

North East Derbyshire District Council

Cabinet

9 March 2016

**Housing Revenue Account (HRA) Budget and Rykneld Homes Management Fee
2016-2017**

**Report No PRK/30/15-16/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 2016/17.

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, 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 15th February 2016.

Details of Budget Allocation

- 1.4 The expenditure section of the HRA for 2016/17 totals £19.832m. The Management Fee paid to Rykneld Homes Limited is contained within the two budgets – Repairs and Maintenance (£6.407m) and Supervision and Management (£5.963m). Of this £12.370m, the Council retains an amount of £2.468m to cover the cost of the expenditure that it will incur in respect of the HRA as detailed below:

- The Council pays an amount of £0.613m 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 £0.605m to pay for grounds maintenance which is delivered directly by the Council's Street Scene Service. The service includes maintenance of communal areas, and the assisted grounds maintenance scheme.
- There is a further amount of £1.250m which covers the 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 2016/17 is proposed to remain at the 2015/16 level of £9.902m. This comprises £6.179m in respect of repairs and maintenance and £3.723m in respect of housing management and has been agreed in consultation with the Rykneld Homes Management Team. Additionally, Rykneld Homes are in the process of reviewing and restructuring a number of services which will allow an incremental reduction of £0.05m per annum to the management fee from 2017/18 for five years. There has been a one off cost incurred in 2016/17 (£0.500m) to allow the implementation of the restructure which has been paid in addition to the management fee in 2015/16.

- 1.6 Despite maintaining the same level of management fee as in the previous year, 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 The Management Fee remains the largest single element in the income of Rykneld Homes, and the Company is also able to charge a fee of up to 12% for capital works undertaken on behalf of the Council. However, now that government grant for the Decent Homes Programme has ended the capital programme is forecast to decrease over the coming years bringing a cost pressure to the level of fees that Rykneld Homes will be able to charge.
- 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 2015/16 accounts will be the 2016/17 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' 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 to be paid to Rykneld Homes in respect of 2016/17.

3 Consultation and Equality Impact

- 3.1 Consultation with Rykneld Homes has taken place during the process of preparing the budget for 2016/17.
- 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 the agreed 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

- 5.1.1 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 2016/17, and accordingly there are no additional financial implications arising out of the report.
- 5.1.2 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.

- 5.1.3 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.
- 5.1.4 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

- 6.1 That Members note the report and approve the Management Fee of £9.902m Management Fee to Rykneld Homes in respect of 2016/17.
- 6.2 That Members note 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 That Members endorse 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 That Members note 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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