# **Hexagon Housing Association Ltd**

# **Board of Management**

**27th September 2016**

###### Agenda Item 3

**Chief Executive’s Report**

**Report by the Chief Executive**

|  |  |
| --- | --- |
| ***1.0*** | ***Summary*** |
| 1.1 | This report provides an update across a range of issues and makes four recommendations. |
| ***2.0*** | ***Recommendations*** |
| 2.1 | That the Board appoints Debbie Bankole-Williams as Vice Chair for a further 3-year term, as per Section 4. |
| 2.2 | That the Board discuss and decide on the question of Board attendance at the Resident Forum, as outlined in Section 6. |
| 2.3 | That all Board Members resolve to read the July 2016 document entitled “Regulating the Standards” and raise any queries that might arise. |
| 2.4 | That the Board notes the remainder of the report. |
| ***3.0*** | ***Rent compliance*** |
|  | Members will be aware from reports to both the Board and the Audit & Risk Committee, about rent compliance issues. I reported at the last Board meeting that the letter to the HCA was about to be finalised. I can now confirm that the letter from the Chair was sent to the HCA on Friday, 5th August and I now attach a copy under **Appendix A** for Members’ information.  Although we received an immediate acknowledgement from the Regulation Manager, we have not yet heard any further from the HCA. I will of course keep Members informed as and when we hear back from the HCA on this matter. |
| ***4.0*** | ***Vice Chair position*** |
|  | Hexagon currently has two Vice Chairs, Debbie Bankole-Williams and Ian Mansell.  Ian was elected unopposed in September 2014 for a further three-year term and his term is due to expire in September 2017. As this will coincide with Ian’s ninth year on the Board, the maximum allowed in our Rules, a vacancy for Vice Chair will arise in September 2017.  In the meantime, Debbie Bankole-Williams was elected Vice Chair in September 2013 and her first term expires this month.  I understand that the Chair and Debbie have discussed this issue at her recent performance review and she has indicated her willingness to carry on for a further three-year term, which the Chair supports.  I would therefore recommend that the Board appoints Debbie to serve a further three-year term as Vice Chair.  For the avoidance of doubt, the Board could alternatively choose to seek further nominations, and in the event of other nominations being received, an election by secret ballot could be organised at our next meeting, but my recommendation has been made following a discussion with the Chair, who indicates his support for that way forward. |
| ***5.0*** | ***Private and Confidential*** |

|  |  |
| --- | --- |
| ***5.0*** | ***Brickfield Cottages, Plumstead SE18 – Private & Confidential*** |
|  | Members will be aware from the June Board report, that we have been investigating the cause of a ground collapse at a recently handed-over new development containing 40 properties (36 houses, 6 flats).  We recently received a final report from Peter Brett Associates (PBA), the experts investigating the cause of the collapse and have held a meeting with them to discuss the implications of their findings and to make a decision about further actions.  This is subject to a separate Board report from the Development & Regeneration Director, but I thought it would be useful if I headline some of the key outcomes in this report.   * The ground collapse is likely to have emerged from historic chalk mining activity on the site; * We have been advised to carry out additional works to investigate two voids encountered whilst this site was being piled during construction; * The current risks in these two specific locations are deemed to be “moderate to high” for a further ground collapse; until we carry out remedial works * Until further investigations are done elsewhere on the site, PBA are unable to provide any assurances about the safety or risks faced by any other residents living on the site; * A drainage solution (soakaways) was pursued by the contractor on site despite a clear recommendation in the soil report not to pursue this solution.   PBA have recommended a number of options which would allow us to gain further assurance, which will be both costly and time consuming.  Following consideration of the findings and a significant amount of thinking and discussion, the Directors’ Group have taken a decision that on balance, we would be best advised to move all 40 residents from the development whilst the further investigations and remedial works are undertaken.  This decision is primarily taken in the context of our investigations having established significant risks on the site where investigations have occurred, but also in the context of our inability to provide reassurances to an already anxious group of residents living on the site at present for areas that have not yet been investigated. We have also considered some of the logistics of carrying on the investigations with residents occupying the site.  At the time of writing this report, we are scheduling a further meeting to quickly action the decision and this will involve organising communication for residents and other stakeholders which clearly explains the position. We will also be organising a group meeting with all residents on a face to face basis which I will chair.  Our key challenge will be in providing re-housing for the residents and we will be liaising closely with Greenwich Borough Council, who provided the vast majority of the nominations to this scheme when it was let in December 2015. It is clear that we will need their co-operation if the re-housing is to be done quickly.  The Development & Regeneration Director’s report outlines further detail. In the meantime, there are clearly significant risks associated with the costs of carrying out the remedial works and we are therefore undertaking some legal advice about our ability to re-claim our uninsured losses from any other parties involved in the construction, particularly the soil survey investigation firm. That is because the insurers, having withdrawn subsidence cover on the site, will only cover damage arising from the original incident and not further preventative measures.  We will keep the Board fully informed as this situation unfolds. No Board decision is required at this stage and this report is for information. |

|  |  |
| --- | --- |
| ***6.0*** | ***Board attendance at Residents’ Forum meetings*** |
|  | Back in 2014, in an effort to improve understanding and relationships between the Hexagon Board and the Residents’ Forum, we established a rota to ensure that all Board Members were given an opportunity to attend a Residents’ Forum meeting.  I am informed that we have now arrived at the end of that rota. It appears that there is some expectation on behalf of the Residents’ Forum that we will carry on with this rota, so I think it is important that Board Members consider the matter and decide the way forward.  It seems to me that the simplest option would be to simply repeat the rota so that everyone has another opportunity to attend the Residents’ Forum. However, as we have not discussed this matter as a Board, I am not really in a position to make a clear recommendation before getting a steer from Members. It would therefore be useful to discuss this with Board Members at the meeting. |
| ***7.0*** | ***Delivering better Value for Money: Understanding differences in unit costs*** |
|  | At the July meeting, I provided the Board with a letter sent by the HCA to the Chair of all Housing Associations which identified variations in headline housing association costs. I also reminded the Board that the Regulator intended to focus on Value for Money as part of their In-Depth Assessments (IDAs). We covered both of these areas in our recent away-day.  In the meantime, I would like to confirm that the full Value for Money Self-Assessment is contained elsewhere on this agenda at item 7 and includes the HCA’s cost information in the wider context of our Value for Money Self-Assessment, as indicated at our last Board meeting. |
| ***8.0*** | ***Voluntary Right to Buy (VRTB) - update*** |
|  | We understand that the National Housing Federation has been working closely with the Government for the past eight months to develop a framework for voluntary Right to Buy that can deliver to the spirit of the agreement.  In our most recent communications from the NHF, we have been informed that the framework will need to be reviewed and improved by ministers and given that the new ministers will need time to work through the profiles, the NHF anticipate that this may take “some time”. The NHF have yet to receive Government confirmation of key issues including tenant eligibility criteria that will affect the final shape of the scheme.  With that in mind, the NHF don’t yet have a start date for the scheme and as Members will be aware from our discussion at the Away-Day, some observers think that the newly formed Conservative Government may have kicked the voluntary Right to Buy “into the long grass”.  At the same time, the NHF have encouraged Members to consider which properties might not be sold under VRTB and I therefore draw Members’ attention to Agenda 10 from the Operations Director which covers this. At the moment, we are only suggesting that we would not sell properties we are legally unable to sell, but we may need to look at other exemptions as the rules and regulations are outlined.  I would remind Members, that Hexagon signed up to principle of a voluntary Right to Buy simply on the basis that the principle of the voluntary deal appeared to be significantly better than a forced legislative deal, particularly when it came to our ability to replace any units sold. In that context, I think our enthusiasm for participating in the VRTB would be seriously diminished if we were unable to replace our Right to Buy units on a like for like basis, so we will await the finer scheme details with a keen interest in this area before we report back to the Board on the way forward. |
| ***9.0*** | ***Government Announcement on Supported Housing and the Local Housing Allowance (LHA)*** |
|  | Members may recall that in January, I reported on the Spending Review and Autumn Statement announced in November 2015. One announcement was that tenants in the social sector would be limited to the level of the Local Housing Allowance (LHA) rate that applies to the private sector.  We estimated then that if this were to be brought in, there would be a significant impact on our supported housing income which could be reduced by £275,000. This is 20% of our supported housing income.  Members may recall that I reported to the March Board meeting that I had written to 14 local MPs whose constituencies cover the areas in which Hexagon works alerting them to the impact of this announcement and I asked for their assistance in joining the NHF and Hexagon to ensure that there were no unintended consequences from the announcement, including the closure of these much needed schemes.  In March, I also reported that the Government had begun to listen and that they had delayed the introduction of the LHA for a further year. The original intention was that it would start for tenancies from April 2017, but they delayed this for a further year to April 2018 whilst they carried out further work on the impact of the decision.  That work has now been completed and on Thursday, 13th September Damien Green, the Work & Pensions Minister made an announcement.  The good news is that the Government now clearly acknowledges that supported housing needs more money than the Local Housing Allowance cap will deliver and they indicated their intention to ensure that they met the bill in full. This is clearly good news.  The mechanism for making this happen however is beginning to raise some concerns. The DWP intend to pay up to the Local Housing Allowance. Any monies in excess of the LHA will then be passed to Local Authorities who will in turn pass these payments to Housing Associations from a ring-fenced budget.  We have not yet had time to digest this decision, but it does seem that in the short term we should expect to get our money at the same rate it is currently being paid from the Housing Benefit budget. However, over the medium to long term, if the decision on how to spend that money is going to be down to Local Authority commissioners, there is reason to think that the situation might not be permanent. Members may recall that the original Supporting People budgets were ring-fenced, but once the ring-fence was taken away, cash strapped local authorities made significant cuts to previously funded Supporting People budgets.  Lastly, the Government has announced that the implementation will begin in 2019/20, which should allow a further year for preparation.  We will of course keep the Board informed as this progresses.  This report is for information only. |
| ***10.0*** | ***Mark to Market movements on our interest rate SWAPs*** |
|  | At the last meeting, I reported that there had been significant market disruption following the Brexit vote and one of the key areas was the collapse in long term Government gilt rates. This was caused by investors trying to seek safe havens for their money while the stock market fell to record lows.  The practical impact for Hexagon was that we had to place a large amount of additional security with Barclays and Lloyds and that totalled £2.7m as at the last meeting.  At the time of writing this report, the total amount on deposit required now totals £3.74m as there have been several further cash calls from our two counterparties.  As reported to the Board in the July Treasury update, we are currently working to replace all of this cash on deposit with property security. This cash will be returned once the property security charging is complete.  We are in the process of charging a further £5m to Barclays and to switch £3.6m from the Lloyds loan to the SWAP. All our information is with the solicitors and we are pushing for an end of September completion. Once this is complete, all cash on deposit will be returned.  In the meantime as we currently have a very large volume of undrawn loan facilities, we are confident that any further cash calls can be met if required. |
| ***11.0*** | ***Regulating the Standards – July 2016*** |
|  | Since the last Board meeting, the HCA have published a new document entitled ‘Regulating the Standards’ which updates the version published in June 2015, which I previously reported to the Board.  The main context for the revised document is to take into account changes in the regulator’s approach to the Rent Standard which results from the Welfare Reform and Work Act 2016. This mandated that rents are to be reduced by 1% over the next four years and the HCA is keen to ensure that Boards fully consider these changes in relation to any certifications of compliance with the Government’s Financial & Viability Standard.  Second, the document refreshes areas where there has been a change in approach including, for example, the section where they now explain that their work on Value for Money is now factored into all of their In-Depth Assessments (IDAs).  Other than those two changes, the document follows much of what was published in June 2015.  As Members will be aware from our IDA training session at the Board Away-Day, having an understanding of the way the regulator regulates is important and this document will help Members understand the way the HCA regulates the Standards. In that context, I attach the full document under **Appendix B**.  Lastly, Members should note that in the last paragraph of the introduction from Julian Ashby, the Chair of the HCA Regulation Committee, that when the Housing & Planning Act comes into effect there will be changes in the regulator’s consent powers which will result in yet another revised version of Regulating the Standards. I will of course report on that change when it occurs. |
| ***12.0*** | ***Board Away-Day*** |
|  | At the time of writing this report, I have not yet received the Self-Assessment feedback from Fiona Underwood, but I anticipate I will receive this soon. This should allow me to develop an Action Plan which I will ask the November Board to agree in respect of continuous improvements and our governance.  In the meantime, in respect of the new risk arising from property sales post Brexit, we are awaiting the prospectus from the GLA to be issued shortly and we intend to bring a full report to the Board outlining how we intend to deal with the risk arising from the bid prospectus depending on the balance between rent and sales. Currently we anticipate this report will go to the Board in either November or January.  In the meantime, we also continue to build on some of the early work we have done in relation to IDA preparation so that we can prepare timely briefs to Board Members in advance of any IDA. |
| ***13.0*** | **Paperless Board meetings** |
|  | As previously reported, the Directors are currently piloting the roll out of ‘MinutePad’. We have made a little progress over August with three of the five Directors currently using MinutePad and not relying on paper copies of Directors’ Group agendas.  Very soon we will roll this out to all Directors, including David Collick who has arrived in post since the last Board meeting. Once we have ironed out any glitches and have learned all the lessons required, we intend to roll this out to the Board.  In summary, the MinutePad system itself seems to work very well. The key issue is in everyone familiarising themselves with any new devices they have been supplied with by Hexagon and mastering the art of annotating the papers, given the options available.  The plan for roll out to the Board is to first survey members to ensure everyone has a device they can use, before we organise a training session for all Board Members. We will then trial run the scheme by issuing papers both electronically and in paper format (as a back-up). Once everyone is comfortable with the new system, we will stop copying board papers. We do anticipate that we will bring a significant efficiency gain as this should save us a significant amount of time in copying and posting board papers.  The precise timetable will not be known until the Directors’ Group pilot is complete, but we are aiming to progress this as soon as practical. |
| ***14.0*** | ***Fraud update – Follow up to Internal Controls Assurance Statement*** |
|  | At the July Board meeting, in my Internal Controls Assurance Statement, (Agenda Item 5) I reported that “The Finance Director is required to make a Fraud return to the HCA which includes any tenancy fraud which may have been uncovered during the year.” The return had not been completed when this report was finalised, but I will update the position verbally at the meeting”. I did not update the July meeting as the deadline for the return was the end of September, but the return has now been made.  The return confirmed that there were three instances where Hexagon had discovered a property had been fraudulently sub-let. Management action was taken and the property recovered and made available for re-letting in all three instances.  This update is for information only. |
| ***15.0*** | ***NHF report to Boards – 8th August 2016*** |
|  | Since our last meeting, the NHF has issued a report to Boards and I attach this under **Appendix C**. This report is for information only. |