being mandated to comply with the KPIs agreed in the contract which were above and beyond the legislative changes.

- 5.2 The Committee questioned the risk of not being 100% compliant on electrical testing. It was suggested that the electrical testing compliance should be tied together with the gas safety compliance particularly in handling the no-access issues. Peter Madison acknowledged that there were issues with the contractor for the lift maintenance however he highlighted that there had been a reduction in the number of shut-downs and callouts for lifts in general. The Committee agreed that a comprehensive report covering the process for providing lift maintenance, gas safety compliance, and electrical testing compliance services should be presented to the next meeting of the Committee.

5.3 Councillor Blakeman suggested that the performance reports should explicitly highlight any issues with two-lift blocks particularly where the lifts were set to operate on alternate floors.

5.4 The Committee agreed to **NOTE** the contents of the report.

6. NEIGHBOURHOOD MANAGEMENT REPORT

6.1 Teresa Brown presented the update report on Neighbourhood Management services which highlighted the following:

- there had been a significant increase in the number of ASB cases reported in the period under consideration, in comparison to the same period in the previous year;
- the neighbourhood support workload had increased due to the number of referrals from Mosaic;
- the partnership workings for ASB was working better than before and the monitoring and follow-up had improved.

6.2 The Committee agreed to **NOTE** the contents of the report.

7. CAPITAL & PLANNED MAINTENANCE PROGRAMME UPDATE

7.1 Peter Madison presented an update on the capital programme. He informed the Committee that the mobilisation for the commencement of the programme had begun. He confirmed that due to the lack of up-to-date financial management information, there was most likely going to be an under-spend on the programme for the current financial year.

7.2 The Committee noted that the new heating system in Grenfell Tower was up and running. The Committee was further noted that the occurrence of a contractor going into administration had caused delays to the programme however it was intended to have the works that was to be undertaken by the contractor, covered by the framework arrangement.

7.3 The attention of the Committee was informed that the planning for the capital programme in 2016 and beyond had started and with the 1% reduction of rents imposed by the Government, it was likely that the HRA reserves would be impacted thereby causing a pressure on the capital programme. Peter Madison confirmed that RBKC had requested the Company to model the scenario of a reduced capital programme and its implication on the maintenance of the stock. He stated that the reduction would still allow RBKC to meet its statutory obligations but it would significantly reduce the pace of the programme.

7.4 Peter Chapman questioned the process for determining that the expenditure of £5.5m on Trellick Tower was a priority against the opportunity cost of maintaining the other homes managed by the Company. Peter Madison confirmed that there had been a range of choices within which it was considered less risky to do something rather than nothing at Trellick Tower, and in proceeding to commence works on the building, it was considered best to undertake all of the works outstanding on the building in one swoop. It was agreed that Peter Madison would bring a detailed report on the process of determining the investment in Trellick Tower to the Committee.

7.5 The Committee agreed to **NOTE** the contents of the report.

8. REVISED TERMS OF REFERENCE

- 8.1 Fola Kafidiya-Oke presented proposed revisions to the Terms of Reference of the Committee. The Committee considered the proposed revisions and suggested the following:
- include provisions on the holding of meetings by electronic communication; and
 - reinstate the right of the Board to appoint members to the Committee taking into account the skill and expertise of the appointed member.
- 8.2 The Committee **RESOLVED TO** recommend the adoption of the new Terms of Reference to the Board, to the exclusion of any other versions.

12. DATE OF NEXT MEETING

- 12.1 The next meeting of the Committee would be confirmed at a future date.
- 12.2 The meeting closed at 8:15pm

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

FINANCE, AUDIT AND RISK COMMITTEE
(the 'Committee')

Minutes of a meeting of the Committee of the Company
held on 15 October 2015 at 6.30 pm
at 346 Kensington High Street, London W14 8NS

PRESENT:

Resident Board Members Anne Duru - Chair
Kush Kanodia

Council Board Member Jeff Zitron

Independent Board Member Anthony Preiskel

APOLOGIES: Mary Benjamin

IN ATTENDANCE: Barbara Matthews Executive Director of Financial
Services & ICT
Rupa Bhola Assistant Director of Financial
Services
Janet Seward Policy & Improvement Manager
John Barnett RBKC Internal Audit
Fola Kafidiya-Oke Head of Governance & Company
Secretary

1. CHAIR OF MEETING

1.1 The Board **RESOLVED TO** that Anne Duru should chair the meeting in the absence of the Chair, Mary Benjamin. Anne Duru took the Chair

2. NOTICE, APOLOGIES AND QUORUM

2.1 The Chair noted that notice had been given to all members of the Committee entitled to receive notice and attend the meeting.

2.2.2 It was also noted that the meeting was quorate according to the Terms of Reference of the Committee.

MINUTES OF THE MEETING HELD ON 8 JULY 2015

3.1 The Committee **RESOLVED TO** approve the minutes of the meeting held on 8 July 2015 as an accurate record of the meeting.

4. MATTERS ARISING

4.1 Measurable Outcomes on CRM Project

Barbara Matthews presented a paper outlining the benefits of the Customer Relationship Manager (CRM) project. She informed the Committee that the project team had been tasked with seeking clear targets against which to measure the success of the project and report back to the Committee. The benefits of the project was yet to have measurable targets assigned to them but it was intended to assess them as the project progressed.

Anthony Preiskel highlighted that the call length times would be impacted by the introduction of the new system. Barbara Matthews stated that the Project Board was looking at the impact of the introduction of the system on the call centre. She stated that it was intended that the CRM dashboard would hold a one-view of the data from the number of systems being used in the Company, and that should help resolve issues quicker albeit the increased call length time.

Anne Duru questioned if there was a timeline for the management team to provide the targets for the measurement of the success of the project. Barbara Matthews stated that the project team had recently been assembled and their action was to determine absolute measurable targets and how to measure them, and report to the management team.

The Committee **AGREED THAT** a date would be provided by the management team on the provision of measurable outcomes.

4.2 Sign-off of Loss of office payments to officers of the Company

The Committee noted that the powers to sign off the loss of office payments, for officers of the Company, would be addressed in the revised terms of reference for the Appointments & Remuneration Committee.

5. DECLARATIONS OF INTEREST

- 5.1 The members of the Committee present confirmed that they had no interests which they were under a duty to declare to the Committee.

6. CORPORATE RISK REGISTER

- 6.1 Janet Seward presented a revised Corporate Risk Register to the Committee. She informed the Committee that the register had been revised following a session held by the management team and senior managers to review the risks of the Company. She invited the Committee to consider the risks on the register.
- 6.2 Kush Kanodia questioned a discrepancy in the presentation of the risk rating matrix used to rate the risks set out in the risk map. He argued that the grading of the risk rating should skew the risks towards medium and high risks rather than the dominating trend of low risks. The Committee agreed that a fifth column which was missing in error should be inserted in the risk rating table, and the internal auditor should be asked to

review the risk rating methodology.

6.3 It was also agreed that the Committee would consider the risk on the capital programme funding at its next meeting. It was highlighted that the outcome of the internal audit on risk management would be presented to a future meeting of the Committee.

6.4 The Committee **RESOLVED TO** recommend the Corporate Risk Map to the Board, for its adoption, subject to the amendment to the risk rating matrix as agreed by the meeting.

7. INTERNAL AUDIT PROGRESS REPORT

7.1 John Barnett presented the 2015/16 Internal Audit progress report to the end of Q2. He highlighted that there had been three audits undertaken: the Cleaning Contract (communal areas) Contract Management, the ICT Network Security, and Procurement Governance.

7.2 ICT Network Security – The Committee noted that the ICT Network Security received a satisfactory assurance. The Committee noted that the vulnerability testing would commence in February 2016. Jeff Zitron questioned the vulnerability testing could be accelerated given the type of information held by the Company and the increased risk of hacking in corporate systems. Kush Kanodia queried when the ICT strategy requested by the Board would be presented. Barbara Matthews confirmed that the strategy was still in its drafting phase and it was intended to be reviewed by the Executive team in late 2015/early 2016. The final version would be presented to the Board in March 2016.

7.3 Cleaning (Communal Area) Contract Management – The Committee noted the management of the cleaning contract received a satisfactory assurance.

7.4 Procurement Governance - The Committee noted that Procurement Governance received a satisfactory assurance. The Internal Audit team recommendations were accepted (except for one recommendation) and the actions were to be completed by April 2016.

7.5 The Committee **NOTED** the report.

8. BUDGET MONITORING REPORT

8.1 Rupa Bhola presented the Budget Monitoring Report for the group for the period to 30 September 2015. The Committee noted the report which highlighted that:

- the actual budget for the Company was in line with the forecasted budget;
- there was a deficit in the subsidiary budget due to the seasonal trend the demand for repairs and the use of interim staff in the period;
- the liquidation of the subcontractor (FWA) had caused a lag in the delivery of the capital programme which would require additional works to be undertaken with the planned schedule of works for 2016.

8.2 The Committee also noted that the capital programme budget was yet to be spent.

- 8.3 Kush Kanodia asked about the impact of switchover of the RBKC Managed Services on the Company. Barbara Matthews informed the Committee that she and Rupa Bhola had met with the project implementation team to discuss the progress of the resolution of the outstanding issues (missing/unallocated/misallocated customer payments, posting of journals, general system access, and other operational issues). She confirmed that the problems were being resolved but it was very slow.

- 7.4 The Committee **NOTED** the report.

9. REVISED TERMS OF REFERENCE

- 9.1 Fola Kafidiya-Oke presented a proposal to consider and adopt a new terms of reference for the Committee following the review of the existing terms of reference. The new terms of reference reflected the change in status of the Committee to cover the group, the extended remit of the Committee to cover fraud, anti-corruption and whistle-blowing, and the right to hold meetings by electronic communication.
- 9.2 The Committee **RESOLVED TO** agree to recommend that the Board approve and adopt the new terms of reference as the Terms of Reference of the Committee, to the exclusion of any other versions.

10. AOB

- 10.1 There was no other business to consider.

11. DATE OF NEXT MEETING

- 11.1 The next meeting would be held on Thursday, 10 December 2015.
- 11.2 The meeting closed at 7.48pm

Item 11

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

Minutes of a meeting of the Board of the Directors (Board)
held on the 21 October 2015 at 3.30 pm
at 292A Kensal Road, London W10 5BE

PRESENT:

DIRECTORS	Barbara Matthews	Chair
	Sacha Jevans	By Telephone
	Eman Yosry	

IN ATTENDANCE	Paul Gevaux	Interim Managing Director
	Fola Kafidiya-Oke	Company Secretary

1. NOTICE, APOLOGIES AND QUORUM

- 1.1 The Board **RESOLVED TO** appoint Barbara Matthews to chair the meeting.
- 1.2 The Board noted that notice had been given to the directors entitled to receive notice and attend the meeting.
- 1.3 The Board further noted that the meeting was quorate in accordance with the Articles of Association of the Company.

2. MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2015

- 2.1 The Board considered the minutes for the meeting held on 17 September 2015 and **RESOLVED TO** approve the minutes as a true and accurate record of the meeting subject to noting the presence of Rupa Bhola at the meeting, and amending "invited" in paragraph 6.2 to 'invitation'.

3. DECLARATIONS OF INTEREST

- 3.1 The Directors present confirmed that they had no interests to disclose.

4. PROPOSED NEW CHARGING MODEL

- 4.1 Barbara Matthews presented a report to the Board setting out the proposal to amend the charging model used by the Company for the recharge for responsive repairs and void works undertaken under the Measured Term Contract between the Company and the Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited (the "Parent") dated 14 January 2014.
- 4.2 Barbara Matthews informed the meeting that the charging model was proposed to be amended in order to remove the pressures on the Company arising from the use of the current model which as set up would encourage a contractor to maximise the value of a

job to generate income hence requiring high volumes of work to get a better financial outcome. The priority for the Company was to focus on the quality of the repairs service and the value for money which was at odds with the drivers for the current recharge model being used. The continued use of the model would result in a reduction of income and prevent the generation of income required to repay its loan granted by the Parent. The Executive Director of Financial Services & ICT had presented the proposed charging model to RBKC for its consideration and RBKC had confirmed that it would be happy to proceed on the new basis of recharge of fees for the works.

- 4.3 The Board was invited to consider and approve the recharge model set out in the report and approve its use for the recharge of services undertaken by the Company. The Board was further invited to agree to issue the proposed recharge model to the Parent's board for its consideration and approval.
- 4.4 It was highlighted to the Board that the change in recharge model would require an amendment to the Measured Term Contract between the Company and the Parent, and the approval of the Board was sought to instruct legal advisors to amend the contract upon receiving the approval of the Parent.
- 4.5 The Board **RESOLVED TO:**
- (i) agree and approve the proposed new model for the charging for repairs work undertaken by the Company;
 - (ii) agree to issue the proposed new model to board of the Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited (KCTMO) for its consideration and approval for use in respect of charging for works undertaken by Repairs Direct under the Measured Term Contract dated 14 January 2014; and
 - (iii) agree and approve the amendment of the Measured Term Contract dated 14 January 2014 by and between the Company and KCTMO to incorporate the new charging model with a commencement date of 1 April 2015, upon the approval of the parties.

5. DATE OF NEXT MEETING

- 5.1 The next meeting is scheduled for 10 December 2015. The meeting closed at 5.50pm