



HOUSING ASSOCIATION LIMITED

DEVELOPMENT CONTRACTOR CREDIT CHECK POLICY

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Introduction

Credit checking development companies provides assurance that they are equipped to deal with the size, complexity and duration of the task being tendered. Seeking this assurance decreases the risk that any one development will be delayed due to lack of expertise or financial liquidity. This policy sets out how credit checks should be undertaken, interpreted and on occasion circumvented should the right circumstances dictate.

Credit Checking Procedure

Credit checks will be run upon the named company within the development contract unless:

- 1) There is a parent company guarantee in place – in which the checks will be performed on the parent.

Credit checks shall be run through both Company Watch and Dunn & Bradstreet. [other are available]

Reading the Results

Finance / Procurement [to be decided] will comment upon the financial strength of a company by referring to:

a) Dun and Bradstreet Report

- 1) D&B Failure Score: A failure score of 25 or more is considered acceptable.
- 2) Incidence of failure %: The incidence of failure percentage should not exceed the industry average by more than 2%. I.e. if the industry average failure percentage is 1.9%, then Genesis will tolerate a failure percentage of 3.9% (1.9%+2%).
- 3) The D&B risk score should be 3 or lower (out of 5).

b) Company Watch Report

- 1) Company Watch H-score: A score of 25 or more is considered acceptable.
- 2) The total contractual value will not exceed 10% of the combined previous two years turnover. (a proxy for indicating they have managed contracts of this size previously)

Single Company Exposure Limits

To reduce the risk of a single company's failure impacting materially upon XXXXXX HA's ability to deliver its programme, no one contractor shall be awarded more than 30% of the development programme at any one time.

Total exposure to each company will be monitored by finance /procurement [to be decided] and fed back to IAP on a quarterly basis via submission of the "Development Contractor Monitoring Table".

Exceptional Override

On occasion, when a developer does not meet the credit check hurdles but the business believes the opportunity cost of turning down a particular development is significant in the delivery of strategy then the Finance Director reserves the right to approve the credit worthiness of a company. The finance director will be provided with but not limited to:

- 1) The credit check reports from Company Watch and Dunn & Bradstreet in full.
- 2) The published Financial Statements for the most recent two years.
- 3) Management accounts for that month including full year forecast.
- 4) References from two sources on schemes completed within the past year.
- 5) A site visit report from a member of the development team.
- 6) The details upon the Finance Director and CEO of the company including length of service. (FD's tend to leave in quick succession prior to a large company folding).
- 7) The mitigating actions put in place (set out below).

Mitigation

The following steps **will** be taken to increase assurance and limit the exposure Genesis face when appointing development contractors:

- 1) All contracts will be payable in arrears for works done.

- 2) Contractor failure insurance (NHBC 12 years with contractor insolvency insurance) will be put in place to the level that it covers costs encountered when appointing a new contractor (replacing one that has entered into liquidation).
- 3) XXXXX Housing Association will ensure they do not over expose themselves to any one company's potential failure, in line with guidance with the "single company exposure limit.

The following steps **may** be taken to increase assurance and limit the exposure XXXXX Housing Association face when appointing development contractors that have failed the credit checks of D&B and Company Watch:

- 1) A "step in" agreement may be negotiated.
- 2) An increased retention sum may be negotiated.
- 3) A buy "off the shelf" when complete policy may be negotiated.