

SCHEDULE 6

FINANCIAL ARRANGEMENTS

(Clause 51)

1.0 The Transfer of Monies to East Kent Housing

- 1.1. East Kent Housing will provide an annual VAT invoice to the Council with a schedule of payments for each instalment of the Management Fee payable in any given financial year. The invoice will be produced and electronically delivered to the Council 10 working days prior to the year to which it relates. Payment will be made in accordance with the schedule of payments to East Kent Housing's bank account by BACS, no later than the working day prior to the period to which it relates. Initially there will be 12 monthly instalments of the management fee, but this will be open to mutual negotiation to reflect any changes in the service, or practical cash flow management requirements.
- 1.2 If the Management Fee is in dispute, to maintain the cashflow of East Kent Housing, the Council will continue to pay the management fee and both parties will seek, as a matter of urgency, to rectify the issue in dispute. If the parties are unable to reach a resolution they will refer to Clause 67 of the management agreement.

2.0 Pension Contributions

- 2.1 East Kent Housing will be treated as a separate employer for the purposes of the Kent Pension Fund and has been granted admitted body status into the scheme. The pensions of the staff transferring to East Kent Housing will be deemed to be fully funded at the point of transfer and the initial calculation relating to the pension contributions in the Management Fee has been determined on this basis. Through the Management Fee, it will be necessary for the Council to make further contributions to fund subsequent deficits on the fund as calculated and re-calculated by the approved actuaries

3.0 Transaction Types

- 3.1 Due to the potential for unpredictability in the funding of Local Authority housing the calculation of the Management Fee is dependent on the resources available from the Housing Revenue Account (HRA). The fee is also likely to change, over time, to meet the priorities of the service users and the Councils.
- 3.2 There will be three main transaction types:
 - Transactions charged by East Kent Housing (the Management Fee) - for example, salaries and office expenses);
 - East Kent Housing managed budgets (delegated functions HRA budgets, for example, responsive repairs expenses);
 - Direct Council payments (non East Kent Housing managed budgets – residual HRA budgets, for example, in respect of policy development relating the council housing stock.

3.3 The Management Fee is intended to reflect the management cost of the delegated functions. It will not include any amounts in relation to managed budgets themselves, as they remain with the Council.

4.0 Financial Arrangements for Transactions Charged by East Kent Housing

4.1 Fee

4.1.1 This transaction type covers all expenditure and any income accounted for under the management fee, including any service level agreements between East Kent Housing and:

- Council support services teams or facilities providers;
- Council hosted support services (e.g. Dover District Council for Internal Audit Partnership services, East Kent Shared Services for ICT support).

4.1.2 The fee is calculated annually and incorporated into the Council's budget setting process, which allows both the Council and East Kent Housing to keep the service flexible and responsive, within the boundaries set by the Management Agreement.

4.1.3 A timetable will be agreed annually in June for the negotiation of the management fee and service level agreements to ensure both East Kent Housing and the Council can satisfy their own budget setting processes for the coming financial year. In addition, East Kent Housing will provide an indicative management fee for two further financial years to aid the medium term financial planning of all parties.

4.2 Payment for Services Provided by or to the Council

4.2.1 Where East Kent Housing has a Service Level Agreement for support services with one or more of the Councils (including East Kent Shared Services) or there is a prior agreed buy back arrangement for Council staff who perform duties on behalf of East Kent Housing, this will be separately chargeable on a monthly basis to East Kent Housing.

4.2.2 Where under prior agreement, East Kent Housing resources are used to undertake duties outside of the 'Delegation of Functions' scope (e.g. perform duties chargeable to the Council General Fund or residual HRA) these costs will be recovered separately on a monthly basis from the Council.

4.2.3 In both instances the invoicing party will provide an annual VAT invoice with an attached schedule of payments, *X days before the beginning of the financial year and payment will be made through BACS to the nominated bank account within X working days.*

4.3 Financial Arrangements

4.3.1 All expenditure incurred by East Kent Housing will be authorised by appropriate responsible officers employed by the organisation. In line with the Management Agreement clause 16.5, the mechanism for the authorisation of payments will be in accordance with the Financial Regulations and Standing Orders of East Kent Housing which will be aligned to the Council hosting the financial management system of East Kent Housing.

4.3.2 In line with good practice East Kent Housing will conduct regular budget monitoring which will be reported to its management team and Board and shared with the Council representative through regular monitoring meetings.

4.3.3 East Kent Housing's financial representative will alert the Council representative promptly to any projected significant under or over spends (in excess of 5% of the Management Fee) to East Kent Housing's budget.

- 4.3.4 East Kent Housing's financial representative will meet with the Council representative and the Section 151 Officers representative initially on a quarterly basis to discuss the current monitoring position and any relevant financial issues arising from East Kent Housing. The frequency of the meetings will be negotiable after year one and can be amended on mutual agreement.
- 4.3.5 East Kent Housing shall maintain its accounts in accordance with good accounting practice, any statutory or regulatory requirements and in such manner as will allow the Council to comply with requirements for the consolidation of accounts (if necessary) and will comply with any instructions issued by the Council to allow it to meet those requirements.

4.4 Calculation of East Kent Housing's Fee

- 4.4.1 In year one of operation (financial year 2011/12) the calculation of the Management Fee will be based on the current cost for each Council adjusted to reflect the new service delivery arrangements. From year two the basis of calculation will switch to an activity based costing methodology. East Kent Housing will identify in the first six months of operation the main activities performed by its staff and the resources consumed in the pursuit of those activities. These cost drivers will determine the revised apportionments of the Management Fee for each Council, reflecting the customer needs and requirements of each Council individually and the level of service and resources therefore consumed by them. The exercise will be limited initially to the most significant activities performed by East Kent Housing.

4.5 Surpluses and Deficits

- 4.5.1 Should East Kent Housing generate any surpluses or deficits in year one of operation the Council's apportionment will be calculated on the proportion of the overall Management Fee for all four Councils. From year two, where the surplus or deficit is clearly attributable to activities relating to a particular Council's housing stock it will be allocated on that basis otherwise it will be calculated on the proportions of the overall management fee.
- 4.5.2 Once each Council's surplus has been determined the following principle will apply (to each Council's share):
- East Kent Housing may apply such surpluses as it sees fit, to improve or extend the services, up to an amount equal to 5% of the Management Fee payable by the Council in respect of that Financial Year.
 - Where any such surpluses exceed 5% of the Management Fee payable by the Council in any Financial Year East Kent Housing shall apply the proportion of such surpluses which exceed 5% of the Management Fee in accordance with directions given by the Council's Representative.
- 4.5.3 Where a surplus is generated that will be recurring the management fee for the following financial year will be adjusted to reflect the efficiencies achieved by East Kent Housing.
- 4.5.3 Should East Kent Housing need to call upon the Council's HRA for additional funding (in particular in the initial year of set up) the Council representative with the agreement of the Section 151 Officer will seek the approval of the Council's Executive to authorise sums in excess of the agreed management fee budget.

5.0 East Kent Housing Managed Budgets

5.1 Division of Responsibilities

5.1.1 The Housing Revenue Account (HRA) and Housing Capital Budgets for the forthcoming year will be approved by the Council, in accordance with their timetable and strategies. The staff of East Kent Housing will continue to support the Council's HRA finance team in determining, managing and reporting on these budgets.

5.1.2 East Kent Housing will be responsible for:

- Procuring expenditure (including raising orders, goods receipting, and submitting invoices for payment).
- Managing expenditure within budget, in the prescribed manner.
- Managing and processing Council housing rent and other income.
- Assisting the Council's HRA Accountants in reporting financial performance against the budget including returning scheduled budget monitoring data within the agreed timescales.
- Assisting the Council's HRA Accountants in determining a robust budget and HRA Business Plan.
- Assisting the Council's HRA Accountants with information required for year end processes, statutory returns and any associated audits, in a timely fashion.

5.2 Financial Arrangements

5.2.1 In carrying out these functions East Kent Housing will fully comply with the latest version of the relevant Council's Financial Procedure Rules and Contract Standing Orders. Whilst the Council's Section 151 Officer will retain control over access to the Council's financial information systems and will specify the levels of authorisation for East Kent Housing staff, these authorisation levels will be set in the context of balancing control of the Council's financial activities and the practical needs of delivering housing services to the tenants.

6.0 Direct Council Payments

6.1 The last transaction type covers income and expenditure that does not relate to the Management Agreement, or to East Kent Housing managed activities, for example, corporate or democratic core expenses or residual HRA functions. While this income and expenditure will not be directly managed by East Kent Housing, there will need to be co-operation with the Council regarding the calculation of these amounts and the basis for the charges. This will be essential in order for the Council to present a full HRA budget and to complete the relevant business plans, with the assistance of East Kent Housing.

6.2 While the Management Fee is calculated annually in line with the budget setting process, it is important that there is some flexibility, especially during the first year of operation, between transaction types, provided that costs are contained within the overall budget and by mutual consent.

7.0 Financial Returns

7.1 East Kent Housing will produce Limited Company Annual Accounts and Returns in accordance with the relevant company laws and Statement of Accounting Practices. East Kent Housing will obtain suitable external audit providers, in accordance with their financial regulations and contract standing orders.

7.2 East Kent Housing will also, in accordance with the Council's statutory timetables, provide any relevant information or statements required for group accounting purposes.

- 7.3 East Kent Housing will register with *HM Customs* for VAT. They will maintain their accounts in accordance with good practice and the relevant guidelines to enable them to recover VAT where appropriate to do so. They will maintain and retain their records and make them available for inspection in accordance with the relevant regulations.

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