

North East Derbyshire District Council

Cabinet

18 March 2015

**Housing Revenue Account (HRA) Budget and Rykneld Homes Management Fee
2015-2016**

**Report No PRK/14/15/BM of Councillor P R Kerry, Portfolio Holder with
Responsibility for Economy, Finance and Regeneration**

This report is public

Purpose of the Report

- To agree the level of Management Fee which will be paid to Rykneld Homes the Council's Arms Length Management Organisation in respect of the financial year 2015/16.

1 Report Details

- 1.1 Members will be aware that since April 2007 the Council's Housing Management Function in respect of the Council's stock has been operated on the Council's behalf by Rykneld Homes the Council's Arms Length Management Organisation. While the company is independent of the Council, the Council does have a range of mechanisms in place (as prescribed by best practice) which ensures that the Council plays an active role in the governance of the Company, and secures best value for our tenants. In order to undertake the roles and responsibilities which have been delegated to it by the Council, Rykneld Homes clearly needs to receive an appropriate level of funding from within the Council's Housing Revenue Account. As required by the governance arrangements between the two organisations officers from both the Council and Rykneld Homes have been involved in negotiations to agree an appropriate level of payment in respect of the forthcoming financial year.
- 1.2 The majority of the funding available to Rykneld Homes is provided by way of the Management Agreement which effectively provides Rykneld Homes with the funding to pay for its staff, the services which it receives from outside suppliers or from the Council by way of Service Level Agreements. As set out in the Finance Protocol between the two organisations the Management Fee is paid in 12 monthly instalments at the beginning of each month. Whilst it is intended that this payment will form a regular source of income for Rykneld Homes against which it can effectively budget to meet its expenditure commitments, the Finance Protocol (in line with good practice) does recognise that on occasions the Council as sole shareholder may be required to contribute funds in order to help it manage any adverse cash flow issues which might arise. In addition to the income arising from the Management Fee, Rykneld Homes will also be eligible to some further funding from the Council in respect of the management fee charged for undertaking capital works, reverse SLA's and similar arrangements under which the Council will pay

Rykneld Homes for any services received over and above those specified in the Management Agreement.

- 1.3 Effectively the level of Management Fee that is recommended within this report has been arrived at following negotiation between officers of Rykneld Homes and the Council. Those negotiations were conducted in the light of the Council's Approved Housing Revenue Account which was reported and agreed to by Council on 23 February 2015, and in the light of the functions Rykneld Homes is undertaking on behalf of the Council.

Details of Budget Allocation

- 1.4 The expenditure section of the HRA for 2015/16 totals £21.332m. The Management Fee paid to Rykneld Homes Limited is contained within the two budget headings – Repairs and Maintenance and Supervision and Management that are within the expenditure total. The approved budgets on these two headings total £11.981m (Repairs & Maintenance £4.863m, Supervision and Management £7.118m). Of the £11.981m the Council retains an amount of £2.079m to cover the cost of the expenditure that it will incur in respect of the HRA, this is £0.036m less than for the previous year. The main elements of the Council's cost within Repairs and Maintenance and Supervision and Management are set out below:

- The Council pays an amount of £0.586m to the pension's authority (Derbyshire County Council) to cover the underfunding of the pensions scheme in respect of those employees who transferred to Rykneld Homes on 1 April 2007. This figure has been independently assessed by the Fund's actuary and will recover the underfunding of the employees concerned over a period of 22 years. Whilst this is obviously a significant cost it is offset by the fact that Rykneld Homes pension contribution rate was reduced to reflect the fact that these back funding costs were covered elsewhere within the HRA.
- The Council retains an amount of some £0.605m to pay for the Grounds Maintenance service which is delivered directly by the Council. The service included maintenance of communal areas, and the assisted grounds maintenance scheme.
- There is a further amount of £0.888m which includes costs in relation to insuring the housing stock, external audit fees, property management, the housing client and financial management roles.

- 1.5 After allowing for the resources retained by the Council the remainder of the expenditure within Repairs and Maintenance and Supervision and Management relates to the Management Fee, which for 2015/16 is proposed at £9.902m. This represents a 2% increase from 2014/15 and it is anticipated that this should be sufficient to enable Rykneld Homes to maintain the existing level of services to our tenants. The increased Management Fee does take into account the views of the Rykneld Homes Management Team and still enables NEDDC to maintain an appropriate level of HRA balances. Of this amount some £4.641m is in respect of repairs and maintenance costs and £5.261m in respect of management costs.

- 1.6 Whilst the proposed Management Fee has increased by 2% for 2015/16, it does need to be recognised that this still represents a challenging level of financial support given the requirement to protect the level of services to our tenants, fund the pay awards to staff in line with that of Council employees and manage other cost pressures faced by Rykneld Homes Limited.

- 1.7 It should also be noted that Rykneld Homes do face further cost pressures in the delivery of the Councils Capital Programme. Although the Management Fee is the largest single element in the income of Rykneld Homes, the Company is also able to charge a fee of up to 12% for capital works undertaken on behalf of the Council. Due to the scale of the work previously undertaken through the Decent Homes programme Rykneld Homes had lowered their charge to 10% and this level was applied throughout 2014/15. However, given the reduction in the scale of the Programme and the loss of economies of scale that fee will now need to be returned to one of 12% from the April of 2015.
- 1.8 A further issue needs to be brought to the attention of Cabinet which concerns the fact that Rykneld Homes is a company wholly owned by the Council. As such the company's external auditors seek from the Council on an annual basis at the time of the Audit of the Company's Accounts a Letter of Comfort from the Council as the parent company. That letter of comfort fundamentally seeks reassurance regarding the fact that the Council will continue to provide financial support to the company over the coming financial year (which in the case of the 2014/15 accounts will be the 2015/16 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort from the Council. In addition it may be the case that specific representations are required in order to support the Auditors view that the Company remains a going concern. The reasonableness of providing such assurances will need to be considered at that point in time when the Company's auditors approach the Council, and it is therefore recommended that delegated powers be granted to the Chief Financial Officer in consultation with the portfolio Member for Finance to provide a response on behalf of the Council.

2 Conclusions and Reasons for Recommendation

- 2.1 To agree the level of Management Fee which will be paid to Rykneld Homes the Council's Arms Length Management Organisation in respect of the financial year 2015/16.

3 Consultation and Equality Impact

- 3.1 Consultation with Rykneld Homes has taken place during the process of preparing the budget for 2015/16.
- 3.2 There is no equality impact issue arising from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 The option of not approving an increase in the Management Fee to Rykneld Homes would result in them having to secure financial savings from within the services they provide which could have a detrimental effect on council tenants.

5 Implications

5.1 Finance and Risk Implications

As set out in section 1 (above) the allocation of management fee to Rykneld Homes is in line with the Council's approved HRA budget in respect of 2015/16, and accordingly there are no additional financial implications arising out of the report.

The agreement to set up Rykneld Homes as an Arms Length Management Organisation for the Council's Housing Stock did significantly increase both the scale and the nature of the Council's use of Partnership Agreements in order to deliver its core services. This Risk is identified within the Council's Strategic Risk Register.

While there is a significant gross risk this risk has been taken into account during the whole process of setting up Rykneld Homes and in the managerial and monitoring arrangements which have been developed following on from the establishment of the company. In the first place the overall Partnership is covered by a strong Partnership ethos, and there is a clear understanding that both parties are using the Partnership route as an appropriate means of achieving shared objectives. Secondly, in support of the Partnership ethos a Management Agreement, together with a range of Protocols and Service Level Agreements are in place which will effectively govern the relationship between the two partners. Thirdly, the Council has put in place strong monitoring arrangements in respect of both the service and the financial performance of Rykneld Homes, with regular meetings taking place and appropriate management reports agreed. Finally, Members of the Council are serving on the Board of Rykneld Homes, and ultimately the Council is the sole shareholder in the company which does give it the ultimate power of veto if that were to prove necessary in order to protect the Council's interests.

Although the Council has continued to provide to Rykneld Homes a relatively stable level of management fee it needs to be recognised that Rykneld Homes has needed to increase the scale and costs of the organisation in order to deliver a large Decent Homes Programme. The associated increase in costs has been funded by the fee that Rykneld Homes charges against this capital allocation. While Rykneld Homes has been successful in securing a high allocation of capital funding from the Government, which reflects the condition of our housing stock, it now needs to be acknowledged that the external capital funding for Decent Homes will cease in 2015/16 and that Rykneld Homes will have to adapt its organisation to meet the needs of a smaller capital programme.

Officers are satisfied that a range of appropriate mitigation is in place to manage the risks associated with using a partnership arrangement to manage a key service. Against the risks which may potentially arise Cabinet should note that by securing Decent Homes funding from the government that Rykneld Homes has assisted in securing one of the Council's key priorities namely meeting the Decent Homes in the District.

5.2 Legal Implications including Data Protection

- 5.2.1 Legal - It is anticipated that the Council will be asked to provide a 'letter of comfort' to the Auditors of Rykneld Homes Limited; further information is provided in section 1.8 above.

5.3 Human Resources Implications

- 5.3.1 There are no human resource implications to be considered within this report.

6 Recommendations

That Cabinet:-

- 6.1 Notes the report and approve the allocation of £9.902m of Management Fee to Rykneld Homes in respect of 2015/16.
- 6.2 Notes the financial position on the Housing Revenue Account and request Officers from both Rykneld Homes and the Council continue to work to identify efficiency savings in order to protect and develop the quality of the services to our tenants.
- 6.3 Endorses the section in the previously agreed Financial Protocol which enables the Council to pay temporary cash advances to Rykneld Homes in excess of the Management Fee in order to help meet the cash flow requirements of the company should unforeseen circumstances arise in any particular month.
- 6.4 Notes the potential requirement to provide Rykneld Homes with a 'letter of comfort' to the company's auditors and grant delegated authority to the Council's Chief Financial Officer in consultation with the Portfolio Member for Finance to agree the contents of that letter.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 Document Information

Appendix No	Title
None	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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