

REPORT TO: AUDIT AND GOVERNANCE COMMITTEE
MEETING DATE: 21 June 2022
BY: Executive Director for Place
SUBJECT: East Lothian Mid-Market Homes LLP 2021/22

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1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the 2021/22 accounts and the progress made towards the recommendations made by Internal Audit reported to Audit and Governance Committee in June 2021.

2 RECOMMENDATIONS

- 2.1 That the Audit and Governance Committee note the contents of the report and the progress made in relation to the audit report presented at June 2021 A&G committee.

3 BACKGROUND

- 3.1 In 2016 Planning consent was granted for 240 homes in Dunbar to include 60 affordable homes. Over a period of negotiation, the Council and the Developer agreed that 50 of these would be built as mid-market homes. A pension fund would fund the building of the homes and would lease them to East Lothian Mid-Market Homes (ELMMH) LLP for 40 years, after which the Council has the option to buy them for £1 per property. In completing this arrangement 50 affordable homes have been added to the East Lothian affordable housing stock with no requirement for funding from the Public purse. The mixture of 2 and 3 bedroom homes were initially let from July 2019 at 80% of the then Local Housing Allowance (LHA) level relevant to the size of properties in line with East Lothian Council's Affordable Housing Policy. Due to a recent increase in LHA levels, the current rental levels for 2021/22 for these homes are at 65% of the LHA level for the 2 bedroom homes and 61% of LHA for the 3 bedroom homes comparing favourably with similar mid market housing association rents which are typically 70% to 85% of LHA within East Lothian.

- 3.2 Following Cabinet approval of this development proposal in January 2017 ELMMH LLP was created as a partnership vehicle between the Council and Scottish Futures Trust (SFT) initially to facilitate the leasing of these 50 homes. Void levels have been minimal and repair issues with the original 50 houses are or have been resolved through developer guarantees.
- 3.3 Since the ELMMH LLP has been in place, it has since purchased 10 further properties with grant funding from the Second Homes Council Tax Fund approved by Cabinet. These properties are rented on a similar basis by ELMMH LLP. These acquisitions have been completed to prevent these properties being removed from the affordable housing portfolio within East Lothian as new buyers of these properties on an affordable housing basis had not been identified.
- 3.4 ELMMH LLP is a subsidiary organisation of the Council and assists in contributing to the affordable housing objectives of the Council plan. This report is provided to the Audit & Governance Committee to assist in fulfilling appropriate Governance and scrutiny processes by providing open and consistent reporting on an annual basis.

Governance

- 3.5 ELMMH LLP Board meetings are held on a quarterly basis with minutes taken and approved at subsequent board meetings by the chair
- 3.6 ELMMH LLP is audited by External Auditors, Whitelaw Wells. End of year accounts have been signed off by the Board and have been provided to Whitelaw Wells for final sign off in August
- 3.7 The draft accounts were approved at a recent board meeting on the 17th May 2022 ahead of being sent to Whitelaw Wells ahead of the audit which started on the 30th May 2022. Final accounts as at the 31st March 2022 for ELMMH demonstrate a cash balance of £364,067.23. These are expected to be signed off at a board meeting in August 2022 (see Appendix A).
- 3.8 Following an internal audit of the LLP last in May 2021, the following key findings and recommendations were highlighted to improve the efficiency and effectiveness of the existing controls that are in place.
- Regular Governance reporting to the Council Audit & Governance Committee is required for the operation of ELMMH LLP. **Management agreed to start annual reporting by June 2022.**
 - In line with the Agreement the Council has appointed five representatives as Members of ELMMH LLP, however the same five staff were also acting as the Senior Management. Whilst Audit recognised that structure allowed for speed of understanding and decision making in the early stages of development, it was recommended that segregation of duties was required going forward with a specific written agreement on roles and responsibilities.

The Board of membership has since been reviewed and a change in membership has been made with the Director of Corporate Resources now sitting on the Board of Management with a new Manager appointed to the Senior Management team. The Management Team have agreed to continue to review this membership on an ongoing basis with the next review due in March 2023.

- An initial template financial model over a 40 year period was developed utilising an SFT model whilst this potentially demonstrated unmet funding requirements in the final 10 years of the 40 year period no updated model had been developed for the final agreed position, nor had the model been updated for actual outturns or updated projections on income and expenditure. Final accounts as at 31 March 2021 for ELMMH demonstrate a cash balance of £124,589, however the audit recommended that a financial model is required to establish if this figure provides an appropriate balance for lifecycle and reserve accounts moving forwards.

Modelling is now underway with SFT which has various formulae built in to help highlight risks and allow for flexibilities for scenario planning. The model has now incorporated the 2 additional properties acquired last year and is currently being updated to incorporate the 8 properties purchased at the end of May 2022. This model will be updated annually to reflect changes such as; rental increases, bad debt, voids, increases in material costs for repairs and replacement.

- The Membership Agreement requires that Reserve and Lifecycle accounts are required to be put in place and adequately funded. These had not been put in place and audit recommended that these were put in place with a policy on funding agreed.
- ***Management signed off and agreed to a reserve of £60,000 at the last meeting in May 2022. This reserve has been set aside based on the expected level of lifecycle costs but will be monitored and reviewed annually. A balance reserve has also been set aside equivalent to 13 weeks of revenue expenditure as outlined in the Members Agreement. This is based on the cash flow forecast for 2022/23***
- A risk matrix was developed for the initial decision to enter into ELMMH LLP as a special purpose vehicle for the leasing of the 50 homes for mid market rent, however Audit noted that this had not been updated since this initial risk register.

Management are in the process of updating this risk matrix in line with the modelling which will be signed off at a later meeting of the board this year. This risk register will then be reviewed and updated annually at each Senior Management Team meeting moving forwards.

- The Membership Agreement requires that specific agreements and policies, including an acquisitions and allocation policy should be in place

and noted that these were not in place prior to acquisition and allocation of the two properties earlier this year. Audit did record that whilst good practice principals have been followed a clear set of policies and procedures are required.

Management formally agreed a suite of required policies in October 2021 with the Acquisition Strategy agreed at the meeting of the board in April 2022.

- Audit recommended that all costs charged by council staff require to be reviewed along with required resources for operating ELMMH LLP and a formal agreement should be put in place to manage this.

Management have reviewed the costs charged by Council staff and have also recently advertised for a new resource to help with the tenancy management of the properties. Formal agreements are now in place for the compliance and maintenance of these properties. Further agreements are being considered with other relevant areas such as Legal and Finance.

4 POLICY IMPLICATIONS

- 4.1 None.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report has been through the Integrated Impact Assessment process as part of the LHS and no negative impacts have been identified.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – Board members.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 2020/21 Audit Report to the Audit and Governance Committee in June 2021.
- 7.2 Draft Accounts 2021/22

AUTHOR'S NAME	Wendy McGuire
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DATE	9 June 2022

East Lothian Mid-Market Homes LLP
Profit and Loss Account for the period ending 31 March 2022

	2021/22	2021/22	2020/21	2020/21
	£	£	£	£
Rental Income		380,742.03		364,823.25
Deposit Account Interest		<u>126.78</u>		<u>2.16</u>
		380,868.81		364,825.41
Expenditure				
Rental payments	251,680.00		248,848.52	
Insurance Costs	2,912.00		2,912.00	
Repairs and Maintenance	13,760.86		400.39	
Equipment and Furniture	3,236.16		1,571.21	
Depreciation	3,560.00		840.62	
Administration Costs	<u>33,144.42</u>	<u>308,293.44</u>	<u>17,810.21</u>	<u>272,382.95</u>
NET PROFIT (ORDINARY ACTIVITIES)		72,575.37		92,442.46
Government Grants		<u>1,073,350.00</u>		<u>284,811.00</u>
PROFIT FOR THE PERIOD		1,145,925.37		377,253.46

East Lothian Mid-Market Homes LLP
Balance Sheet as at 31 March 2022

	2021/22	2021/22	2020/21	2020/21
	£	£	£	£
<u>NON-CURRENT ASSETS</u>				
Property, Plant and Equipment		280,410.38		283,970.38
<u>CURRENT ASSETS</u>				
Debtors - rent due from Tenants	3,567.39		4,023.89	
Debtors - prepaid rent (PACE)	56,586.00		56,586.00	
Balance of funds due from ELC	1,078,243.94		-	
Cash at bank	<u>196,108.41</u>		<u>124,588.81</u>	
	1,334,505.74		185,198.70	
<u>CREDITORS</u>				
Rent received in advance	24,557.89		26,362.00	
Rent outstanding (PACE)	7,927.00		1,455.00	
Balance of funds due to ELC	-		5,116.22	
Whitelaw Wells	<u>5,250.00</u>		<u>4,980.00</u>	
	37,734.89		37,913.22	
NET CURRENT ASSETS		1,296,770.85		147,285.48
TOTAL ASSETS LESS CURRENT LIABILITIES		1,577,181.23		431,255.86
<u>MEMBERS INTERESTS</u>				
Reserves		1,577,179.23		431,253.86
Members Capital		<u>2.00</u>		<u>2.00</u>
Total Members Interests		1,577,181.23		431,255.86

East Lothian Mid-Market Homes LLP

Movement in Reserves for the period ending 31 March 2022

	General Reserves	Property Acquisition (1)	Required Balance (2)	Maintenance Fund (3)	TOTAL RESERVES
	£	£	£	£	£
Opening Balance 1 April 2021	431,253.86	-	-	-	431,253.86
Surplus 2021/22	1,145,925.37	-	-	-	1,145,925.37
Transfers between reserves	- 1,213,112.00	1,073,350.00	79,762.00	60,000.00	-
Closing Balance 31 March 2022	364,067.23	1,073,350.00	79,762.00	60,000.00	1,577,179.23

Notes

- 1 Property Acquisition Reserve
- 2 Required Balance
- 3 Maintenance Fund/Lifecycle

Purpose

Grant funding received in 2021/22 for planned property acquisitions in 2022/23
 Estimated variable cost expenditure for 13 weeks
 Lifecycle account for future maintenance of all units

East Lothian Mid-Market Homes LLP
Non-Current Assets

Housing for
Mid-Market Rent
£

Cost

At 1 April 2021	284,811.00
Additions	-
At 31 March 2022	<hr/> 284,811.00

Depreciation

At 1 April 2021	840.62
Charge for year	3,560.00
At 31 March 2022	<hr/> 4,400.62

Net Book Value

At 31 March 2022	280,410.38
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Accounting Policy

Non-current assets are initially recorded at cost and capitalised if costing £6,000 or more. Depreciation is provided at a rate calculated to write off the cost of the non-current assets, less their estimated residual value, over their expected useful lives on the following basis:

Housing for Mid-Market Rent - estimated useful life of 40 years

East Lothian Mid-Market Homes LLP
Administration Costs Charged to Profit and Loss

	2021/22	2020/21	
	£	£	
Accountancy	2,236.99	2,265.84	
Audit Fee	5,250.00	4,980.00	
Tenancy Management	10,765.44	10,495.87	
Tenant Support	14,312.93	-	Agency costs - covered by set-up costs in 2020/21
Burness Paul - Audit Letter	570.00	-	
Bank Charges	9.06	68.50	
TOTAL	33,144.42	17,810.21	