



## **FINANCE AND MANAGEMENT CASE STUDY**

### **Final Test of Professional Competence**

**03 June 2008**

### **PRE-SEEN MATERIAL**

*Pre-seen material for the Finance and Management Case Study is dispatched two weeks in advance of each examination sitting.*

*You should note that the purpose of this pre-seen material is simply to allow you to familiarise yourself with the case scenario, i.e. the organisation contained in the case and its regulatory background.*

*You are not expected to undertake any work on the pre-seen material prior to the examination and you will not be allowed to take in any notes to the examination. The pre-seen material will be provided again on the day of the examination itself.*

*For further information on the pre-seen material, please refer to your Techniques Guide.*

*The case study has been prepared on the assumption that candidates will not necessarily have a detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.*

*Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.*



# HELLESPONT HOUSING SOCIETY



The Hellespont Housing Society (HHS) was created on 01 January 2008 to serve as a major provider of community housing throughout the Greater Troy Region of the Republic of Lydia.

## **Community housing services in Lydia**

Community housing in Lydia is intended to provide good quality dwellings, which are let to residents on the basis of housing need. Traditionally, local authorities have managed the community housing stock, but the majority of units are now in the hands of Registered Community Landlords (RCL's).

The powers and responsibilities of RCL's are set out in the Community Housing Act, 1997. All RCL's are required to register with the State Housing Commission (SHC); to maintain their dwellings in fully habitable condition; to allocate them to applicants solely on the basis of housing need; and to contribute positively to the maintenance of good community relations within their areas of operation.

The SHC reports to the Ministry of Housing and Community Welfare (MHCW). It has the responsibility to lay down governance and performance standards for RCL's; to monitor their performance through an inspection programme; to intervene in any cases where an RCL's performance has fallen below the minimum acceptable standards; and to undertake benchmarking and best practice studies.

A priority goal for the SHC in recent years has been to secure the delivery by RCL's of the MHCW's "Quality Homes" initiative. This initiative sets out the minimum physical standards applicable to all units of community housing that must be achieved by 2015.

Another role undertaken by the SHC is to manage the allocation of Community Housing Grant (CHG) for development projects. All RCL's can add to their stocks either by new build or by purchase and conversion of suitable existing dwellings. However, their ability to do this on any scale is likely to depend on whether or not they stand to receive an allocation of CHG. Recently, the SHC has decided to award future allocations of CHG only to a limited number of larger RCL's, which have a good record of completing schemes on time and within cost guidelines.

Lydia has adopted a system of unitary local government. In addition to the continuing participation of some local authorities in housing management, all authorities are responsible for preparing housing strategies for their areas; for maintaining a common waiting list of housing applicants; for meeting the immediate needs of homeless people; and for providing financial support for those tenants in all rented housing sectors who are deemed to be unable to afford the prevailing levels of rent.

The Greater Troy Region includes the following local authority areas:

- Ephesus City Council
- Pergamon Council
- Troy City Council
- West Phrygia Council

## **History of HHS**

HHS has absorbed the housing stocks of two predecessor associations, Trojan Horse Housing and the Odyssey Housing Association, and now has a total stock of some 10,700 rented dwellings.

### **Trojan Horse Housing (THH)**

THH was formed in 1998 to own and manage the housing stock that had been built up by Troy City Council (TCC). The Council transferred some 7,300 dwellings to THH, all of which were located within TCC's boundaries. This stock had been constructed over the previous eighty years to widely varying standards and included houses, bungalows, flats and sheltered housing.

At the time of transfer from TCC, there was a major backlog of repairs and improvements for THH to undertake. As part of the transfer arrangements, funding streams were put in place to address this issue.

Since the transfer, the repairs backlog has been entirely eliminated and almost all elements of the stock that are intended for long-term retention have been improved to meet the Quality Homes standard. However, there are still some 800 THH dwellings, which need complete redevelopment. These estates have received necessary maintenance, but only minor cosmetic improvements in view of their limited life span.

THH has been obliged by law to give the tenants who transferred from TCC the opportunity to buy their homes at a discount. As a result, its stock had reduced over the years and currently HHS owns approximately 6,450 dwellings inherited from THH. HHS has now assumed the remaining "right to buy" obligations of THH.

As THH has concentrated on upgrading its existing stock, it has not built up any significant capacity to undertake "new build" housing projects.

### **Odyssey Housing Association (OHA)**

OHA had a longer history, having been formed in 1978. It had built up its stock since then, relying on CHG, government loans, market borrowing and internally generated funds. Currently, HHS owns approximately 4,250 dwellings taken over from OHA. These properties are spread across the Greater Troy Region, but none are situated within the city of Troy itself. OHA developed around 200 new dwellings annually in recent years.

All of OHA's dwellings have been constructed to modern standards and are capable of being made compliant with the "Quality Homes" standard. However, many of the units built over fifteen years ago now need replacement kitchens, bathrooms and heating systems. Provision for such replacements had therefore become a major feature in OHA's budgets in recent years.

### **Reasons for the merger**

The decision to create HHS was reached amicably, with the endorsement of the SHC, with a view to achieving the following benefits, as set out in the business case:

- Greater flexibility to offer lettings across the whole of the Greater Troy Region.
- The opportunity to use the development expertise built up by OHA to address the redevelopment needs of elements of the THH stock.
- Economies of scale through pooling of overhead costs, especially in relation to office accommodation and ICT systems.

- Greater bargaining power in the procurement of goods and services, particularly in relation to maintenance work.
- The ability, as a larger organisation, to arrange borrowing on more favourable terms.
- Greater credibility with the SHC, thereby giving more likelihood of being selected to participate in major housing development initiatives.
- The ability to build up greater expertise in specialist areas of housing management.

### **Governance**

HHS is a company limited by guarantee and an RCL.

It is governed by a Board of twelve non-executive trustees, three of whom are drawn from the tenant body. The remaining nine trustees have been appointed on the basis of their experience in public and community life and/or business management and include trustees with specific expertise in the fields of community development, finance, human resources, ICT, law and property.

The Board selects its chairperson annually. The current chair is Perry Cleese, who had previously served on the THH board since its inception in 1998.

The Board has overall responsibility for ensuring that HHS adheres to the relevant provisions of Lydia company and housing law, the governance and financial stability requirements of the SHC, and recognised accounting standards (which are modelled on those currently in force in the United Kingdom). It considers and determines all of the strategic and policy issues, with advice from the Corporate Management Team (CMT) of senior executives.

### **Executive Team**

The current management structure of HHS is set out in the chart on page (xi) below.

The Chief Executive (*Anne Dromeda*) is the principal adviser to the Board, especially in relation to the strategic direction of HHS. She is responsible, with the support of the Assistant Chief Executive (*Carry Attid*), for overall co-ordination of the Society's business, for corporate governance issues, and for human resources. The Head of Personnel (*Lee Ander*) reports direct to the Chief Executive.

The CMT consists of the Chief Executive and three Directors (of Operations, Development, and Central Services). There is a formal meeting of CMT every fortnight.

The responsibilities of the senior managers are as follows:

#### **Director of Operations (Cleo Patra)**

##### *Head of Housing Management (Polly Feemus)*

- Allocation of dwellings
- Management of tenancies and tenant communications
- Provision of tenant support services
- Community initiatives

##### *Head of Housing Maintenance (Gordon Knot)*

- Maintenance and improvement of dwellings

**Director of Development (Phil Octetes)**

*Head of Planning (Ruby Conn)*

Formulating the development programme  
Securing development and regeneration sites and planning approvals  
Design of proposed developments

*Head of Construction (Cy Clopps)*

Costing of proposed developments  
Securing CHG for proposed developments  
Letting and supervision of development contracts

**Director of Central Services (Harry Stottle)**

*Head of Finance (Sharon Sticks)*

Accountancy  
Financial planning  
Rent accounting and collection  
Risk management and insurance  
Treasury management

*Head of Support Services (Archie Meadies)*

ICT services  
Legal services  
Office management and other central services

HHS uses a firm of estates surveyors (Cass, Torr and Pollocks) to provide valuation advice and to act on its behalf in major property negotiations. The internal audit function has also been outsourced, to Argus Audit Associates.

**You are Pat Rockelus, newly appointed as Principal Accountant (Technical).** You will report direct to Sharon Sticks, Head of Finance, and you will be assisted by Jay Sun, Accounting Technician.

**Financial arrangements**

HHS has a financial year ending on 31 December, as did the two predecessor associations. Its accounts are prepared in accordance with a Standard of Recognised Practice for RCL's issued by the Lydia Accounting Standards Board, with the agreement of the SHC.

The 2007 final accounts for both THH and OHA have been completed and audited, without any major problems having come to light.

**Economic context**

Lydia's currency is the Lydian pound (£), which has parity with the pound sterling. Lydia is not a member of the European Union, and does not levy VAT.

As a result of good economic management over many years, Lydia enjoys stable prices, and the annual inflation rate over the next five years is expected to be at or close to zero.

The Bank of Lydia's base rate is currently set at 3% per annum.

### **Staff representation**

HHS has decided to recognise the Lydia Association of Public Service Officers (LAPSO) as the representative negotiating body for its staff. This decision continued the long established practice at THH, where the great majority of staff were LAPSO members. In the case of OHA, a few employees had also joined LAPSO, but most were not members of any trade union.

A Staff Consultative Committee, composed of Board members and LAPSO representatives, meets quarterly to discuss industrial relations issues as they arise. Both sides can place items on the agenda for these meetings and special meetings can be called at short notice in case of urgency.

The Board and CMT are mindful of the need to keep all employees, including those who are not union members, abreast of developments affecting the Society as and when they occur.

### **Housing maintenance**

The housing maintenance budget for **2008** is set out on pages (vii) and (viii) below. This budget had to be prepared in difficult circumstances just prior to the creation of HHS. The maintenance teams responsible for the THH and OHA stocks prepared separate budgets. These were then totalled to provide an HHS budget.

OHA employed external contractors for all of its maintenance work, but THH had a direct works organisation (DWO) in place to undertake its cyclical maintenance, responsive repairs and re-let repairs. The THH element of the budget was prepared on the assumption that the DWO would remain in being throughout 2008.

RCL's are required by law to set up a separate "arm's length" trading company for any DWO that they operate. The value of maintenance work carried out by a DWO on an RCL's own stock is debited to the housing maintenance account and credited to the DWO trading account in accordance with the provisions of the relevant contracts.

During its final year of existence, THH began a search for a suitable private company to enter into a partnering arrangement for cyclical works and responsive and re-let repairs, the aim being to obtain improved service and lower costs. The chosen company would take over THH's direct works team. The procurement arrangements placed heavy emphasis on customer service and quality assurance.

The HHS board was fully supportive of this initiative and completed the tendering process. In consequence, HHS transferred the whole of its DWO to a major building firm, Vulcan Construction, on 01 March 2008.

Vulcan undertook to employ all except five of the staff of the DWO on terms and conditions equivalent overall to those that applied during their HHS employment. Of the five members of staff who did not transfer to Vulcan, two were retained by HHS and redeployed to other duties, and three accepted redundancy terms.

HHS awarded Vulcan an initial three-year contract for the range of work previously carried out by the DWO. The HHS Board also decided that Vulcan would only be awarded any further work following open competition.

A recent SHC report highlighted the widely varying performance levels of the maintenance services provided by different RCL's across Lydia as a whole. It is expected that this issue will figure prominently in future inspections undertaken by the SHC.

### **Leasehold service charges – flats and maisonettes**

Sitting tenants of flats or maisonettes who have purchased their dwellings have done so on a leasehold basis, entering into ninety-nine year leases at peppercorn rents. HHS retains the freehold ownership in all such cases. The purchasers (or their successors) have continuing liability to pay service charges to contribute their share of the costs of upkeep and repair to the common parts of the properties concerned.

The Lydian Parliament enacted the Leasehold Charges Act 2006 to clarify and update the basis on which RCL's are empowered to levy such service charges. The Act came into force on 01 January 2008 and its provisions apply to all service charges levied by RCL's for periods from that date onwards.

### **Office accommodation**

A consequence of forming HHS has been the need to review office accommodation. Neither THH nor OHA had existing office accommodation that was deemed suitable to serve as the long-term headquarters of the new organisation.

Fortunately, HHS was able to acquire the right to take ownership of an office development site at the Homer Valley Business Park on the outskirts of the city of Troy. Preliminary proposals are being drawn up to develop a purpose designed office building at this location, to be called **Hades House**. The new building will provide 3,200m<sup>2</sup> of floor space, with space for further expansion if required at a later date.

The main difficulty with this project is that permanent access to the site is dependent on construction of the Homer Valley Distributor Road, which is not due to be completed until December 2012. HHS can use another temporary access to the site before then, but this will be permitted for construction purposes only.

Pending completion of Hades House, HHS will have to make the best use it can of the existing office buildings, Argosy House and the Caesar Centre. For the time being, HHS is splitting its headquarters departments between these two sites.

THH was based at **Argosy House** in Troy city centre. Argosy House was built in the nineteen fifties and its layout and standard of facilities fall well short of modern requirements.

The **Caesar Centre**, a satisfactory (though small) modern building, is located in the town of Pergamon, which is eighteen miles distant from the city of Troy. OHA rented this office space from the landlords, Golden Fleece Investments. The lease has been transferred from OHA to HHS, but will come to the end of its term on 31 December 2010. However, it is understood that Golden Fleece are willing to grant HHS a new lease for the period up to 31 December 2012 to coincide with the expected completion date for Hades House.

Argosy House and the Caesar Centre each has sufficient on site car-parking to enable spaces to be allocated to all those members of staff at each site who wish to use them.

A preliminary office accommodation revenue budget for **2009** has recently been drawn up and this is set out on page (ix) below.

There has been considerable debate in Lydia about the future of office-based employment. The Lydian Government's Ministry of Enterprise is currently preparing a "Flexible Working Toolkit" to encourage innovative practice. The Ministry has already issued a preliminary statement, and a copy of this is attached at page (x) below.

## HELLESPONT HOUSING SOCIETY

## Revenue estimates, 2008: Housing maintenance

	THH stock		OHA stock	Total
	6,450		4,250	10,700
<i>Average no. of dwellings:</i>				
Works carried out by:	Direct works	External contractors	External contractors	
	£'000	£'000	£'000	£'000
<u>Planned works</u>				
Cyclical works	1,140	0	540	1,680
Reinvestment works	0	2,350	2,410	4,760
<u>Reactive works</u>				
Responsive repairs	2,010	0	970	2,980
Re-let repairs	799	0	340	1,139
THH SUB - TOTALS	3,949	2,350		
<b>TOTAL</b>	<b>6,299</b>		<b>4,260</b>	<b>10,559</b>

## Revenue estimates, 2008: Housing maintenance costs per dwelling

	THH stock	OHA stock	Total
	6,450	4,250	10,700
<i>Average no. of dwellings:</i>			
	£ per dwelling	£ per dwelling	£ per dwelling
<u>Planned works</u>			
Cyclical works	177	127	157
Reinvestment works	364	567	445
<u>Reactive works</u>			
Responsive repairs	312	228	279
Re-let repairs	124	80	106
<b>TOTAL</b>	<b>977</b>	<b>1,002</b>	<b>987</b>

The above figures (both tables) are to be read in conjunction with the notes on the following page.



**Notes to the 2008 Housing Maintenance estimates:**

1. All of above figures exclude the costs associated with the following items, which are chargeable to separate budget heads:
  - Commissioning costs (salaries of maintenance surveyors, etc).
  - The costs of providing aids and adaptations for people with disabilities.
  - Estate works (e.g. repairs to roads and paths not adopted as public highways).
  - Works which are subject to cost recovery via service charges.
2. **Cyclical works** include periodic painting of dwellings and inspection and servicing of heating appliances and other equipment.
3. **Reinvestment works** consist of renewals of bathrooms, kitchens, boilers and heating systems, re-roofing and other planned works.
4. **Responsive repairs** are works carried out to rectify defects reported by tenants or by HHS staff.
5. **Re-let repairs** are jobs undertaken to prepare empty dwellings for re-letting. The extent and costs of these jobs depends on the condition of each dwelling at the time of vacation, and also on its attractiveness to potential tenants. A "hard to let" dwelling may receive additional work with a view to securing an earlier letting and so minimising loss of rent.
6. The following volumes and unit costs were used in drawing up the 2008 budgets for Responsive Repairs and Re-let Repairs:

	<b>THH stock</b>	<b>OHA stock</b>
<b>Responsive repairs</b>		
Number of jobs	12,800	6,600
Average cost per job	£157	£147
<b>Re-let repairs</b>		
Number of re-lets	470	320
Average cost per re-let	£1,700	£1,062

## HELLESPONT HOUSING SOCIETY

**Preliminary revenue estimates, 2009: Office accommodation**

	<b>Argosy House</b>	<b>Caesar Centre</b>	<b>Total</b>
	m <sup>2</sup>	m <sup>2</sup>	m <sup>2</sup>
INTERNAL FLOOR AREA	2,250	1,400	3,650
NO. OF EMPLOYEES BASED AT EACH OFFICE	182	95	277
	£'000	£'000	£'000
<u>EXPENDITURE</u>			
EMPLOYEES			
Caretaking	35	0	35
PREMISES			
Cleaning contract	110	58	168
Grounds maintenance	12	0	12
Insurance	18	0	18
Property Tax	82	47	129
Rent	0	170	170
Repairs and maintenance - annual provision (recurring)	48	2	50
Repairs and maintenance - specific items (2009 only)	52	0	52
Service charge	0	39	39
Telephones	62	25	87
Utility charges - heat/light/water	71	33	104
	455	374	829
DEPRECIATION			
Buildings	108	0	108
Furniture and equipment	63	40	103
	171	40	211
TOTAL EXPENDITURE	661	414	1,075
<u>INCOME</u>			
Recharges to service departments	661	414	1,075
NET EXPENDITURE	0	0	0



## REPUBLIC OF LYDIA MINISTRY OF ENTERPRISE EMPLOYERS' GUIDE TO FLEXIBLE WORKING

### Problems and opportunities

- There are currently more than two million office based workers in Lydia. Accommodating them ties up capital investment of more than £20 billion and incurs annual occupancy costs of £6 billion per annum. Average occupancy per desk is less than 30% of the working day. The average occupancy cost per worker per year is around £3,000, resulting in a cost per hour of approximately £5.00 for each occupied desk.
- Apart from the financial costs to employers, office based staff spend their own time and money travelling, often in stressful conditions, as they struggle to balance the competing demands of home and work. Commuting to work just to use a computer and telephone is expensive and pointless, if the same tasks can be performed at or close to home.
- Flexible working (such as working from home or from a decentralised workplace) allows employers and workers to break free from the straitjacket of traditional work practices. It can often enable a task to be carried out at a time and place, which is most effective for the employer and employee, and better suited to meeting the needs of the customer.
- Mobile staff such as travelling professionals can spend more time with their clients, if they are no longer tied to a head office base. Allowing them to work from home or a local office can result in a productivity increase of 30%, as well as lower business travel costs.

### Rising to the challenge

- Employers wanting to take full advantage of flexible working must ensure that they put in place a comprehensive strategy, with full commitment from managers responsible for information services, office facilities and human resources, working to a common agenda of business improvement.
- A successful strategy will be designed: to get the most from technology investments by streamlining processes and reducing paper dependence; to create modern working environments both within and away from the main office; and to prepare, equip and support managers and staff in working flexibly.
- A flexible working strategy will require investment in systems, hardware, communications and training. Residual office buildings may also need to be adapted to create more meeting rooms, library facilities, etc in place of dedicated desk space.
- This scale of investment will require a solid business case to be prepared and sold to senior management, taking into account all potential efficiency gains and other benefits. Staff consultation and the raising of awareness must also receive high priority to ensure that there is the widest possible support for change in all sections of the organisation.
- By developing a culture of flexibility and adaptability, your firm will be able to stay ahead in the marketplace of tomorrow and become a first choice employer for people seeking a progressive working environment.

**A full guide to implementing flexible working will be published in the Ministry's "Flexible Working Toolkit", which will be available from 30 June 2008 – to place your order, please visit our website, [www.enterprise.gov.lyd/flexibleworkingtoolkit](http://www.enterprise.gov.lyd/flexibleworkingtoolkit)**

## HELLESPONT HOUSING SOCIETY – STAFFING STRUCTURE

