

# Appendix 1

## LOCAL AUTHORITY RISK MATRIX

Risk Area	Risk Item	Impact	Probability	Risk Mitigation & Control
Procurement	HB changes affecting HB caps and possible introduction of bed size based caps based on the Local Housing Allowance (LHA) mechanism .	H	H	<p>HB caps will now be cut by 10% in April 2008 – bed size-related changes may or may not happen in subsequent years. Current indications are that an LHA plus<sup>1</sup> regime will be put in place for temporary accommodation from April 2009.</p> <p>The consortium will model rent increases of RPI + 0.5% on the basis of cautious estimates made for HB cap/LHA. The local authorities will draw down the maximum HB Cap/LHA and any surpluses will be placed in a charged account for the benefit of the scheme.</p> <ul style="list-style-type: none"> <li>• Detailed negotiations have taken place with the consortium to generate a rent structure that reduces risk to the Councils</li> <li>• Starting rents to be at maximum LHA level to engineer headroom for any future shortages.</li> </ul> <p>There still will remain a risk that future HB increases may not keep pace with rent increases or rule changes may vitiate assumptions made at the start. The problem will become critical if the weighted average HB under the new LHA system falls below the rent payable under the contract.</p> <ul style="list-style-type: none"> <li>• The surpluses in the charged account will mitigate any difference between the LHA income and the lease rents.</li> <li>• Options such as review of scheme costings/pricing including lease length, disposal of properties to reduce debt, capital injection by councils, seeking grant etc.</li> <li>• Pros and cons of each option must be weighed carefully i.e. sale and early repayment of debt may cause breakage costs to be incurred.</li> <li>• Adequate flexibility will be captured in the contract documentation, so that agreed upon options can be exercised to the benefit of all Parties.</li> </ul>
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<sup>1</sup> 'LHA plus' refers to discussions with the CLG indicating that LHA for temporary housing will be topped up by an additional sum for management and maintenance (estimated at £60-70 per unit per week and a possible additional extra sum

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Procurement cont.	Early termination of contract is requested by either party: falling demand for temporary accommodation or HB rule changes in the case of councils and other good reason on the contractor's side.	<b>H</b>	<b>M</b>	<p>In the unlikely event of early termination, a key feature of the Consortium's offer is giving the Council the benefit of any uplift in the Portfolio to offset any penalties or breakage costs incurred in the first 5 years, such as:</p> <ul style="list-style-type: none"> <li>• financial/funding costs – if repayment of debt exposure is called for, the Finance Provider may need to unwind any associated funding structures,</li> <li>• contractual costs (property and tenancy management, property maintenance) – compensation could be considered in one of two forms: <ul style="list-style-type: none"> <li>a) a termination fee equivalent to an amount necessary to convert the property to affordable housing, or</li> <li>b) the disposal of property, from which proceeds, the equivalent termination fee could be recovered - any additional surplus could be reinvested into the Programme.</li> </ul> </li> </ul> <p>Should a Council wish to exit the Programme during the first 3 years, the Council would need to absorb a pre-agreed recoupment, consisting of on-boarding and set up costs incurred by the Consortium, including:</p> <ul style="list-style-type: none"> <li>• the setting up of Programme funding vehicles and supporting structure/s,</li> <li>• legal and other charges associated with property acquisition,</li> <li>• capital expenditure on the properties (pro rata), and</li> <li>• the costs associated with procuring the properties,</li> <li>• an agreed level of loss of profit.</li> </ul>
	Delivery of the programme to timetable	<b>H</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• A strong procurement team / process is in place</li> <li>• A timetable will be incorporated into the legal documentation</li> </ul>
	Acquisition of SHI properties are not completed and grant not claimed by end of March 2008 causing loss of grant.	<b>M</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• The RSL Partners have already devised procurement strategies per Borough, and per unit type. On the back of this, and to ensure speedy acquisition, they have also committed to commence acquisition during the pre-mandate period.</li> <li>• With regards grant monies, there are ongoing discussions with the Housing Corporation on devising a workable solution that results in the grant not being foregone should all the SHI units not be procured prior to the end of this financial year.</li> </ul>

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<b>Procurement cont.</b>	Property prices rise faster than anticipated during acquisition phase.	<b>M</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• Bespoke procurement strategy to be agreed with each London Council.</li> <li>• The Consortium Partners have well established track records in property procurement and will put in place procedures that will ensure properties are acquired in line with the Programme's requirements.</li> <li>• The acquisition programme has been formulated to ensure that properties are acquired speedily (pre-contract, where possible).</li> <li>• The Partners will strive to avoid the boosting of property prices by shaping their acquisition programme and plans accordingly.</li> <li>• Open dialogue with the West London Housing Partnership ("WLHP") on the impact of the rise in property prices.</li> <li>• The Consortium model is structured to enable 100% conversion of homes to affordable housing levels, provided that there is flexibility in lease tenure.</li> </ul>
	Low property supply	<b>M</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• The acquisition programme provides that 25% of the properties will be newly built thus minimising the supply risk and helping the community generally.</li> <li>• Access to a substantial database of landlords and vendors, through a network of Consortium Partners' offices.</li> </ul>
	Properties of the right mix and quality not available.	<b>M</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• The Consortium Partners have specialist knowledge of the 7 WLHP Boroughs, so should be well-placed to secure the correct unit types and mix.</li> <li>• The Partners have had discussions with the various Boroughs and it is becoming clear that some boroughs will look at procuring units outside of the 7 stipulated Boroughs, which broadens the scope of procurement.</li> <li>• The legal documentation will enable the local authorities to give their approval of the properties to be acquired.</li> <li>• The Partners will ensure that property 'hot spots' are not created by the acquisition programme – avoiding prices increasing for those properties of the right mix and quality. (The Partners cannot 'ensure' this, but their procurement will be based on low-key, direct approach marketing, and they will operate within an offer price band, and if this is not acceptable to the seller, then they will not buy the unit. As such, they do not inflate the prices of property in that Borough. We should also comment on the success of Local Space in acquiring 900 units in the Newham housing transaction, which did not cause HPI to inflate)</li> </ul>
	Unanticipated costs in property acquisition and refurbishment costs.	<b>M</b>	<b>M</b>	<ul style="list-style-type: none"> <li>• Fast track sales and conveyancing to minimise time between sale agreed to exchange of contract, thereby minimising exposure to abortive costs.</li> <li>• Proven, experienced, in-house chartered surveyors to assess works costs of acquisitions and refurbishment.</li> <li>• Control over a high percentage of the total purchase process.</li> <li>• Employing a tight regime of survey and other checks to ensure that properties are acquired that meet the standards required.</li> </ul>
	Final acquisition cost turn out to	<b>L</b>	<b>L</b>	<ul style="list-style-type: none"> <li>• Mechanisms need to be included in the agreements to share this</li> </ul>

	be less than anticipated			<p>with the Councils.</p> <ul style="list-style-type: none"> <li>The savings should allow the opportunity for early conversion.</li> </ul>
	Failure to meet Health & Safety regulations	<b>M</b>	<b>L</b>	<ul style="list-style-type: none"> <li>Employ a system of continuous risk assessment and taking an overall proactive risk management approach.</li> <li>Alignment to HHSRS standards.</li> </ul>

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	Failure to meet service quality standards.	M	L	<ul style="list-style-type: none"> <li>• Robust performance management measures, monitored through Service Level Agreements, will ensure that service performance indicators are tracked and acted upon.</li> <li>• Excellent reputation and track record of RSL and private contractors.</li> <li>• The use of benchmarking 'best practices' by the Consortium Partners, ensures that the highest level is adopted and implemented.</li> <li>• Regular meetings between the Consortium Partners and the Boroughs to discuss service performance and instituting a system of responding to any concerns.</li> <li>• The Partner's performance will be governed by KPIs, which KPIs will be agreed with the Councils beforehand.</li> <li>• 15% Poor Performance Penalty clause.</li> </ul>
	Limited capacity for RSL to acquire.	L	L	<ul style="list-style-type: none"> <li>• The Consortium Partners are well-established, financially secure RSLs, both of whom are leading providers of temporary and affordable housing in the London area. Both Partners have to assess their capacity to acquire the properties, and the resultant impact on their businesses.</li> </ul>

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Operational	Unanticipated increases in responsive and major maintenance costs	M	L	<ul style="list-style-type: none"> <li>• Robust assessment of costs by utilising knowledge of Consortium Partners, who have extensive exposure to the temporary accommodation sector.</li> <li>• Fixed price maintenance contracts that will ensure stability of costs.</li> <li>• Survey checks (and others) performed at acquisition stage will mitigate these elements.</li> <li>• Agreeing a screening protocol (sensitivity allocation).</li> <li>• Quality management services (on a proven track record base).</li> <li>• RSL committed to acquiring stock at the end of lease – this acts as an incentive to maintain stock in good order, and keep maintenance cost.</li> </ul>
	Failure to achieve Scheme Development Standards (“SDS”), or their equivalent, at conversion	H	L	<ul style="list-style-type: none"> <li>• Ensuring that all the properties acquired meet the SDS at the onset. In addition all new properties must meet eco-home standard.</li> <li>• Formulate a cost effective and robust maintenance programme with the objective of minimising the whole life cost of the property and ensuring that the properties are in an excellent condition.</li> </ul>
	Failure to comply with Gas Safety Regulations	H	L	<ul style="list-style-type: none"> <li>• Formulation of a robust compliance programme.</li> <li>• The Consortium Partners will implement an inspection programme that will meet (at a minimum), but will be looking to exceed those standards required by Health &amp; Safety regulations.</li> <li>• Track record of Partners.</li> </ul>
	Ineffective Tenancy and Asset Management	M	L	<ul style="list-style-type: none"> <li>• Excellent management track record,</li> <li>• Good management information systems for monitoring tenancy activity.</li> <li>• Ongoing communication with tenants.</li> </ul>
	Property becomes uninhabitable.	M	L	<ul style="list-style-type: none"> <li>• This element is already insured by the Partners, together with the cost of re-housing.</li> <li>• The rent should cease after an initial period and the future of the property determined e.g. disposal, major works, etc (we need to define what ‘an initial period is’)</li> </ul>

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Financial	Increase in interest rates	H	L	<ul style="list-style-type: none"> <li>Interest rate risk will be minimised through hedging instruments to be embedded in the funding solution.</li> <li>The Consortium has market leading experience in structuring funding solutions of this nature.</li> </ul>
	Rising cost profile of the Programme, due to: : inability to recoup VAT charges, : SDLT charges incurred.	H	L	<ul style="list-style-type: none"> <li>The Consortium is proposing a VAT-efficient structure (the Consortium will need clarity from Council on their VAT structures/regime).</li> <li>The Consortium will be using Charitable Special Purpose Vehicles ('SPV') when acquiring the properties – these are exempt from SDLT. This saving for the Consortium will allow improved funding costs to be secured for the Programme.</li> </ul>
	The local authorities become liable for disrepair under the lease as the SPV is unable to meet its repairing obligations under the management agreement	H	L	<ul style="list-style-type: none"> <li>Arrangements will need to be agreed that do not make the local authorities liable for disrepair e.g. local authority controlling the revenue stream in event poor maintenance performance or guarantees by consortium partners.</li> </ul>
	Loan is refinanced with gains and/or losses to the contractor.	H	L	<ul style="list-style-type: none"> <li>The overall costing for the Programme captures value from the structures around interest rate management that underpin the financing,</li> <li>It is not envisaged that the loan will be refinanced during its life – restructuring would, in all likelihood, result in breakage costs.</li> </ul>
	Grant becomes available for the Scheme during the term of the agreement (with the risk that penalties may be incurred).	M	L	<ul style="list-style-type: none"> <li>Agreements will need to be structured to allow the possibility of injecting future grant, without incurring penalties.</li> <li>Grant funding should allow for earlier conversion.</li> <li>(Whilst the Consortium would look at ways at accommodating this, the deal structure will not allow for random grant injections to be made)</li> </ul>
	Demand for TA falls.	M	L	<ul style="list-style-type: none"> <li>The headline numbers requiring TA will fall in line with Government targets. However a substantial core of TA will remain.</li> <li>This scheme provides better VFM and therefore should be prioritised ahead of PSL units.</li> <li>Continuous monitoring of demand for TA (by the Councils)</li> <li>As a final remedy, an exit strategy involving conversion to market rents, property sales, would need to be devised</li> </ul>
	Overall decline in property prices over the 15 year lease period, adversely affecting conversion rates.	H	M	<ul style="list-style-type: none"> <li>Mechanism to extend lease arrangements, in order to ensure full conversion levels.</li> <li>Disposal of housing units.</li> <li>The Consortium Partners will be contributing the following investments: : GBP 4million - Genesis (for Brent, Ealing, Harrow, Hammersmith &amp; Fulham and Kensington &amp; Chelsea Boroughs), : GBP 1.8 million – A2 (for Hillingdon and Hounslow Boroughs), recycled receipts from SHI units,</li> <li>Injection of further grant monies (should it become available)..</li> <li>Regular dialogue so that Consortium Partners are fully aware of market developments and can review and reposition on mutually agreed plans with WLHP.</li> </ul>

	Poor Income Collection	H	L	<ul style="list-style-type: none"> <li>• Proven, robust, rent collecting procedures will be replicated for the Programme.</li> <li>• Ongoing liaison with Housing Corporation and DWP on housing benefits</li> <li>• Effective voids control (if agreed).</li> <li>• This Consortium Partners will be contractually bound and liable for rent arrears (if agreed).</li> </ul>
	Consortium Partner becoming Insolvent	L	L	<ul style="list-style-type: none"> <li>• The Consortium has multiple partners, and will set be with contractual arrangements that will allow take over of the partner's responsibilities by substitute quality contractors within the Consortium (or from outside).</li> <li>• Institute an early warning system arrangement for breach of contract.</li> </ul>