

Report to: **Audit Committee**
Date: **29 March 2007**
Report of: **Head of Housing**
Subject: **Performance and Financial Monitoring Arrangements - East Durham**
 Homes
Ward: **All**

1.0 Purpose of the Report

1.1 This report is intended to provide members of the Audit Committee with details of the current monitoring & governance arrangements that are in place for the services managed by the Council's Arms Length Management Organisation (ALMO), East Durham Homes (EDH).

2.0 Consultation

2.1 In preparing this report I have consulted with:

Director of Finance & Corporate Services
Housing Service Support Manager
Audit Manager
EDH Senior Management Team

3.0 Background

3.1 Since the establishment of EDH in April 2004, a detailed performance report in respect of all of the services managed by the Company has been presented to the Service Delivery Scrutiny Committee on a quarterly basis. The service areas covered by the original 10year ALMO Management Agreement were Housing Management (including Homelessness & Housing Advice), Care Services, and Repairs, Maintenance & Improvement of the Council's Housing Stock.

3.2 Members of the Committee will be aware that on 1st June 2006 the Homelessness & Housing Advice and Care Services functions were returned to the Council and now form part of the Housing Service Unit within the Regeneration and Development Directorate.

3.3 All service areas managed by EDH are subject to performance monitoring by way of either Statutory Best Value Performance Indicators or locally agreed performance indicators. Performance against these indicators and the targets set are subject to regular monitoring by East Durham Homes and the Council's Service Delivery Scrutiny Committee, and as such are not covered in detail in this report.

4.0 Governance Arrangements

- 4.1 East Durham Homes was established to deliver a number of the Council's operational housing functions, specifically the management and maintenance of the Council's housing stock. The Council remains the Strategic Housing Authority, accountable for delivering the wider housing service including the performance of East Durham Homes and the relevant national Best Value and Local Public Service Agreement performance targets.
- 4.2 The Council is the sole owner of the Company, which operates under the framework of a 10 year 'Management Agreement' approved by the Council and the Company prior to the inception of the company in early 2004.
- 4.3 The Company is limited by guarantee and has a Board responsible for governance operating under Memorandum and Articles of Association as required by the Companies Act 1985. The accounts of East Durham Homes are subject to preparation under the requirements of the same Act, and the Company is treated as a Branch of the Council in the Council's annual accounts.
- 4.4 The Company has appointed an independent Auditor to carry out the Annual Audit of Accounts. The Companies Acts requires the Auditor to examine financial controls and requirements and as a matter of course draws any shortcomings to the attention of the Company, which are subsequently followed up as part of the annual audit process. The Company procures its Internal Audit function from the Council through an annual Service Level Agreement.
- 4.5 The Company has a Finance Team under the overall control of a Director of Finance and Support Services, who is also the Company Secretary. A Company Accountant has also been in post since the Company's inception.
- 4.6 The Company Secretary assumes overall responsibility to ensure that all relevant procedures relating to governance issues are followed e.g. Financial Controls and Risk Management, and a Governance Officer has been appointed to provide support for the administration of these governance procedures.
- 4.7 The Company has a Corporate Committee made up of Board members and under the Chairmanship of the Company's Vice Chair; an accountant by profession. Part of this Committee's remit is to receive financial monitoring reports from the Company's Director of Finance & Support Services, as well as Internal and External Audit reports.
- 4.8 In accordance with the 10year Management Agreement and Articles of Association the Company has adopted the Council's financial regulations, standing orders and confidential reporting code.
- 4.9 Legal Advice is provided to the Company by the Council's Monitoring Officer and Crutes Solicitors.
- 4.10 In consultation with the Council's Corporate Procurement Manager, the Company is currently reviewing their procurement strategy which complies with the Council's corporate procurement strategy and standing orders and will allow for a more focussed corporate approach to procurement and alignment with the Company's Business Plan & Value for Money Strategy.

5.0 Monitoring of Expenditure

Management Fee

- 5.1 The Council pays the Company an annual 'Management Fee' for the delivery of the services outlined in the 10year Management Agreement and annual Delivery Plan. This Management Fee is agreed through the Council's budget process and approved by the Council on an annual basis.
- 5.2 The fee takes into account projections made for the Housing Revenue Account (HRA) based on a number of variables including reducing stock levels and HRA subsidy payments from Government. The HRA was analysed in the last year and it was agreed that certain commitments should be met by the Council before any disbursements took place in the form of the annual Management Fee. Examples of these commitments include:
- Former employees pension costs;
 - Contract monitoring costs;
 - Stock insurances;
 - Costs of democracy from the Council;
 - Recharges from Corporate centre;
 - Related housing policy matters; and,
 - Care service charges to tenants.
- 5.3 The Company has developed 5 year financial projections as part of their 5 year Business Plan, which is currently in draft form. In order to sustain this Business Plan the Company requires an amount of 'certainty' of funding particularly given that the Management Fee represents the majority of income to run the housing management and maintenance services on behalf of the Council. Although there is still work to do on the Company's Business Plan it does currently take account of the HRA subsidy system and other implications. The work should be completed together with an updated HRA Business Plan during the summer of 2007.
- 5.4 The monitoring of the detail of the Management Fee expenditure is the responsibility of the Company under the governance arrangements outlined earlier in this report. The role of the Council is to ensure that the Company is delivering the targets for the delegated services as set out in the Management Agreement/Annual Delivery Plan. These targets are agreed between the Council and the Company on an annual basis.
- 5.5 National benchmarking data from other ALMOs suggests that the Council's costs for the management and maintenance of its housing stock is relatively low; for example our estimated costs for 2006/7 are £22.78 per property per week, compared to the national average of £28.87 and a 'deprived authority' average of £24.82.
- 5.6 In terms of Value for Money, it is clear that while costs are relatively low current performance in some service areas is also low in terms of benchmarked 'quartile' ratings, and Customer Satisfaction with the overall service is low with information not currently sufficiently detailed to allow for analysis of individual service areas.

- 5.7 To be able to clearly demonstrate value for money, operational performance and customer satisfaction has to be lifted as well as more clearly evidenced by the Company and there are a number of channels through which this will be achieved, including the development of separate Service Plans for operational service areas within the Company, and a more detailed annual Customer Satisfaction survey. It should be noted again that the nature of the Arms-Length relationship is such that the Council cannot micro-manage the company's finances, governance or performance management processes.

Capital Expenditure

- 5.8 The Council has developed a 3-year rolling programme of capital investment in housing across the District with three key objectives of improving the Council's stock, carry out private sector housing renewal, and contribute to the wider regeneration of the District.
- 5.9 The total value of this programme is expected to be around £14m for 2007/8 and around £8.3m of this is delivered by East Durham Homes as investment into the Council's Housing stock. The Company produces details of the works to be carried out over the life of the plan on an annual basis. During the year the Council's Capital Programme Working Group (CPWG) composed of members of the Council, a Tenant's Federation representative and officers from the Company and the Council monitor the capital programme. The programme is monitored against both financial and performance aspects and is reviewed every 6 months with a report to the Executive which includes notification of any significant changes.
- 5.10 In terms of the financial management of the EDH capital programme, the Company works within the overall total allocation set by the Council for the financial year. Spending is monitored by the CPWG but the Company can vire between scheme headings and this allows the Company to change the programme to meet the needs of the tenants or for operational efficiency if required. The CPWG considers all reports where virement has occurred and if virement significantly changes the nature of the programmes then a report would be presented to the Council's Executive for approval. The virement rules are set out in the Council's constitution.
- 5.11 The nature of a 3-year programme means that schemes can be delayed or moved forward. Overspends if they occur, are managed within the programme monitoring systems and will be financed by reducing the future years' allocations. Value for money is assessed by the delivery of the programmes in a timely manner, within budget and to the satisfaction of the tenants.

6.0 Policy, Legal, Financial, Risk, Communications and Corporate Implications

6.1 Policy

There are no policy implications in the contents of this report.

6.2 Legal

The formal framework for the relationship between the Council and East Durham Homes is set out in the 10year Management Agreement and the Company's Memorandum and Articles of Association.

6.3 Financial

There are no direct financial implications in the contents of this report.

6.4 Risk

A number of risks relating to East Durham Homes are contained within the Council's Corporate Risk Register and appropriate actions are in place and monitored through the Corporate Risk Management process and the Housing Service Plan.

6.5 Communications

There are no communication implications in the contents of this report.

6.6 Corporate Implications

The evaluation of performance by East Durham Homes will maintain an overview of the Company's contribution to the Council's Corporate Plan, Strategic Objectives and BVPI and LSPA targets.

7.0 Recommendations

7.1 Members are recommended to note the information contained in the report.

Background papers/Documents used in the preparation of this report.

- East Durham Homes Delivery Plan 2006/7
- East Durham Homes 5 year Business Plan
- East Durham Homes Memorandum & Articles of Association
- Management Agreement Between the Council and East Durham Homes ('Agreement for Housing Management and Other Service')
- Council Housing Revenue Account budget
- National ALMO Benchmarking information provided by HouseMark for 2005/6