

AUDIT AND RISK MANAGEMENT SCRUTINY COMMITTEE
12th MAY 2005

PRESENT: The Chair (Councillor Bush)
The Vice Chair (Councillor Cowles)
Councillors Hampson, J.M. Hunt , M.T. Jones, R. Kershaw and Preston

APOLOGIES: Councillors Blanchard, Page and Rodgers

64. MINUTES

The minutes of the meeting of the Committee held on 8th March 2005 were confirmed and signed.

65. DISCLOSURES OF PERSONAL INTERESTS

Councillor Bush disclosed a Personal Interest as a member of the Board of a Housing Association.

66. DECLARATIONS – THE PARTY WHIP

There were no declarations of the existence of the Party Whip.

67. HOUSING STOCK OPTIONS APPRAISAL

A report of the Deputy Chief Executive advising of the risks associated with the stock options appraisal process and the arrangements that had been put in place to enable those risks to be managed effectively was submitted. In particular, the risks associated with all options and with individual options (except Private Finance Initiative which had been identified through the appraisal process as unsustainable) were identified as follows:

Risks applicable to all options

Risk	Probability	Impact	Management Control	Status
Failure to complete the process in accordance with Government Guidance	Low	Would not achieve sign off by GOEM causing significant embarrassment for the Council	A detailed project plan is in place and progress is being monitored weekly. GOEM have attended all meetings of the Housing Stock Options Steering group to be able to observe whether the Guidance is being followed.	The project is now nearing completion and so any failures to follow the Guidance would have occurred by this stage. The risk of failure in the final stages is low.
Failure to engage tenants in the process	Medium/High		Tenant consultation using independent tenants advisors (TPAS). Specialist consultant advised the Council on the second phase of tenant consultation	The consultation phase is now complete. This included the programme of work undertaken by TPAS; the test of opinion with a 34% response rate undertaken by the Council with follow up telephone surveys. This risk has been minimized.

Stock condition varies from the survey data extrapolation	Low/Medium	The costs of implementing the Decent Homes programme will increase	The database is being updated as properties are surveyed individually prior to the commencement of any works. This provides the opportunity to test and update the survey data. A copy of the methodology used by the consultants for the preparation of their survey is appended.	Ongoing. The works tendered for the present financial year have been costed and are broadly consistent with the estimates contained in the stock condition survey.
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Specific Risks – Stock transfer

Risk	Probability	Impact	Management Control	Status
In order for this option to succeed, there needs to be a positive formal ballot supporting the transfer. There is a risk that there would not be majority vote in favour of transfer.	High	High. The transfer could not proceed without a majority vote in favour of transfer.	This is an external risk. However as part of the tenant engagement process the test of opinion and other feedback from tenants has been gauged. This factor is considered by the Housing Stock Options appraisal Group in their deliberations.	The test of opinion indicates a relatively low level of support for the transfer option, compared to retention and ALMO, therefore there must be a risk of any ballot failing.

There are costs associated with this process which would have to be borne if a ballot failed, and these would be taken from the General Fund account	High	These would have a substantial adverse impact on the General Fund	This risk is consequential on the outcome of the ballot	Potential Costs are clearly identified in the financial appraisal undertaken by HQN and are estimated at £2m
Adverse impact on the General Fund. The RSL would be likely to opt to procure its support services from outside the Council.	High	Although precise costings are not available these costs may amount to as much as £1 million per annum. The Council would need to make corresponding cost/service reductions with any irreducible cost falling on the General Fund.	In the event that this risk materializes then the Council would use its normal service planning and budgeting processes to manage these effects.	The RSL would be required to procure its support service costs in readiness for becoming operational i.e. around April 2007.

Specific Risks – Arms Length Management Organisation (ALMO)

Risk	Probability	Impact	Management Control	Status
As this is a bid process, not being accepted onto the programme is the initial risk, then not succeeding in achieving the level of bid requested.	Low/Medium	High. This option could not proceed in these circumstances	If this option is selected then a project will be initiated to prepare the bid with the aims of achieving the highest probability of success.	Work would commence following decision of Council on 31 st May.

There is also the risk of not reaching the two star standard to access the funding in sufficient time to achieve Decent Homes by 2010.	Medium/High	High. Unless two star status is achieved, resources allocated through the ALMO bid would not be accessible.	Service improvement plans are in place. However, the achievement of two star status for the Housing Repairs and Maintenance Service is an essential element of the requirement.	Ongoing. Service improvements in key Housing areas are being monitored by the Housing Improvement Group.
Adverse impact on the General Fund should the ALMO opt to procure its support services from outside the Council.	Medium	Although precise costings are not available these costs may amount to as much as £1 million per annum. If these services were procured elsewhere then the Council would need to make corresponding cost/service reductions with any irreducible cost falling on the General Fund.	In the event that this risk materializes then the Council would use its normal service planning and budgeting processes to manage these effects.	The ALMO would be required to review its support service costs probably within six months of becoming operational i.e. around September 2007.

Specific Risks – Stock Retention

Risk	Probability	Impact	Management Control	Status
Changes to the Governments financial regime may have a significant effect on the ability of the Council to deliver Decent Homes under this option.	Medium	High. The financial appraisal is sensitive to changes in the Government financial regime and so this could have a significant impact on affordability.	The financial model has been subject to sensitivity analysis to illustrate the impact of changes to the Government formula.	This risk has been appraised. However, future changes to subsidy calculations are beyond the control of the Council.
Unforeseen expenditure not anticipated by the stock condition survey.	Medium	This option will have a direct impact on the ability of the Council to maintain its non – housing capital programme at current levels.	All properties will be surveyed prior to the commencement of any works. As the programme progresses it will be possible to quantify the extent of any unforeseen expenditure.	Ongoing. This can only be managed as the programme progresses.

At the invitation of the Committee, the Deputy Leader (Community) attended the meeting as the Cabinet Lead Member for the issue.

In response to questions, the Deputy Chief Executive advised:

1. that the stock condition survey had covered 10% of the Council's housing stock, by type. That, together with additional data relating to improvement and repair works and costs since the survey had been undertaken, meant that the Council could be confident that the data represented a reasonable sample;
2. that a 10% sample was fairly typical among Councils undertaking the appraisal, although some had adopted a larger sample. Charnwood had supplemented the original 10% sample, as mentioned in 1. above;

3. that the test of opinion had identified a relatively low level of tenants (approximately 20% of the 34% of tenants who had participated) favouring transfer of the stock to a Registered Social Landlord;
4. that the £1.1m General Fund support service recharges had been assessed by the consultants HQN as a reasonable estimate and figures supporting that assessment were in the report to the Cabinet (page 191). That estimated the impact on the General Fund in the event of stock transfer to a reducing level over three years.
5. that the requirement to achieve 2 star standard in order to progress an ALMO was not regarded as too significant a risk as there was a commitment to improve levels of service whatever the outcome of the appraisal process. Other authorities in a similar situation had managed to achieve the 2 star standard and to some extent the impetus provided by the anticipated move to ALMO status had been a contributory factor.

In relation to 4, above, the Chair expressed the view that the effect on the General Fund represented a significant risk which, although identified in the financial appraisal, had not been given sufficient weight within the risk assessment. Associated with that, it would be appropriate for the Cabinet to be supplied with some detail of the assessed figure as there was the potential for the impact to be greater still as HRA related overhead costs currently amounted to more than £2m per annum.

A member of the Committee expressed the view that an additional risk might be in relation to the ability to maintain tenants' support for implementation of whichever option was chosen. That was the case particularly as there was not a clear majority of tenants in favour of a single option. The goodwill and support of the tenants to the selected option would be crucial to successful implementation and sufficient weight should be given to that in the decision-making and implementation processes.

The Chair expressed concern that any delay in achieving the 2 star standard under the ALMO option would effectively result in the period for achieving the Decent Homes standard by 2010 being reduced, as the finance associated with an ALMO would not be released until the 2 star standard had been achieved. That represented a risk which needs to be quantified and incorporated into the schedule of risks.

At the invitation of the Committee, Ms K. Newbolt of the Tenants Advisory Service, which had been working with the Charnwood Tenants Association (full title in final version) advised the Committee that although most authorities that had sought to achieve 2 star status had done so, in recent months five authorities that had pursued the ALMO option had failed to achieve 2 stars at the first attempt. That had led to a six month delay but in that time there would be considerable support available to the authorities as it was in the interest of all concerned for the standard to be achieved.

RESOLVED

1. that the Cabinet be advised of the Committee's view that, in addition to the risks identified in the report of the Deputy Chief Executive referred to above, there are additional risks to be taken into account in relation to:
 - the effect on the General Fund of the Stock Transfer option;
 - the ability to achieve the Decent Homes standard by 2010 in the event of delays in achieving the 2 star standard under the ALMO option; and
 - the need to ensure tenants are engaged in implementing the selected option;
2. that the schedule of risks be amended by the addition of the following and be submitted to the Cabinet in its revised form;

Risk	Probability	Impact	Management Control	Status
Stock Transfer - Adverse impact on the General Fund if RSL or ALMO obtains support services from outside the Council.	High	High. Based on the current year's budget net recharges to the HRA amount to £996,000. These are recurrent costs. If these costs had to be covered by the General Fund then a combination of offsetting savings, service reductions or increases in revenue through Council Tax would be required to maintain a balanced budget.	This impact would be managed through the annual service planning and budgeting process. This risk can be mitigated in the ALMO option if Council services can be demonstrated to provide best value to the ALMO.	This risk will materialize either upon transfer of the stock to an RSL (estimated to be in two years time if that option is chosen) or would be consequent upon a decision by an ALMO to procure some or all of its support services from outside the Council in order to secure best value

ALMO – Inability to achieve the Decent Homes standard by 2010 in the event of delays in achieving the 2 star standard	Medium	High	The attributes of a two star service are clearly defined and progress towards this standard is progressed through the implementation of service improvement plans. Progress is monitored and reported regularly to the Housing Improvement Group for key areas.	There is evidence of continuing improvement in some areas but considerable work is still needed across a number of service areas to achieve the two star standard
All - Tenants do not feel they have ownership of the selected option as there is no clear majority support for a single option.	Depends upon the option chosen	High	Effective tenant engagement is a crucial element of the provision of a high quality service and necessary to achieve two star status. Mechanisms to secure tenant involvement have been put in place	This will be addressed through the implementation plan for the chosen option

3. that the Deputy Chief Executive be requested to make available to the Cabinet more details of the calculation of the assessed impact on the General Fund of the stock transfer option.