

**AGENDA ITEM:8**

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Meeting	Audit Committee
Date	21 December 2005
<b>Subject</b>	<b>Financial Governance Arrangements, Barnet Homes</b>
Report of	Head of Housing
Summary	This report summarises the arrangements for financial governance and audit within Barnet Homes.

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Officer Contributors	Nigel Hamilton, Head of Housing
Status (public or exempt)	Public
Wards affected	None specific
Enclosures	none
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the arrangements summarised in this report.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Cabinet agreed to proceed with the formation of an Arms Length Management Organisation (ALMO) on 2/12/02. On 19/1/04 it approved the constitutional arrangements (including the Management Agreement and the Memorandum and Articles of Association) required for submission to the Office of the Deputy Prime Minister (ODPM) under Section 27 of the Housing Act 1985 (permission to delegate the relevant functions to Barnet Homes). It agreed the first Delivery Plan and monitoring arrangements on 22/3/04,
- 2.2 Audit Committee on 10 October 2005 resolved "That the Head of Housing obtain details from Barnet Homes as to that organisation's internal financial governance arrangements, and report back to the December meeting of the Committee."

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 Barnet Homes contributes to Supporting the Vulnerable by providing decent homes in sustainable environments. It also supports other Council priorities, particularly tackling crime through its anti-social behaviour team.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 Barnet Homes manages the Council's housing. It also manages the Housing Revenue Account on behalf of the Council. The properties remain in Council ownership and the tenants remain Council tenants. There is therefore a risk that any failure of governance or performance by Barnet Homes could represent a financial or reputational risk to the Council.
- 4.2 For these reasons Barnet Homes was identified as a key corporate risk in the 2004 Corporate Plan. However it was removed from the list of high risks in the 2005 Plan in the light of the experience of the first year of the operation of the organisation, and of the arrangements summarised in this report.

## **5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS**

- 5.1 None specific to this report

## **6. LEGAL ISSUES**

- 6.1 None.

## **7. CONSTITUTIONAL POWERS**

- 7.1 Council's Constitution Part 3 Section 2 details the functions of the Audit Committee including "ensuring that ...action taken by the Council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice"

## **8 BACKGROUND INFORMATION**

- 8.1 Barnet Homes was set up, with effect from April 2004, as an Arms Length Management Organisation (ALMO). ALMOs are companies set up by a local authority to manage, maintain and improve its housing stock. The local authority remains as the landlord and Council tenants remain secure tenants of the authority. An ALMO does not trade for profit and is managed by a board of directors comprising Council representatives, elected tenants and independents, usually on a third/third/third basis. The establishment of the ALMO enabled Barnet to access (subject to performance review) £89m to invest in improving its housing stock that would not otherwise have been available.
- 8.2 The establishment and funding of the ALMO was dependent on the agreement of the Office of the Deputy Prime Minister, a condition of which is the ability to have demonstrated sound financial planning, management and long-term financial viability through a high quality business plan. The governance of the Company is described in its Memorandum and Articles of Association which were approved by Cabinet (at its meeting on 19/1/04) and the ODPM as part of the documentation for this process (the "S27 application").
- 8.3 Barnet Homes was inspected by the Audit Commission in 2004 and subsequently awarded 2\* ("good"), with excellent prospects for improvement. Their report, published in January 2005 found, in respect of governance in general, that "overall, strengths outweigh weaknesses" and that "Barnet Homes has detailed schemes and procedures to manage risk".
- 8.4 These procedures include a risk register and strategy, an annual audit plan, a Code of Conduct for Board Members, a whistle-blowing policy and fraud prevention and response policies. There is a necessity to formalise arrangements for working with the Council's Corporate Anti-Fraud Team.
- 8.5 Broadly the Board of the Company is responsible for its management. In respect of Finance it sets and monitors the annual budget. However it has delegated most aspects of its business to sub-groups, which report back to Board meetings on their work. Finance, risk management and other related issues such as those referred to in paragraphs 8.3 and 8.4 are the responsibility of the Business sub-group. This meets monthly and deals with any financial matters which may arise and takes a quarterly report on key risk areas for the Company, including financial matters. It reviews and agrees the budget and business plan for reference to the full Board. It also deals with matters such as Service Level Agreements with the Council, income management, procurement strategy, audit arrangements, value for money and efficiency and business

continuity. The Chair of the sub-group is a qualified Chartered Accountant as is one of the other Directors who sits on the sub-group.

- 8.6 The agenda, minutes and papers of these meetings are published on the Barnet Homes web-site and they are regularly reviewed by the Council's Head of Housing, who also attends occasional meetings as a reality check.
- 8.7 At officer level, overall governance is the responsibility of the Company Secretary. There is an appropriately qualified Head of Finance, who is a member of the senior management team of the Company, reporting directly to the Chief Executive. The capital programme, and related procurement, is managed by the Head of Technical Services.
- 8.8 The Company has appointed external auditors, Robson Rhodes, an arrangement which is approved annually by the Council's Head of Housing at the Company's AGM. Robson Rhodes have approved the Company's accounts for the first year of trading. It first used the Council's internal audit system but has terminated that contract and is in the process of tendering for a new internal auditor, with effect from February 1, 2006. The gap between contracts has been raised as a matter of concern by the Council and progress towards the February target date is being closely monitored. In mitigation of this, risk Barnet Homes have indicated that their audit plan remains in place and that a major audit, of rent procedures, planned for this quarter has been commissioned from Deloitte Touche.
- 8.9 Under the Management Agreement between Barnet Homes and the Council, monitoring of all aspects of the Company's performance, and the risks to the Council referred to in paragraph 4.1, is the responsibility of the Head of Housing. This is principally discharged through monthly monitoring meetings between the Head of Housing, the Chief Executive of Barnet Homes and other senior staff from both organisations, including the respective Heads of Finance. These meetings take reports from a separate meeting between the Council's Head of Housing Finance and the Company's Head of Finance. In practice, the technical nature of many of the financial and accountancy issues means that this is the principal forum for the financial aspects of contract monitoring. This arrangement is supplemented by a bi-annual review meeting including the Cabinet Member for Community Services and the Chair of Barnet Homes Board, again with senior officers from both organisations present.
- 8.10 A review of the Management Agreement has commenced. This is a matter of routine good practice and will enable the building on strengths and tackling of any weaknesses identified in the current arrangements.
- 8.11 In summary, I am satisfied that the arrangements for governance and audit were set up on a sound basis, that they have been externally validated by the Audit Commission inspection and that, subject to the timely appointment of new internal auditors, continuing monitoring demonstrates that they are generally working well in practice.

## **9 LIST OF BACKGROUND PAPERS**

- 9.1 Memorandum and Articles of Association, Barnet Homes
- 9.2 Management Agreement between Barnet Homes and the Council
- 9.3 Barnet Homes Business Plan 2005-10
- 9.4 Any person wishing to inspect these documents should telephone 020 8359 6063.

Legal: JEL

BT: CM