

**WIGAN AND LEIGH HOUSING BOARD 2 FEBRUARY 2010**

**ALMO Financial Performance – 31<sup>st</sup> December 2009**

Report of the Director of Resources

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<b>Purpose/Summary:</b>
To provide Members of the Board with an update on the financial position of the ALMO.
<b>Recommendations:</b>
Board Members are asked to note the content of this report and consider if we should seek to retain some of the year end surpluses for investment back in Value for Money efficiencies.

<b>For decision, discussion or information?</b>	Information and discussion
<b>For the open part or the press and public excluded part of the agenda? If press and public excluded please state reason.</b>	Open

<b>Resource and Value for Money Implications:</b>	This report deals with the record of the financial transactions of the Company, but in itself has no financial implications.					
<b>Employee Implications:</b>	There are no direct staffing implications arising from this report.					
<b>Key Risks incl. Company reputation, business relationships, health and safety and legal implications</b>	Failure to monitor the financial progress of the Company could lead to a position of insufficient funds to trade.					
<b>Equality (Impact) Assessed?</b>	Yes		No		Not Applicable	✓
<b>Equality &amp; Diversity and Community Implications:</b>	There are no direct equality and diversity or community implications arising from this report.					
<b>Impact on Tenants/Customers:</b>	There are none arising directly from this report.					
<b>Environmental Implications:</b>	There are none arising directly from this report.					
<b>Area Forums Affected:</b>	None directly affected.					
<b>Tracking/Process</b>	<b>Consultation</b>	<b>Area Forum/s</b>	<b>Committee</b>	<b>Board</b>		
				2 Feb 2010		

## 1.0 Background

- 1.1 Part of the strong financial control that companies should have in place is a regular reporting to the highest level – the Board – of its financial position. For Wigan and Leigh Housing Company this is achieved by regular reports to the Board. Because of the board meeting dates, the long lead-in required to produce Board reports and the time when the Council's financial systems closes down, there will be around a 6 week delay on the presentation of the information.
- 1.2 The Company's Management Team receive a monthly update on the Company's financial position as soon as practicable at the end of each month. This enables more immediate corrective action to be taken if it is deemed necessary.
- 1.3 This report focuses on the financial performance in respect of the ALMO Management fee that Wigan MBC gives in respect of the Company's role of managing its Public Sector Housing Services.
- 1.4 For the current financial year (April 09 to March 10), this fee was set at £15.332m, which was the same as the fee for the 07/08 and 08/09 financial years. This was a £145,000 reduction on the previous year (06/07).

## 2.0 2009/10 Expenditure

- 2.1 The figures for the 9<sup>th</sup> month of expenditure for the current financial year show that there is an under spend when compared to both the relevant portion of the Management Fee and the profiled budget.

Budget 08/09	Actual 08/09		Budget 09/10	Budget to Dec	Actual to Dec	Under spend	Prob'le 09/10
£000s	£000s		£000s	£000s	£000s	£000s	£000s
-15331	-14628	Income	-15331	-11499	-11499		-14985
		Expenditure					
11967	11525	Employee Costs	11927	8926	8553	373	11600
1056	991	Premises Related Costs	1017	763	741	22	1033
408	411	Transport Related Costs	427	313	309	4	405
1131	989	Supplies and Services	1162	872	884	-12	1162
257	258	Transfer Payments	282	212	143	69	295
516	474	Support Services	520	382	382	0	520
-4	-20	Recoverable Costs	-4	-2	-31	29	-30
15331	14628	Total Expenditure	15331	11466	10981	485	14985

- 2.2 The largest element of the under spend continues to be from Employee Costs - £373k. However, compared to previous years, this figure is much reduced as an element of turnover savings (the savings that arise in the normal process of filling a vacancy) has been assumed in the current year's budget. Some of this under spend will be needed to meet the establishment costs arising from job evaluation plus other staff costs such as honoraria, supernumeraries.
- 2.3 The Supplies and Services appear to be overspent but this is due to all the computing costs from Northgate, the main suppliers, being paid in December. Some of these costs relate to 2010/11 and will be transferred at the year end. The pattern of expenditure would suggest that this line will be very close to budget come March.
- 2.4 The cost of Eldercare recorded on the Transfer Payments line is under spent at the present time but this is due to the timing of invoices. By year end our expenditure will be slightly higher than originally expected reflecting a greater use of this service.
- 2.5 For comparison purposes, at this time last year we had spent 67% of our budget. This year to date we have spent 72% of the budget.

### **3.0 Year End Under Spend**

- 3.1 Currently, it is predicted that the ALMO fee will be under spent at the year end by around 3%. However, unlike the past two years, the amount of under spend will be considerably lower. Any under spend has, in previous years, gone back into the Housing Revenue Account leaving more resources available for future years for repairs and maintenance as well as management costs.
- 3.2 This process, which ensures that the Management Fee is adjusted exactly in-line with our expenditure, was set up at the outset of the ALMO to ensure that there was no profit that would then be subject to Corporation Tax. Local Authorities are exempt from Corporation Tax but companies are not.
- 3.3 Since the inception of Wigan and Leigh Housing Company, the Inland Revenue have issued BIM58210 - Grant aided bodies: arms length management organisations (ALMOs), which as the name suggest considers if ALMOs should receive the same tax treatment as local authorities.
- 3.4 It clearly states that the relationship is as follows:

“An ALMO is a separate legal entity from the controlling Local Authority/Council and therefore it does not benefit from the exemptions granted to Local Authorities in ICTA88/S519. As an incorporated entity it comes within the definition of ‘company’ in ICTA88/S832 (1) and, is therefore within the charge to CT.

We have reviewed in detail a typical ALMO, and have had discussions with the National Federation of ALMOs. The arrangements that we have seen,

between an ALMO and its Council member, lack the necessary element of commerciality to amount to trading.

When dealing with an ALMO, provided its Memorandum and Articles of Association and arrangements are in line with that described in the preceding paragraphs, you may accept that the transactions between the ALMO and its Council member do not amount to trading.”

3.5 Thus it can be seen that there is no longer any real need to match the actual expenditure of the Company with the Management Fee.

3.6 There have been some considerations at an officer level during the current year of whether the under spend should be left with the Company so that it could balance its income and expenditure over periods of greater than one year.

3.7 The majority of other ALMOs work in this way as it allows longer term decisions to be taken that can assist with the drive for VFM. Additionally as our budget is tightening we need, as a business, more flexibility. In essence it would provide us with balances that are common occurrences with Councils and indeed other businesses. Members may wish to reflect if this should be part of the considerations as we negotiate a longer contract period with the Council over the coming months.

#### **4.0 Conclusions**

4.1 The Company's expenditure in relation to the fee it receives from the Council for the management of its Council Houses is slightly below expectations. Current indications are that there will be an under spend at the end of the year of around 3%.

4.2 Management Team's stringent financial control, particularly on staffing costs, has ensured that overall costs are minimised. However, at the same time our service standards are being improved, the service is being delivered within the financial envelope set by the ALMO fee. Our drive to improve the Value for Money we offer plus the use of this control needs to be maintained if we are to continue to provide improved quality of service at lower costs.

4.3 Most businesses aid their management and efficiency processes by having balances to draw upon when required. WALH has never had balances but with the change around taxation this could be a consideration for the future.

#### **5.0 Recommendations**

5.1 Board Members are asked to note the content of this report and consider if we should seek to retain some of the year end surpluses for investment back in Value for Money efficiencies.