

# HOUSING SCRUTINY SUB- COMMITTEE

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Monday, 18 July 2016 at 6.30 p.m.

MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London E14 2BG.

This meeting is open to the public to attend.

**Members:**

Chair: Councillor Amina Ali

Vice-Chair: To be appointed

Councillor Andrew Cregan, Councillor Rabina Khan, Councillor Abdul Mukit MBE,  
Councillor Gulam Robbani, Councillor Helal Uddin and Councillor Andrew Wood

**Substitutes:**

Councillor Dave Chesterton, Councillor Julia Dockerill, Councillor Marc Francis and  
Councillor Candida Ronald

**Co-opted Members:**

To be appointed

[The quorum for this body is 3 voting Members]

**Contact for further enquiries:**

Farhana Zia, Committee Services Officer

Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Tel: 020 8364 0842

E-mail: [farhana.zia@towerhamlets.gov.uk](mailto:farhana.zia@towerhamlets.gov.uk)

Web: <http://www.towerhamlets.gov.uk>

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**APOLOGIES FOR ABSENCE**

<b>1.</b>	<b>DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS</b>	<b>1 - 4</b>
<b>2.</b>	<b>APPOINTMENT OF VICE-CHAIR</b>	
<b>3.</b>	<b>REPORTS FOR CONSIDERATION</b>	
<b>3 .1</b>	<b>Terms of reference - Housing Scrutiny Sub-Committee</b>	<b>5 - 14</b>
<b>3 .2</b>	<b>Draft Annual Work Programme</b>	<b>15 - 22</b>
<b>3 .3</b>	<b>Tower Hamlets Leaseholders Report</b>	<b>23 - 98</b>
<b>3 .4</b>	<b>Affordability Commission</b>	<b>99 - 120</b>
<b>3 .5</b>	<b>Implications of the New Housing Act 2016</b>	<b>121 - 128</b>
<b>4.</b>	<b>ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS TO BE URGENT</b>	

**Next Meeting of the Sub- Committee**

The next meeting of the Housing Scrutiny Sub-Committee will be held on Monday, 10 October 2016 at 6.30 p.m. in C1, 1<sup>st</sup> Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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# Agenda Item 1

## **DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER**

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

### **Interests and Disclosable Pecuniary Interests (DPIs)**

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

### **Effect of a Disclosable Pecuniary Interest on participation at meetings**

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

**Further advice**

For further advice please contact:-

Melanie Clay Corporate Director of Law Probitiy and Governance and Monitoring Officer,  
Telephone Number: 020 7364 4801


## APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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<p>Non-Executive Report of the:</p> <p><b>Housing Scrutiny Sub-Committee</b></p> <p>18 JULY 2016</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Matthew Mannion, Committee Services Manager</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>HOUSING SCRUTINY SUB-COMMITTEE TERMS OF REFERENCE, QUORUM, MEMBERSHIP AND DATES OF MEETINGS</b></p>	

<p><b>Originating Officer(s)</b></p>	<p>Farhana Zia Democratic Services</p>
<p><b>Wards affected</b></p>	<p>All wards</p>

## 1. Summary

- 1.1 This report sets out the Terms of Reference, Quorum, Membership and Dates of meetings of the Housing Scrutiny Sub-Committee for the Municipal Year 2016/17 for the information of members of the Committee.

## 2. Recommendation

- 2.1 That the Housing Scrutiny Sub-Committee agrees to note its Terms of Reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report.

### **3. REASONS FOR THE DECISIONS**

- 3.1 This report is for the information of the Committee and no specific decisions are required.

### **4. ALTERNATIVE OPTIONS**

- 4.1 Not applicable to reports for noting.

### **5. Details of the Report**

- 5.1 At the Annual General Meeting of the full Council held on 18<sup>th</sup> May 2016, the Authority approved the review of proportionality, establishment of the Committees and Panels of the Council and appointment of Members thereto.
- 5.2 At the first meeting of the Overview and Scrutiny Committee held on 7<sup>th</sup> June 2016 the Committee noted the proportionality and establishment of the Housing Scrutiny Sub-Committee and approved the appointment of co-opted members thereto.
- 5.3 It is traditional that following the Annual General Meeting of the Council at the start of the Municipal Year, at which various committees are established, that those committees note their Terms of Reference, Quorum and Membership for the forthcoming Municipal Year. These are set out in Appendix 1 and 2 to the report respectively.
- 5.4 The Committee's meetings for the remainder of the year, as agreed at the Annual General Meeting of the Council on 18<sup>th</sup> May 2016 as set out in Appendix 3 to this report.
- 5.5 In accordance with the programme of meetings for principal meetings, meetings are scheduled to take place at 6.30pm, except where the meeting falls within the month of Ramadan which will be at 5.30 pm.

### **6. COMMENTS OF THE CHIEF FINANCE OFFICER**

Matters brought before the Committee under its terms of reference during the year will include comments on the financial implications of decisions provided by the Chief Finance Officer. There are no specific comments arising from the recommendations in this report.

### **7. LEGAL COMMENTS**

- 7.1 The terms of reference provided for the Panel to note are in line with Section 3.3.6 in Part 3 of the Council's Constitution.

**8. ONE TOWER HAMLETS CONSIDERATIONS**

- 8.1 When drawing up the schedule of dates, consideration was given to avoiding schools holiday dates and known dates of religious holidays and other important dates where at all possible.

**9. BEST VALUE (BV) IMPLICATIONS**

There are no specific Best Value implications arising from this noting report.

**10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 10.1 There are no specific sustainability implications arising from this noting report.

**11. RISK MANAGEMENT IMPLICATIONS**

- 11.1 There are no specific risk management implications arising from this noting report.

**12. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 12.1 There are no specific crime and disorder implications arising from this report.

**Linked Reports, Appendices and Background Documents**

**Linked Report**

- None

**13. APPENDICES**

Appendix 1 – Housing Scrutiny Sub-Committee Terms of Reference  
Appendix 2 – Appointments to Committee  
Appendix 3 – Dates of Meeting

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**Officer contact details for documents:**

If not supplied  
Name and telephone number of holder  
Farhana Zia  
Democratic Services  
020 7364 0842

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**Housing Scrutiny Sub-Committee Terms of Reference**

**Chair and Membership**

Sub-Committees will be chaired by a Member of the Overview and Scrutiny Committee. For this Sub-Committee it will be the Lead Scrutiny Member for Development and Renewal for 2016/17. The membership of the Housing Scrutiny Sub-Committee will be selected at the Annual General Meeting.

**Frequency of meetings**

It is proposed the Sub-Committee meets four times per year formally and the following are suggested dates that are available in the Corporate Diary for 2016/17.

18<sup>th</sup> July (induction session)  
26<sup>th</sup> September  
28<sup>th</sup> November  
6<sup>th</sup> February  
24<sup>th</sup> April

The Sub-Committee may arrange other meetings as and when necessary to consider any urgent issues as well as arranging meetings for detailed scrutiny reviews and challenge sessions.

**Responsibilities**

The Housing Scrutiny Sub-Committee will discharge the Council's statutory functions to undertake overview and scrutiny, insofar as these pertain to housing matters. This will include:

- (a) Reviewing and/or scrutinise decisions made or actions taken in connection with the discharge of the Council's housing functions;
- (b) Advising the Mayor, DCLG Commissioners or Cabinet of key issues/questions arising in relation to housing reports due to be considered by the Mayor, DCLG Commissioners or Cabinet;
- (c) Making reports and/or recommendations to the full Council and/or the Mayor, DCLG Commissioners or Cabinet in connection with the discharge of housing functions;
- (d) Delivering (c) by organising an annual work programme, drawing on the knowledge and priorities of the council, registered providers and other stakeholders, that will identify relevant topics or issues that can be properly scrutinised;
- (e) Holding service providers to account, where recent performance fails to meet the recognised standard, by looking at relevant evidence and make recommendations for service improvements;

- (f) Considering housing matters affecting the area or its inhabitants, including where these matters have been brought to the attention of the sub-committee by tenant and resident associations, or members of the general public.
- (g) The Sub-Committee will report annually to the Overview and Scrutiny Committee on its work.

### **Support to the Sub-Committee**

The Service Heads for Corporate Strategy and Equality (LPG) and Strategy, Regeneration and Sustainability (D&R) will be the senior officer leads and champion the work of the Sub-Committee.

The servicing of meetings will be undertaken by the Council's Democratic Services Team which will include:

- Meeting room bookings, refreshments
- Agenda preparation and dispatch
- Taking minutes and recording of actions/decisions
- Dissemination of minutes and decisions

The Corporate Strategy & Equality Service will provide policy support to the Sub-Committee which will include:

- Research and analysis
- Work programme development
- Support with undertaking reviews and challenge sessions
- Drafting review reports and challenge sessions

### **Proceedings**

The Housing Scrutiny Sub-Committee will generally meet in public and conduct its proceedings in accordance with the rules and procedure contained in the Council's Constitution such as the:

- Council Procedure Rules
- Access to Information Procedure Rules, and
- The Overview and Scrutiny Procedure Rules

**LONDON BOROUGH OF TOWER HAMLETS**  
**SCRUTINY COMMITTEE MEMBERSHIPS 2016-2017**  
**NOMINATIONS SUBMITTED TO THE ANNUAL COUNCIL MEETING ON 18 MAY 2016**

<b>HOUSING SCRUTINY SUB-COMMITTEE</b> (Nominations for information - Panel to be appointed by Overview & Scrutiny Committee) (Seven members of the Council)		
<b><i>Labour Group (4)</i></b>	<b><i>Independent Group (2)</i></b>	<b><i>Conservative Group (1)</i></b>
Councillor Amina Ali Councillor Andrew Cregan Councillor M. Abdul Mukit Councillor Helal Uddin  Substitutes:-  <i>Councillor Dave Chesterton</i> <i>Councillor Marc Francis</i> <i>Councillor Candida Ronald</i>	Councillor Gulam Robbani Councillor Rabina Khan  Substitutes:-	Councillor Andrew Wood  Substitutes:-  <i>Councillor Julia Dockerill</i>

		<b>Co-opted Members:-</b> To be appointed by the Overview & Scrutiny Committee
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## APPENDIX 3

### SCHEDULE OF DATES 2016/17

#### HOUSING SCRUTINY SUB-COMMITTEE

Monday 18 July 2016 at 6:30 p.m.

10<sup>th</sup> October 2016

28<sup>th</sup> November 2016


~~3<sup>rd</sup>~~ 6<sup>th</sup> February 2017

24<sup>th</sup> April 2017

#### Notes

1. The Panel, by custom has met at 6.30pm in accordance with the Calendar of Meetings agreed by the full Council AGM.
2. It may be necessary to convene additional meetings of the Sub-Committee should urgent business arise. Officers will keep the position under review and consult with the Chair and other Members as appropriate.

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<b>Housing Scrutiny Sub-Committee</b> 18 July 2016	 <b>TOWER HAMLETS</b>
<b>Report of: Kevin Kewin, Interim Service Head, Corporate Strategy and Equality</b>	<b>Classification: Unrestricted</b>
<b>Housing Scrutiny Sub-Committee Work Programme 2016/17</b>	

<b>Originating Officer(s)</b>	<b>Mark Bursnell, Senior Strategy, Policy and Performance Officer</b>
<b>Wards affected</b>	<b>All wards</b>

## Summary

The report outlines the draft work programme for the Housing Scrutiny Sub-Committee for the municipal year 2016/17

## Recommendations:

1. Housing Scrutiny Sub-Committee is asked to consider and comment on the proposed draft work programme
2. Authorise the Interim Service Head for Corporate Strategy and Equality after consultation with the Chair of the Housing Scrutiny Sub-Committee, to finalise the work programme

## **1. BACKGROUND**

- 1.1 The Overview and Scrutiny Committee at its meeting on 9 May 2016 agreed to establish the Housing Scrutiny Sub-Committee and delegate its housing responsibilities and functions to this Sub-Committee. The terms of reference of the Sub-Committee and its membership were also agreed at the same meeting. The Sub-Committee was established to reflect the high profile of housing related issues within the borough with local people identifying more affordable and better quality housing as a key priority for them. The Sub-Committee will carry out comprehensive scrutiny across the range of the Council's housing functions and relationships with other housing providers and seek to address and find solutions to some of the most difficult housing issues facing the borough. The Sub-Committee will work in partnership with key stakeholders, such as local registered social landlords and housing tenants, and try to establish consensus in making its recommendations.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Sub-Committee will adopt its own work programme for the coming municipal year and the suggestions contained in this report are for guidance only. However, the Sub-Committee does need to adopt a work programme so it can decide how it will structure and plan its activities over the course of the year.

## **3. DETAILS OF REPORT**

- 3.1. As a new Sub-Committee there is an opportunity to set a work programme that reflects the current housing agenda for the borough and select issues and matters for scrutiny that are a high priority for Members, stakeholders and tenants. It is anticipated that the business for the Sub-Committee will consist of a mix of four elements: firstly, scrutiny review work on specific topics and issues that will include recommendations to be considered by the Mayor and Cabinet; secondly, reports on operational issues that affect tenants and require the views of the Sub-Committee before being referred on to the Cabinet for decision; thirdly, opportunities to question and discuss housing matters and issues in a public forum, with relevant housing portfolio holders or senior managers representing significant local housing providers present; and fourthly, information briefings which keep Members up to date and informed on important matters that have a direct impact on their role and purpose, for example the implications of new Government legislation, or changes in housing regulations.
- 3.2. Officer and Member resources available to support scrutiny in delivering the work programme will need to be used as effectively as possible, to meet realistic Member expectations of what can be achieved. A draft work programme for the Housing Scrutiny Sub-Committee has been developed (see appendix 1). An earlier version of the work programme was included in the members pack for the Induction Session held on 27 June, the work

programme contained in this report reflects the additional ideas and suggestions that Members proposed at the Induction Session.

- 3.3. As part of the Member Induction on 27 June, several potential issues were identified as priorities for scrutiny review or report. These included investigating how efficient the different housing providers in the borough are in dealing timely with outstanding repairs. This would complement a report that was considered by Overview and Scrutiny Committee last summer on comparative repairs performance. Another issue was exploring the potential to take people off the Council's waiting list by considering innovative options to house families either inside or outside the borough, where land values are less expensive.
- 3.4. Other topics suggested for this year's work programme included exploring the Council's relationship with the private rented sector (which in 2014, housed 39% of all the borough's residents compared to only 20% in 2003) and if any new action is required to improve the services provided, or protection offered to private sector tenants. Members, if they feel it is justified, can also follow up on this year's Homelessness Challenge Session by examining related issues in more detail, especially the link between homelessness and poor health standards in the borough. Before a final work programme is adopted by the Sub-Committee it will be necessary to consult with other stakeholders (other housing providers, tenants bodies and individual tenants) to ensure that their views and priorities are reflected.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 This report asks the Housing Scrutiny Sub-Committee to consider and comment on the proposed draft work programme and authorise the Interim Service Head for Corporate Strategy and Equality, after consultation with the Chair of the Housing Scrutiny Sub-Committee, to finalise the work programme.
- 4.2 There are no specific financial implications arising from this report, although given the changes in this area arising from the new Housing and Planning Act 2016, there are significant financial implications that the Scrutiny Committee will need to be fully sighted on when undertaking its scrutiny functions.

#### **5. LEGAL COMMENTS**

- 5.1 In order for scrutiny to be undertaken in an efficient and effective way it is entirely appropriate that the Sub-Committee gives consideration to the work it can carry out over the municipal year and to programme that work accordingly. Legal considerations will be the subject of separate advice in each of the work streams at the relevant times, but currently there are no immediate legal implications arising from this report.

#### **6. ONE TOWER HAMLETS CONSIDERATIONS**

6.1 Although the Sub-Committee has not yet adopted its work programme for the year, it is likely that many of the issues that will be considered as part of its workload will have equality or diversity implications. The Sub-Committee will be mindful of its responsibilities to promote greater equality and diversity in framing its recommendations for improvement, which contribute to the achievement of One Tower Hamlets aims.

## **7. BEST VALUE (BV) IMPLICATIONS**

7.1 It is anticipated that many issues addressed as part of the Sub-Committee's work programme will have Best Value implications, for example, ensuring that service improvements are made on the basis of securing better value for money, using the most cost effective form of delivery, or streamlining processes that don't add any customer value to the service. The Sub-Committee is aware of its responsibilities in this area and will reflect Best Value considerations in making its recommendations.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 The extent to which positive action can be taken to promote the Greener Environment will depend on the topics and issues included in the work programme. However, key corporate objectives such as protecting green public space, especially in areas of high housing density, will be reflected in any recommendations made by the Sub-Committee that are relevant to contributing to a sustainable environment.

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 The Sub-Committee will be mindful in developing and executing its work programme, that the recommendations it formulates should take into account and seek to mitigate any risk to the Council and/or any risks arising from the Recommendation themselves and the action taken to address these.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 It is likely that the work programme will include several topics or issues that will have community safety implications. In reaching conclusions and framing recommendations the Sub-Committee will identify any relevant implications and actively seek to contribute to the reduction of crime and disorder in the borough.

# Draft Work Programme for the Housing Scrutiny Sub-Committee

# Appendix 1

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Date of Meeting	Item of business	Lead Officer	Outcome
18 July	<p>Work programme for the Housing Scrutiny Sub-Committee</p> <p>Affordability Commission</p> <p>Tower Hamlets Leaseholders Report</p> <p>Implications of the new Housing and Planning Act 2016</p>	<p>Mark Bursnell</p> <p>Jackie Odunoye</p> <p>Chief Executive, Tower Hamlets Homes</p> <p>Jackie Odunoye</p>	<p>Identify key topics that have an impact on some of the challenging issues facing the borough and which fulfil the ambitions of the Sub-Committee</p> <p>Report on the conclusions reached by the Commission and establish how these impact on the work of the Sub-Committee</p> <p>Consider the options for how the Council meets the needs of its leaseholders and provides services at competitive charges in future</p> <p>Gain an understanding of how the provisions of the Act will impact on the Council's housing policy and its relationship with tenants</p>
10 October	<p>Spotlight session- Cabinet Member for Housing Management and Performance</p> <p>Comments on the draft Housing Strategy</p>	<p>Jackie Odunoye</p> <p>Jackie Odunoye</p>	<p>Cabinet Member will set out the Council's policies around the key issues within their portfolio</p> <p>Opportunity for Members on the Sub-Committee to comment and input into the development of this key strategy</p>

Date of Meeting	Item of business	Lead Officer	Outcome
	Registered Social Landlord quarterly performance report	Jackie Odunoye	Consider the relative performance of the borough's main housing providers across a spectrum of performance indicators. Make proposals for improvement based on the comparative data included in the report
28 November	Question time session-Invitation to the public to attend a session where Cabinet Members and two or three of the big RSLs in the borough address key topics raised by the public	Jackie Odunoye	Cabinet Members and senior managers from large local housing providers will address and answer questions on a variety of issues. There will be a special focus on how efficient housing providers in the borough are in dealing with outstanding repairs. The purpose of the event is to give tenants and the public the opportunity to raise key housing issues and improve transparency
6 February	<p>Spotlight Session- Cabinet Member for Strategic Development</p> <p>Report on the potential to reduce the Council's housing waiting list by considering innovative options to directly build new homes or facilitate this through</p>	<p>Jackie Odunoye</p> <p>Jackie Odunoye</p>	<p>Cabinet Member will set out the Council's policies around the key issues within their portfolio</p> <p>The report will examine if there are viable options to expand provision and house more local people in the foreseeable future. As well as establishing if this can</p>



Date of Meeting	Item of business	Lead Officer	Outcome
	third parties.		be achieved by building more homes within or outside the borough
24 April	<p>Report on the impact of new housing developments on those communities experiencing the highest rates of growth</p> <p>Report on the future status of the Council's arms-length housing provider- Tower Hamlets Homes (THH)</p> <p>Report on the Council's relationship with the private rented sector and the potential to introduce a landlord accreditation scheme based on the existing Tower Hamlets pilot</p>	<p>Jackie Odunoye</p> <p>Jackie Odunoye</p> <p>Jackie Odunoye</p>	<p>The report will identify where these development pressures are most acute, their impact on local communities and proposals that might ameliorate the worst effects of this development</p> <p>The report will consider the options and potential for bringing THH back in-house</p> <p>This type of tenancy is now the most popular in the borough and growing rapidly, so should more be done to improve the support the Council provides for private sector tenants</p>

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Non-Executive Report of the:  <b>Housing Scrutiny Sub-Committee</b>  18 <sup>th</sup> July 2016	
<b>Report of:</b> Aman Dalvi – Corporate Director of Development and Renewal	<b>Classification:</b> Unrestricted
<b>Report on the Recommendations of the Mazars and HQN reports into Leasehold Management</b>	

<b>Originating Officer(s)</b>	Jackie Odunoye (Service Head – Strategy, Regeneration and Sustainability) John Coker (Acting Divisional Manager - Housing)
<b>Wards affected</b>	All wards

## Summary

This report follows the Overview & Scrutiny Committee (O&SC) meeting held on 4th January 2016 where the completion of the two audit reports on leasehold services and the calculation of annual service charges were noted.

The Committee asked that a further report be produced on the implementation of the recommendations by Tower Hamlets Homes (THH) and on arrangements for ongoing consultation with leaseholders on service improvements.

This report contains THH’s concluding management comments for both the Mazars report and the HQN report. Appended to this report are both the Mazars and HQN Audit reports with the updated management comments dated June 2016.

## Recommendations:

The Overview and Scrutiny Committee is recommended to:

1. Note the actions taken by THH in respect of the recommendations contained within the Mazars and HQN reports.
2. Note the proposal to work with the Leasehold Service Development Group (LSDG) and monitor service improvements.

## **1. REASONS FOR THE DECISIONS**

- 1.1 The two reports prepared by Mazars and HQN have been available for some time. Overview & Scrutiny Committee required THH to provide a report detailing implementation against each recommendation and this is detailed in the Appendices.

## **2. ALTERNATIVE OPTIONS**

- 2.1 There is no alternative option.

## **3. DETAILS OF REPORT**

### **3.1 Purpose and Background**

- 3.1.1 LBTH commissioned two audits by Mazars and HQN in 2014 May and September respectively.
- 3.1.2 The Mazars Audit primarily centred on testing whether the leasehold methodology used in 2011/12 and 2012/13 was lease compliant and accorded with sound accounting practices. THH had made major changes to the methodology for calculating leasehold services charges in 2011/12 to achieve a more equitable apportionment of costs between tenants and leaseholders, and between individual leaseholders, and to ensure that the full costs of providing services to leaseholders, including overheads, are identified and charged to leaseholders. This led to a significant increase in the level of costs eligible to be recharged to leaseholders, and prompted THH to apply a 'dampening' subsidy to mitigate the effect of this on service charge bills in 2011/12.
- 3.1.3 HQN's Audit involved an independent review to assess review progress of the implementation of the Leasehold Action Plan from the 2011 Beavers & Struthers audit.

The specific requirements of HQN's review were to:

- Provide an independent assessment of the original and agreed objectives and processes set out in the Leasehold Action Plan.
  - Explore the cause of the breakdown in the working relationship between Tower Hamlets Homes and Leaseholders that led to a clearly unsatisfactory situation at the time.
  - Make recommendations on establishing a constructive working relationship between leaseholders and Tower Hamlets Homes.
- 3.1.4 Mazars and HQN made a number of recommendations which THH have since embarked on implementing as evidenced in the updated management comments made in each report.

- 3.1.5 It is the case that all of the Mazars recommendations have been implemented and for the HQN report, HQN themselves have stated that many of the actions should be signed off as being implemented. Where this is not the case, THH have provided updated management comments.
- 3.1.6 This report seeks to draw to a close the examination undertaken by Mazars and HQN into Tower Hamlets Homes leasehold management operation. As both the details and content of both audit reports were included in the previous report to the O&SC on 4th January 2016, they have been repeated here but with updated management comments dated June 2016.

### **3.2 A Synopsis of each report**

- 3.2.1 Overall THH has implemented all of the Mazars recommendations. Whilst there are still challenges around the variability of some charges, such as repairs and utility costs the thrust of the report endorses THH's approach to its calculation methodology, its full cost recovery approach and that the GV method is sound and is applied consistently across the various cost headings.
- 3.2.2 THH is building on the Mazars audit and actively seeks input from leaseholders by involving them including participating in a review of in-year repairs.
- 3.2.3 Some of the recommendations from HQN were in fact covered in the Mazars report and have been implemented. Whilst HQN could not take into account the Mazars audit they did comment that they were able to consider some key issues that had been determined by the First Tier Property Tribunal. These were determinations that were made in favour of THH's approach to leasehold charges. These related to:
1. The use of the GRV method of apportionment as being reasonable
  2. That the apportionment of management charges had been allocated in a careful and sensible manner and;
  3. That the amounts charged under various heads of charge were reasonable.
- 3.2.4 The HQN report was more wide ranging in its remit and did not focus as much on actual service charge billing and methodology. Of the 47 recommendations, 30 were 'signed off' by HQN. Of the remaining 17, they have either been implemented, in progress or circumstances have changed so that implementation is either not desirable or possible. Where HQN did not sign off the recommendations, THH have provided updated management comments.

- 3.2.5 THH will continue to work on improving the service to its leaseholders and this is evidenced both by its work with the Leasehold Service Development Group (LSDG) and the recent Leaseholder Workshop held in May 2016.

### **3.3 Conclusion**

- 3.3.1 The management comments from THH and the conclusions of these two independent audit reports, demonstrate that significant progress has been made in the accuracy, reasonableness, clarity and value for money for service charges that leaseholders in Tower Hamlets receive. This has been further supported by the independent findings of the First Tier Property Tribunal as noted in the HQN report.
- 3.3.2 Whilst there are always issues to manage and variability in service charges cannot be eliminated, THH remains committed to ensure that THH's/LBTH's leaseholders receive transparent and reasonable service charges and we will continue to involve and liaise with the LSDG.

## **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 The Overview and Scrutiny Committee considered the results of the two audit reports that were commissioned into leaseholder service charges at its meeting on 4<sup>th</sup> January 2016. The reports were undertaken by Mazars (in June 2014) and the Housing Quality Network (in January 2015). This further report provides an update from Tower Hamlets Homes on progress made against the recommendations resulting from each audit, the majority of which have now been implemented.
- 4.2 The Council's Housing Revenue Account for 2016-17 consists of gross expenditure of approximately £91.6 million. Of this, approximately £13.2 million is recovered through leaseholder service charges, the remaining income being mainly generated through rents and service charges levied to tenants.
- 4.3 In addition to the service charges raised in respect of revenue funded services, the Council levies charges to leaseholders to recover the appropriate element of costs associated with capital works that have been undertaken to their properties or blocks. The Council has in excess of 9,000 leaseholders, so the total value of major works recoveries is significant, particularly in recent years when the Council has been recovering the external and communal works elements associated with the £181 million Decent Homes programme. It is important to ensure that all appropriate costs are recovered, with the charges set in a transparent manner and collected efficiently in line with the various repayment options that the Council offers. The adoption of the actions proposed in the audit reports should assist this process.

## **5. LEGAL COMMENTS**

- 5.1 This is a noting report updating the Committee as requested on the actions taken by THH in respect of the recommendations contained within the two audit reports by Mazars and HQN on leasehold services and the calculation of annual service charges as well as the the proposal to work with the Leasehold Service Development Group to monitor service improvements.
- 5.2 There are no legal implications arising out of this report.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 A large proportion of the councils housing stock is now owned by leaseholders, therefore it is important that the services they receive and the annual service charges levied are provided in accordance with good practice.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 Leasehold service charges are an important component of the overall financing of the HRA. They need to be calculated in accordance with the accounting principles and best practices accorded to the relevant leases.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no specific considerations dealing with the delivery of the sustainability for a greener environment contained within the report.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 Implementation of the recommendations of the audit reviews will –
- Reduce the risk that charges are calculated incorrectly.
  - Improve the effectiveness of the leasehold service and so reduce the likelihood of leaseholders being dissatisfied with the services they receive.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no specific crime and disorder reduction implications in the report.
-

## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- O&S Committee report of 4<sup>th</sup> January 2016.

### **Appendices**

- Appendix 1 Updated THH management comments to the Mazars Audit report
- Appendix 2 Updated THH management comments to the HQN Audit report
- Appendix 3 The Mazars Audit Report
- Appendix 4 The HQN Audit Report

### **Officer contact details for documents:**

- Jackie Odunoye (Service Head - Strategy Regeneration & Sustainability)



## Appendix 1

### Updated Management Comments (June 2016) to the Mazars Audit Report

This Appendix provides THH's *updated* management comments on the Mazars' recommendations, along with the actions taken to evidence compliance with the recommendations.

The numbering used matches that in the Mazars Audit report (attached Appendix 3).

Recommendation	THH Management Comments	Status
10.1 THH should consider putting the total cost of direct services on the face of the statement instead of listing separate management charges for each service provided.	Leaseholder statements show the full cost of each service. Additional information is also available that breaks down costs for those leaseholders who wish to see it.	Completed.
10.2 THH should endeavour to ensure that smart meters are installed for all communal electricity supplies where this is technically possible.	There are over 900 landlord supplies. Smart meters have been installed in one third, where it has been possible to do so without significant other works. A budget has been agreed that will allow more to be converted and this work will be ongoing for some time.	In Progress.
10.3 THH should review the policy of applying the dampening subsidy so that leaseholders are not subsidised by the HRA.	This subsidy expired in 2014-15.	Completed.
10.4 THH should run similar tests to those performed by Mazars to mitigate the risk of duplicate repairs being charged	This is now part of the process of constructing the service charge bills.	Completed.
10.5 THH should consider ways to improve communication with leaseholders in order to prevent unnecessary repairs, such as drain clearing works.	This article is scheduled for the autumn/winter edition of Open Door.	In Progress.

Recommendation	THH Management Comments	Status
10.6 THH should address the IT system limitation so that all charges are recovered from leaseholders.	System changes have been made and the problem resolved since 2014-15.	Completed.
10.7 THH should consider how it can improve the accuracy of its charge.	Estimated bills are calculated in the same way as actuals, leading to much closer billing since 2013-14. Although there will always be certain items such as estimated block repairs, utilities and possibly fuel costs which are prone to variability.	Completed.
10.8 THH should develop detailed plans for the delivery of vfm objectives including consultation with leaseholders on how these objectives are going to be achieved.	A VFM statement is on our website, and in addition forms part of our business plan, project initiation documentation and is specifically addressed when procuring and managing contracts which leaseholders will be consulted with as part of the s20 process.	Completed.

**Updated Management Comments (June 2016) to the HQN Audit Report**

This Appendix provides THH's updated management comments on HQN's recommendations (as numbered in their report). THH have provided the action taken and evidence provided to comply with the recommendations.

Recommendation	THH Management Comments	Status
1.2 Introduce a questionnaire on satisfaction with the concierge.	At the present time there are no major issues or queries in relation to this service but like most others if residents want THH to review the service then we will. We will be conducting a survey on this service in 2016.	In Progress.
1.3 Include cleaning as a topic for feedback on the website.	At present we conduct rolling monthly cleaning surveys that cover both lessees and tenants with residents asked to rate the cleaning of their block. As part of our new customer access policy we will be looking for opportunities for on-line feedback. At present residents can provide general feedback on cleaning.	Completed/In Progress.
2.1 Value for money of the repairs service	HQN stated that this has been partially implemented and that in terms of value for money THH have an 'interest to leaseholders in trying to drive costs down'. The current contract with Mears is likely to be re-tendered next year (2016) and a clear requirement of the procurement process will be to achieve value for money and clarify and financial issues.	In Progress.
2.4 Introduce an audit trail that accounts for repair orders that have been cancelled.	Jobs that have been cancelled are shown on the Northgate system.	Completed.
2.5 Introduce a process that provides a clear	This is similar to item 2.4 above and likewise this process can be	Completed.

Recommendation	THH Management Comments	Status
audit trail that identifies why service requests do not generate a repairs order.	monitored via the Northgate system	
2.6 Develop CMYDATA to enable block repairs to be viewed via the portal.	CMYDATA is currently on hold due to the Customer access project. Leaseholders can request a full breakdown of the repairs undertaken to their block. A number of key lessees have also volunteered to review in year repairs.	On hold.
3.1 Provide estimated costs for capital works.	As part of our new offer to leaseholders we are reviewing how we consult with leaseholders on the capital programme. As part of this we are seeking to both bring forward the annual programme, conduct detailed pre-survey reports and as part of this provide indicative costs.	In Progress.
5b2. THH should de-pool electricity charges from tenant rents	Electricity was de-pooled from tenant rents during the April 2016 rent decrease process.	Completed.
5b4. THH should carry out periodic timesheet exercises to determine time spent on leaseholders by staff.	Each year, leaseholder contributions to customer access are assessed based on an analysis of a sample of calls to identify tenure type of the caller (leaseholder or tenant).	Completed.
5b5. THH should carry out periodic timesheet exercises to determine time spent by caretakers on-site.	Caretaking is now charged based on gross hours. So, for example, a caretaker who divided his time equally between two blocks would charge 17.5 hours to each site with residents consulted on increases or decreases in hours as appropriate.	Completed.
5b17. THH should ensure ASB costs are clear and transparent	ASB is now charged separately on each service charge bill, so that leaseholders can see the full	Completed.

Recommendation	THH Management Comments	Status
	cost of the service.	
6.2 Include in the welcome pack for new purchasers the leasehold handbook and Leasehold Focus.	Leaseholders are directed to the website in relation to the handbook and Leasehold Focus always includes how the estimated and actual service charges are calculated and this is sent to both existing and new leaseholders.	Completed.
6.4 Improve Communication. Develop an ongoing strategy for collecting profiling data.	THH regularly reviews communication with its lessees and the content in its Leasehold Focus magazine. The issue of improving communication was discussed at the recent Leaseholder workshop. THH's ability to collect profiling data is restricted by the terms of the lease, data protection issues and that lessees are not obliged to provide this data. As such there are no plans collect profiling data as an ongoing strategy.	Ongoing.
7.1 Improve leaseholder engagement	We continue to publish our Leaseholder Focus newsletter which is sent to all leaseholders twice a year. Each respective edition sets out how we calculate the estimates and actual charges. In addition we will always publicise our new repayment arrangements for major works. We also held a leaseholder workshop in May and hold regular meetings of the Leasehold Service Development Group to take soundings on our current level of service and potential improvements to it.	Ongoing.
7.5 Ensure residents area actively engaged in developing neighbourhood plans and housing officers have the tools and information to deal with	This was partially implemented and work continues to ensure that Housing Officers and indeed all staff at THH are trained to deal with the aspects of leasehold management that they are	Completed.

Recommendation	THH Management Comments	Status
leasehold matters.	responsible for. All residents can feed into the plans via the monthly estate inspections or separately specially organised walkabouts.	
8.1 All meter numbers and the properties they serve have been captured.	All bills include the meter numbers.	Completed.
8.3 Complete improvements in the management of boiler and lighting systems, including energy management and consultation, boiler stop and start dates, lighting controls, accurate charging to leaseholders and the correct apportionment of such costs.	Boiler and lighting systems are generally managed to an acceptable standard. Boilers are started and stopped depending on temperature with an override if vulnerable residents require more heat and are generally turned off between 1am and 4am. We are installing heat meters in every block and may extend heat meters to every property depending on feasibility studies. Leaseholder energy costs are charged and apportioned accurately: they are 're-billed' the bills we receive and provided with a list of those bills or access to the original bills as required.	Ongoing.

Appendix 3 Mazars Audit

Appendix 4 HQN Audit

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# Review of Leasehold Service Charges

London Borough of Tower Hamlets

June 2014



*The contents of this report are confidential and not for distribution to anyone other than the London Borough of Tower Hamlets. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.*

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# 1. Introduction

## 1.1 Purpose of this report

1.1.1 This report has been prepared for the management of the London Borough of Tower Hamlets (LBTH) to bring to their attention various matters arising from our review in relation to leasehold service charges.

## 1.2 Scope of assignment

1.2.1 This review was conducted in accordance with our Engagement Letter, signed by London Borough of Tower Hamlets on 13 May 2014.

1.2.2 The examination involved selecting a sample of 10% of leasehold properties managed by Tower Hamlets Homes (THH), including those managed by the various Tenant Management Organisations (TMOs). THH managed a total of 8,995 leaseholders at 31<sup>st</sup> March 2013 including 404 properties that were managed by TMOs.

1.2.3 For the sample selected we undertook the following testing:

- a) Review direct cost allocations and overheads apportionments for service charges in relation to the 2011/12 and 2012/13 actual charges and determine whether these have been calculated in accordance with sound accounting principles, best practice and relevant Leasehold Valuation Tribunal (LVT) determinations.
- b) Review the change in calculation methodology in 2011/12 and 2012/13 and bring to your attention any concerns that we identify regarding compliance with statute, lease provisions and sound accounting practice.
- c) Examine the reasons for the changes in methodology and practice as set out in (b), and provide comments on their validity and impacts.
- d) Review the split of costs between leaseholders and tenants to ensure that this is transparent, fair, in accordance with relevant legislation and Council policy.
- e) Examine the billing methodology, including the layout/structure of the bill to determine whether the bills are clear, understandable and that costs are transparent.
- f) Examine ways to improve transparency and value for money in the charging and billing process.
- g) Benchmark charges against similar landlords and ALMOs.

1.2.4 We also reviewed the minutes of leaseholder Project Steering Group (PSG) and invited members of the PSG to submit their concerns to us for consideration during this review. We received one such response which we considered in the course of this review. At the request of LBTH, we did not meet with any leaseholders as part of this review.

1.2.5 The landlord is responsible for the maintenance of the service charge accounting records and the preparation of service charge accounts in respect of the costs in accordance with applicable Law and United Kingdom Generally Accepted Accounting Practice. It should be noted that our work involved sample testing and can not be relied upon to provide assurance that all legal and other obligations have been complied with, including those within the Landlord and Tenant Acts and Commonhold and Leasehold Reform Act 2002. Where we have identified failures to comply with relevant legislation, best practice or LVT determinations, we have included details within this report.

1.2.6 This report is to be regarded as confidential to the management of LBTH and is intended for use by the organisation only. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this report, or any part of it, is disclosed to a third party our written consent must be obtained.

## 2. Executive Summary

- 2.1 We have now completed our review a total of 900 individual leasehold service charge statements across 37 schemes. We raised a total of 114 queries which we have discussed with management. Our findings are summarised in Sections 3 to 9 of this report.
- 2.2 Our overall conclusion, based on our sample testing, is that the calculation methodology used in 2011/12 and 2012/13 is lease compliant and accords with sound accounting practice. No breaches of statute were noted as a result of our work. The apportionment of costs based upon the GV method is sound and has been consistently applied across the various direct cost headings.
- 2.3 Major changes were made to the methodology for calculating leasehold services charges in 2011/12. These changes achieved a more equitable apportionment of costs between tenants and leaseholders, and between individual leaseholders, and to ensure that the full costs of providing services to leaseholders, including overheads, are identified and charged to leaseholders. This led to a significant increase in the level of costs eligible to be recharged to leaseholders, and prompted THH to apply a 'dampening' subsidy to mitigate the effect of this on service charge bills in 2011/12.
- 2.4 In our experience, the adoption of full-cost recovery in respect of leasehold service charges is not a practice that is universally adopted across the local government and social housing sectors. We are aware of other ALMOs and housing associations that charge a level of management costs to their leaseholders that do not recover full costs of providing the leasehold service, or in some cases apply an arbitrary level of management costs that is not related to the actual level of costs incurred.
- 2.5 Whilst we accept that the adoption of the full cost recovery model in 2011/12 was a controversial move, we did not identify any evidence that this methodology results in charges to leaseholders that are either contrary to the terms of the lease or that otherwise appear unjustifiable.
- 2.6 We found evidence during our review that value for money is an important consideration for the leasehold team at THH, and the costs of providing services such revenue repairs, refuse, grounds maintenance, communal electricity and caretaking are all budgeted to reduce over the period from 2012/13 to 2014/15.
- 2.7 The overall pattern of average leasehold service charge bills over recent years, and budgets for future years, are set out below:

Year	£ Average SC
2008/09	1,003.00
2009/10	1,030.00
2010/11	1,027.86
2011/12	1,112.36
2012/13	1,215.05
2013-14 (E)	1,134.61
2014-15 (E)	1,128.00

- 2.8 We raise a number of recommendations for consideration by management, these are set out in Section 10 of this report.

### 3. Direct cost allocations and overhead apportionment

*Objective a) Review direct cost allocations and overheads apportionments for service charges in relation to the 2011/12 and 2012/13 actual charges and determine whether these have been calculated in accordance with sound accounting principles, best practice and relevant LVT determinations.*

#### 3.1 Management charges

- 3.1.1 The way in which management costs are charged to leaseholders is one of the key changes that occurred between 2010/11 and 2011/12. It was acknowledged by Beever & Struthers following their review of leasehold service charges in May 2011 that THH was not fully recovering its management costs from leaseholders.
- 3.1.2 In order to fully recover the costs of managing the leasehold service, THH adopted an approach that involves allocating management costs directly to the relevant service to provide a total cost for each service. THH splits its management costs into the following 3 headings - **Leasehold Services**, **Housing Services** and **Management Costs** (including overheads). Each cost heading attracts a standard overhead whilst direct services also receive a % overhead cost, as explained further in 3.1.6.
- 3.1.3 **Leasehold Services** are the costs incurred by the Leasehold Team. Items included are the staff costs for the team, administration around the delivery of leasehold services and the costs associated with the chasing of debt from leaseholders. Costs are apportioned equally to all leaseholders, including those managed by TMO, as THH considers that all leaseholders receive an equal share of the service. The charge for 2012/13 was £1,805,845, which works out at £200.76 per leaseholder, and we did not identify from our sample testing any expenditure within this heading that should not be recharged to leaseholders by virtue of statute or the terms of the lease. This cost heading demonstrated only a marginal increase from the 2011/12 charge of £196.01. None of these services are shared with tenants and therefore it is appropriate that the entire charge is allocated to leaseholders.
- 3.1.4 **Housing Services** are the costs incurred by THH through the delivery of its housing services to both tenants and leaseholders. Around 40% of these costs are recharged to leaseholders, as is explained further in Section 6. These costs include relevant salaries of Housing Officers, Resident Engagement Officers, Anti-Social Behaviour (ASB) service costs and a proportion of senior staff salaries including the Head of Neighbourhoods. It also includes three Service Level Agreements (SLAs) for pest control, customer services and complaints. These costs are charged to all properties, both rented and leasehold, using the Gross Value (GV) method of apportionment, which is explained further in 3.2.2. Although our testing found that the charges for both years had been apportioned appropriately between tenants and leaseholders and were supported by appropriate evidence, the charges for 2011/12 and 2012/13 were £719,083.08 and £793,065.63 respectively, representing a 10% increase between the two years. We reviewed the reasons for the increase, which appeared to be reasonable and related to various non-recurring items.
- 3.1.5 **Management costs** are incurred in delivering the direct services. Management costs are variable and relate to the service itself, such as the cost of caretaking supervisors and repairs management. The majority of these costs are payroll costs. The costs are separately identifiable on the face of the service charge statement next to the direct costs of providing each service. We were able to validate these sums to actual costs incurred 2011/12 and 2012/13 for the sample of leasehold properties that we reviewed.

## 3. Direct cost allocations and overhead apportionment (Continued)

### 3.1 Management charges (Continued)

3.1.6 **Overheads** consist of the total relevant costs incurred by THH that cannot be allocated to the delivery of a particular service, for example a share of the salary of the Head of Finance. Overheads are recovered based on the % of direct costs they represent in the overall analysis undertaken. For example in 2011/12 direct costs were £62,174,274 and overheads totalled £10,448,394. Therefore every £1 of direct cost on the service charge statement had 17p of overheads allocated to it. Overheads were recovered at a rate of 17% of direct costs in 2011/12, which reduced to 13.49% in 2012/13. Management also felt that these would reduce to around 8% over the next two years through planned efficiency savings and streamlining of services, and this is reflected in the estimates provided for these periods.

### 3.2 Estate and Block Repairs

3.2.1 THH allocates its direct repairs costs under the following headings:

- Estate Repairs
- Block Repairs
- Door Entry System (DES)
- TV Aerial Repairs (TVA)
- Lift Repairs

A distinction is drawn between those repairs carried out on external areas which are considered 'Estate' whilst internal works to communal areas are treated as 'Block' repairs. The majority of DES and TVA costs are clearly allocated to the block to which they relate.

3.2.2 These headings were clearly coded in the repairs data extracted from the SX3 repairs system and provided to us by THH for the purposes of our review. The SX3 system contains the raw repairs data including the unit cost for the repair for the relevant contractor, a completion date and description of the work. Each individual repair is allocated against either the estate or block and the individual property charge is then apportioned using the property Gross Rateable Value (GV) set by Government to reflect the relative rental value of each property. This value is used to apportion the individual's share of each service in a fair and transparent manner across all properties in receipt of a service. The GV method arose as the primary apportionment method following the recommendations made by Beever & Struthers in their report on leasehold service charges dated May 2011, and we consider it to be a fair and transparent method for apportioning costs between tenants and leaseholders, and between individual leaseholders.

3.2.3 Using our data analysis software, we identified a number of duplicate repairs in 2011/12 and 2012/13. Further investigation identified that this problem often related to cases where more than one property had reported the same communal repair, as can often be the case where a lift breaks down. The consequence of this is an inflated repair cost to both leaseholders and tenants. The full list of 56 potential duplicate repairs that we identified was provided to management for investigation, and 14 were confirmed as duplicate charges totalling £1,262. These costs have now been removed from the charges levied to leaseholders. This error represents 0.01% of the total repairs costs of circa £12m over this 2 year period, which indicates that the day to day processes in place at THH to identify duplicated repairs are functioning effectively.

### 3. Direct cost allocations and overhead apportionment (Continued)

#### 3.2 Estate and Block Repairs (Continued)

3.2.4 Our testing of the individual properties and discussion with management indicated that repairs costs peaked significantly in 2012/13. A comparison of estimated and actual costs from 2011/12 to 2014/15 is set out below:

	2011/12 Actual	2012/13 Actual	2013/14 Estimated	2014/15 Estimated
Revenue repairs	£5,382,549	£7,562,687	£5,510,792	£5,744,026

3.2.5 We discussed with management the volume of preventable repairs being charged to both tenants and leaseholders. An example of this is Ambrose Walk which had a total repairs cost (across the entire estate) of £34,170 in 2011/12 of which £12,837.96 related to responsive maintenance to the drainage. This trend also existed in 2012/13 where from a total of £42,566 spent on the estate in the year £9,851 related specifically to repairs to drainage.

3.2.6 We also compared THH's cost of repairs to a London ALMO with a large proportion of leaseholders similar to THH. Data for 2012/13 is set out in the table below, showing a very similar average cost to THH:

Revenue repairs	THH c. 9,000 leaseholders	Other London ALMO c. 5,000 leaseholders
Average cost per leaseholder	£630.57	£652.77

#### 3.3 Block and Estate Caretaking

3.3.1 THH has undertaken a significant piece of work to allocate block and estate caretaking services in a clear and transparent manner based upon the amount of time spent by caretaking staff at each site. As a result, in 2011/12 and 2012/13 the total cost of providing these services is identified from the accounting system, allocated to each block or estate based on time spent at each site, and then apportioned to the individual properties using the GV method explained previously in 3.2.2. The apportionment of these charges across entire blocks and estates ensures that the charge is shared equitably between leaseholders and tenants, and we found no calculation or apportionment errors through our sample testing.

3.3.2 Our analysis of the caretaking costs in 2011/12 and 2012/13 indicates that over the two year period the total caretaking costs have reduced:

Caretaking costs	Actual 2011/12	Actual 2012/13
Direct services	£4,867,258	£4,861,457
Management costs	£830,231	£939,618
Overheads	£968,573	£782,565
Total	£6,666,063	£6,583,640



### 3. Direct cost allocations and overhead apportionment (Continued)

#### 3.4 Grounds Maintenance

- 3.4.1 Grounds maintenance charges are allocated to the estate using the same methodology as estate caretaking costs, and the GV method ensures that all residents of the estate share a fair apportionment of the actual costs incurred. Our sample testing indicated that grounds maintenance costs are supported by appropriate evidence and are accurately and consistently apportioned between tenants and leaseholders, and between individual leaseholders.
- 3.4.2 The analysis of grounds maintenance below indicates that over the two year period we reviewed, the total costs charged to leaseholders have reduced:

Grounds maintenance	Actual 2011/12	Actual 2012/13
Direct services	£835,983	£635,623
Management costs	£47,207	£29,172
Overheads	£88,141	£71,324
<b>Total</b>	<b>£971,331</b>	<b>£736,119</b>

#### 3.5 Bin Hire and Bulk Waste

- 3.5.1 Bin hire costs for 2011/12 and 2012/13 are taken directly from a cleaning services SLA with LBTH. We were able to reconcile relevant figures to the accounting system and we were satisfied that the totals were accurately extracted and allocated to each block, and individual property for the sample that we tested, based upon the GV methodology.
- 3.5.2 Bulk waste collection charges are calculated annually by taking the overall cost of bulk waste collection across all schemes over the course of the year, taking an average cost per visit and allocating this to each estate based upon the number of visits undertaken in a year. These total estate bulk waste collection costs are then apportioned to each property based upon their GV as a percentage of the overall Estate GV. Our testing confirmed that this was being applied consistently for the sample of properties we reviewed.

#### 3.6 Communal Electricity

- 3.6.1 Our testing revealed that THH is accounting for electricity costs on a 'cash basis'. A number of the costs charged to leaseholders in 2012/13 and 2011/12 related to the previous year.
- 3.6.2 It is not uncommon for landlords to account for utilities in this manner as these companies are only required by law to provide an actual meter reading every 2 years. As a result of this the service charge statements often contain estimates which are then rectified the following year on receipt of the invoice. We observed across a number of the schemes that electricity costs vary considerably between the 2011/12 and 2012/13 statements as a result of this. An example of this is 1 Ambrose Walk where the leaseholder received an actual charge of £17.51 in 2011/12 followed by £211.10 in 2012/13. Many peers choose to accrue estimated costs so as to avoid these high fluctuations between one year and the next.

### 3. Direct cost allocations and overhead apportionment (Continued)

#### 3.6 Communal Electricity (Continued)

3.6.3 Through discussion with management it was established that from 2014/15 THH will hope to present a more accurate charge each year as a quarter of properties managed by THH have now been fitted with 'smart-meters' enabling THH to obtain 'real time' meter readings. A progress report was provided showing that 343 of 910 communal supplies are currently fitted with smart-meters with plans in place to roll-out smart-meters to all other communal electricity supplies where this is technically possible.

#### 3.7 Leasehold Valuation Tribunal (LVT) determinations

3.7.1 The LVTs that took place between 1<sup>st</sup> April 2011 and 31<sup>st</sup> March 2013 were reviewed fully as part of the audit and have been briefly summarised below in points 3.7.2 to 3.7.4. We considered the result of the decisions and assessed the extent to which THH has learnt from the outcomes of LVT determinations.

3.7.2 **13 Swinburne House** - an unsuccessful challenge was made at Tribunal over the charges including in the 2011/12 service charge statements. Challenges raised included the perceived duplication of housing management and administration charges, a lack of cleaning and maintenance taking place prior to 2010, and high communal electricity and horticultural charges. The decision of the tribunal was favourable for THH and did not lead to any suggested changes in process as a result.

3.7.3 **18 Robin Hood Gardens** – the tribunal determined that £575.40 of the amount due of £4,122.57 (unpaid service charges from 2009, 2010 and estimate for 2011) which related to administration charges and leasehold management fees was to be excluded as a result of the accounts being unclear. THH has since revised the content of these elements of the service charge in order to explain these costs more clearly.

3.7.4 **168 Stepney Way** – the tribunal heard challenges on the reasonableness of the service charges between August 2004 and September 2012 under the following headings; management charges, estate cleaning, communal energy, horticultural maintenance, block maintenance, estate maintenance, door entry maintenance and bulk waste. A challenge was made to the estate cleaning cost as a result the particular property being relatively low maintenance compared to others and therefore it was upheld that this charge would be no more than £100 per annum, which could be considered reasonable. The allocation of these costs has been addressed in the revised methodology which allocates the time spent at each property using timesheet data. We investigated the charge for this particular property and confirmed this as being £44 for 2012/13, considerably less than the LVT determination of £100. Bulk waste was also challenged successfully resulting in a reduction of £213.77 for the individual due to THH being unable to evidence that a competitive tender exercise had been undertaken to substantiate the increase in 2011/12. A cap of £118.78 was placed upon the management charge until 2015, after which the full cost can be recovered. The actual charge to the leaseholder for this service in 2012/13 was found to be £96.61, again within the LVT imposed cap.

## 4 Current calculation methodology

*Objective (b) - Review the change in calculation methodology in 2011/12 and 2012/13 and bring to your attention any concerns that we identify regarding compliance with statute, lease provisions and sound accounting practice*

- 4.1.1 Section 3 of this report sets out in detail the calculation methodology applied in 2011/12 and 2012/13. This represented a major change compared to the methodology previously adopted, and was designed to ensure a more equitable apportionment of costs and the recovery of the full costs of providing leasehold services including overheads. There were no significant changes to the methodology applied between 2011/12 and 2012/13.
- 4.1.2 Our overall conclusion, based on our sample testing, is that the calculation methodology used in 2011/12 and 2012/13 is lease compliant and accords with sound accounting practice. No breaches of statute were noted as a result of our work. The apportionment of costs based upon the GV method is sound and has been consistently applied across the various types of direct cost. Other apportionment methodologies are available, for example square footage of the property or equal share amongst properties with the block, but we do not hold the view that these would provide a more equitable result than the GV method.
- 4.1.3 LBTH uses two types of lease across its entire housing stock, the GLC lease and the LBTH lease. We reviewed both leases and found nothing unusual or that would give rise to restrictions to the expenditure that THH has charged to the sample of leaseholders that we reviewed.
- 4.1.4 The Eighth Schedule of the GLC lease covers service charges and contains standard terms including payment terms, recovery of costs, services included, the reasonable aggregation of costs and the charging of administration and overheads incurred by the Council in delivering the services. The Fifth Schedule of the LBTH lease contains broader terminology around the services however it still allows for a reasonable proportion of total expenditure to be recovered, and also covers payment terms which we found were adhered to.

## 5 Changes in methodology between 2010-11 and 2011-12

*Objective c) Examine the reasons for the changes in methodology and practice as set out in (b), and provide comments on their validity and impacts.*

5.1.1 THH made a number of methodology changes between 2010/11 and 2011/12, partly in order to implement the recommendations of the Beever & Struthers review. These can be summarised as follows:

- Identifying all overhead costs in order to be able to allocate them in a fair and transparent way, across the various front-line services.
- Allocating caretaker costs based on a management assessment of time spent at each site which replaced the previous procedure of identifying whether a property had features such as a 'stairwell' or a 'lift' and charging a flat amount for each attribute.
- Allocating bulk waste collection costs according to usage rather than by sharing costs equally across all properties.

5.1.2 Below is a table showing the changes in service charges between 2010/11 (old methodology) and 2011/12 (new methodology), by each major cost heading:

### Comparison of Service Charges between 2010-11 and 2011-12

	2010-11	2011-12	Increase	Increase
	£	£	£	%
<b>Repairs</b>				
Block Repairs	1,012,905.35	895,477.77	- 117,427.58	
Estate Repairs	314,644.22	318,447.24	3,803.02	
Boiler Repairs	309,771.88	424,712.87	114,940.99	
Door Entry Repairs	96,647.77	94,851.24	- 1,796.53	
Lift Repairs	213,344.77	338,500.03	125,155.26	
TV Aerial Repairs	20,899.89	46,753.55	25,853.66	
	<u>1,968,213.88</u>	<u>2,118,742.70</u>	<u>150,528.82</u>	<u>7.6%</u>
<b>Estate Services</b>				
Bin Hire	165,442.63	181,646.05	16,203.42	
Bulk Waste	168,318.64	256,319.42	88,000.78	
Block Caretaking	1,556,294.58	1,927,268.45	370,973.87	
Estate Caretaking	816,654.79	931,481.89	114,827.10	
Grounds Maintenance	368,161.71	406,424.42	38,262.71	
Concierge	7,600.00	7,600.00	-	
	<u>3,082,472.35</u>	<u>3,710,740.23</u>	<u>628,267.88</u>	<u>20.4%</u>

### Comparison of Service Charges between 2010-11 and 2011-12

	2010-11	2011-12	Increase £	Increase %
	£	£	£	%
<b>Central Services</b>				
Leaseholder Services	1,664,745.02	1,615,368.71	- 49,376.31	
Housing Management	661,273.58	-	- 661,273.58	
Housing Services	-	719,083.03	719,083.03	
	<u>2,326,018.60</u>	<u>2,334,451.74</u>	<u>8,433.14</u>	<u>0.4%</u>
<b>Fuel Bills</b>				
Communal Electricity	733,258.75	660,599.61	- 72,659.14	
Boiler Fuel	668,897.20	668,345.59	- 551.61	
	<u>1,402,155.95</u>	<u>1,328,945.20</u>	<u>- 73,210.75</u>	<u>-5.2%</u>
<b>Total</b>	<u>8,778,860.78</u>	<u>9,492,879.87</u>	<u>714,019.09</u>	<u>8.1%</u>

5.1.3 Based on our sample testing, it appears that the new methodology accurately extracts costs from the accounting system and in doing so a number of costs that had previously been omitted in the 2010/11 accounts were picked up in 2011/12, which contributed to an 8% increase in the service charge. The impact of these costs not previously being charged to leaseholder was that the costs were in reality being subsidised by the Housing Revenue Account (HRA).

5.1.4 The specific charges that were not being charged in 2010/11 included:

- THH non-salary costs including surveys, consultancy, materials, services and transport totalling £4.8m;
- THH back-office staff costs including Finance, IT, HR, Business Development, Communications and Corporate Core staff salaries totalling £2.7m;
- THH overhead SLAs including premises £1.9m, ICT £1.5m, Legal Services £0.5m and various miscellaneous SLAs £0.2m.

5.1.5 The overall impact of the above is that a total of £11.6m was excluded from the old model, some of which relates to leaseholders and some to tenants. The impact on leaseholders is that approximately £239 per leaseholder of costs that had been incurred by THH were not being passed on in 2010/11 and thus were effectively being subsidised by the HRA.

5.1.6 We noted that a common concern raised by leaseholders on the PSG, and brought to our attention by PSG members, is the level of management fee. The changes in methodology have inevitably led to an increase in service charge for some properties, whilst others have seen a reduction. However it appears that the management charges are based on a logical apportionment methodology and we found no calculation errors in the application of that methodology in 2011/12 or 2012/13. Management charges will also appear high because of the way in which management fees related to direct cost headings are shown separately on the service charge statement, rather than being included in the direct cost heading. Further details on this point are set out in Section 7 of this report.

## 6 Split of costs between leaseholders and tenants

*Objective d) Review the split of costs between leaseholders and tenants to ensure that this is transparent, fair, in accordance with relevant legislation and Council policy.*

- 6.1.1 Our extensive sample testing found no instances where costs were being unfairly allocated to leaseholders such that the leaseholders could be considered to be subsidising tenants. The move to a full cost recovery model had the effect of transferring costs to leaseholders that were previously borne by the HRA, however we did not find evidence that leaseholders are subsidising the HRA as a result of the change in methodology.
- 6.1.2 Our review of the 2011/12 and 2012/13 statements identified that THH provides a rebate to leaseholders, referred to as ‘dampening’ of costs. This rebate effectively removed £262,726 and £626,954 of costs giving a total reduction of £889,680 in both years which equates to around £100 per leaseholder per year.
- 6.1.3 Discussion with management established that this rebate was initially applied in 2011/12 in order to limit the impact of the change in methodology to full cost recovery. The aim is for the subsidy to be reduced at a rate of 25% each year on a straight line basis, however our testing revealed that the full rebate is still being borne by the HRA.
- 6.1.4 As previously discussed in this report, 100% of the leaseholder costs (less the ‘dampening’ outlined in 6.1.2) are charged to leaseholders these costs are incurred solely for the benefit of leaseholders, plus around 40% of the housing management costs incurred in relation to services such as pest control, resident engagement, ASB and customer services.

6.1.5 The table below sets out data from the 2012/13 summary of costs:

	Total Service Cost	less Non Rechargeable Costs	Dampening	Total Rechargeable Cost	Leaseholder Share	%
HM Element - Pest Control Service	297,995	-	75,885	222,108		
HM Element - Resident Engagement	1,081,526	-	311,066	770,459		
HM Element - ASB Service	824,453	-	194,134	630,318		
HM Element - Customer Access Services	1,821,884	1,473,346	75,725	272,812		
<b>Total Housing Management</b>	<b>4,025,858</b>	<b>1,473,346</b>	<b>656,814</b>	<b>1,895,698</b>	<b>793,065.63</b>	<b>41.83</b>
Leaseholder Service	2,432,860	61	626,954	1,805,845	<b>1,805,845</b>	<b>100</b>

## 7 Billing methodology

*Objective e) Examine the billing methodology, including the layout/structure of the bill to determine whether the bills are clear, understandable and that costs are transparent.*

- 7.1.1 THH bills its leaseholders in line with common practice in the sector. In April leaseholders receive an estimate of the charges for the coming year which are then invoiced throughout the year. At the end of the year leaseholders receive a bill and covering letter which includes a service charge certificate and either an invoice or a credit note for the difference between the estimated charge and the actual cost. These are billed within 6 months of the year end as per the requirements of the Landlord and Tenant Act 1985 and Commonhold and Leasehold Reform Act 2002.
- 7.1.2 The GLC lease requires GLC leaseholders to pay half of the charge on 1<sup>st</sup> April and the remaining charge 6 months later. The LBTH leases require LBTH leaseholders to pay 4 equal instalments in April, July, October and January. However, THH has adopted a policy that allows all leaseholders to pay their service charge in 10 instalments throughout the year, which is a common approach and allows leaseholders to pay their charge in more manageable instalments.
- 7.1.3 The layout and structure of the bill produced by THH is unusual when compared to those of other ALMOs and housing associations. This is due to the direct management costs (explained in Section 3.1.5) being shown as a separate line below the direct cost of the service to which they relate, instead of being included in the direct cost as is the more common practice. This change was implemented as part of the Leasehold Policy Review, following the recommendation of Beever & Struthers that stated "For transparency, THH should inform leaseholders of the cost of the indirect management fees in the service charge actuals and estimates". Although this arguably led to better transparency, with indirect costs now clearly presented under each direct cost heading to which they relate, in our experience the majority of landlords chose not to separate these charges out on the face of the statement. However, neither method of presenting this information is prohibited by the terms of either lease or statute.
- 7.1.4 On considering the content of the statements we also compared the estimated charge with the actual charge for both 2011/12 and 2012/13. We found that the estimated service charge is consistently being underestimated, in some cases by up to 30%. As a result significant costs are being recovered from leaseholders at the year end despite the actual charges only showing a modest change over the two years.
- 7.1.5 The table below analyses estimated v. actual service charge bills for 2011/12 and 2012/13. It is evident that the estimated service charge for 2012/13 was understated by 17%, resulting in significant additional charges to leaseholders in that year:

## 7 Billing methodology (Continued)

### Average Service Charges

	2011-12			2012-13		
	Estimate (£)	Actual (£)	Adj. (£)	Estimate (£)	Actual (£)	Adj. (£)
Block Repairs	161.34	109.12	- 52.21	153.17	199.11	45.93
Estate Repairs	40.87	37.54	- 3.33	40.93	55.46	14.53
Boiler Repairs	267.96	356.90	88.94	257.54	221.29	- 36.25
Door Entry Repairs	20.84	15.80	- 5.04	17.22	21.27	4.05
Lift Repairs	146.84	108.56	- 38.27	81.93	122.34	40.39
TV Aerial Repairs	4.35	7.74	3.39	3.49	11.10	7.61
Bin Hire	12.95	22.15	9.20	21.24	21.52	0.27
Bulk Waste	18.51	31.28	12.77	19.85	30.08	10.23
Block CT	166.75	240.43	73.68	172.52	229.95	57.43
Estate CT	104.21	110.16	5.95	92.98	110.19	17.21
Grounds Maintenance	40.95	48.54	7.59	37.47	35.70	- 1.77
Concierge	100.00	100.00		618.63	100.00	- 518.63
Communal Electricity	82.44	80.38	- 2.06	71.73	84.08	12.35
Boiler Fuel	654.71	558.82	- 95.90	846.66	599.66	- 247.00
Leasehold Services	171.40	190.24	18.85	167.65	195.07	27.42
Housing Services	74.92	84.67	9.74	76.47	96.68	20.21
<b>Total</b>	<b>1052.314</b>	<b>1,112.36</b>	<b>60.05</b>	<b>1036.427</b>	<b>1,215.05</b>	<b>178.62</b>

7.1.6 When reconciling the 8,995 leaseholders at the end of March 2013 to the leaseholder statements provided we found that 312 leaseholders were not billed as a result of the property being sold during the year. Although a service had been provided, a system restriction means that leaseholders cannot be billed for part of a year. We recommend that this system issue be reported as the loss of income in 2012/13 was in the region of £27,000 based upon the average undercharge of £86.50 per property.



## 8 Transparency and VFM

*Objective f) Examine ways to improve transparency and value for money in the charging and billing process.*

- 8.1.1 THH separates out direct costs from the ‘management costs’ of providing each specific service on the face of its service charge statements. This is an unusual approach and not one that we have seen at other ALMOs and housing associations for whom we act. It is more typical to include within ‘direct costs’ the costs relating to the management of specific services. Some would argue that the approach adopted by THH is overly complicated, whilst others may argue that the approach gives greater transparency.
- 8.1.2 THH has made efforts to drive down costs in order to improve value for money. Some headline costs data is set out in the table below:

	2011/12 Actual (£)	2012/13 Actual (£)	2013/14 Estimated (£)	2014/15 Estimated (£)
Revenue repairs	5,382,549	7,562,687	5,510,792	5,744,026
Refuse services	1,026,632.62	1,019,889	1,035,043.03	980,257
Grounds Maintenance	736,119	971,332.32	996,330.77	908,000
Communal Electricity	1,792,570	1,711,737.16	1,482,655.19	1,550,151
Caretaking Service	6,583,641	6,666,063.13	6,316,314.22	6,372,722

- 8.1.2 THH has published a report entitled ‘Value for Money for Leaseholders and Tenants’. The document sets out THH’s plan to reduce costs and improve services, and also benchmarks THH costs against those of its peers. Back office cost savings of £1.1m were implemented for 2014/15 following a review that took place in 2013/14 and was applied to budgets in the 2014/15 financial year which aims to deliver a saving of £1.1m.
- 8.1.3 The table below shows a number of the measures of Value for Money outlined by THH in this document:

VFM consideration		
Communication costs	2009/10 - £711,000	2014/15 - £346,000
Office overheads per employee	Jack Dash House - £10,000	Harford Centre - £2,500
Tenant satisfaction	2010 – 58%	2013 – 77%
Leasehold satisfaction	2010 – 44%	2013 – 52%

- 8.1.4 The ‘Value for Money for Leaseholders and Tenants’ document is, however, very high level and does not set out in detail how cost reductions and service improvements are going to be achieved in practice, or how leaseholders will be consulted.

## 9 Benchmarking

Objective g) Benchmark charges against similar landlords and ALMOs.



### 9.1 HouseMark data

9.1.1 Our review of Housemark benchmarking reports for both 2011/12 and 2012/13 showed the following:

9.1.2 **Housing Management** –total cost of housing management (including overhead allocation) is in the upper median compared to a number of peers in the local area.

Organisations:



1	Poplar HARCA	4	Tower Hamlets Homes (2011/2012)	7	Gateway Housing Association
2	Old Ford Housing Association	5	Tower Hamlets Homes (2012/2013)	8	Eastend Homes
3	Swan Housing Association	6	East Thames Group	9	Tower Hamlets Community Housing

Total cost per property of Housing Management				
Comparator Group Quartiles		Upper	Median	Lower
		437.59	493.14	552.95
Id	Results for Tower Hamlets Homes	Result	Rank	Quartile
5	Tower Hamlets Homes (2012/2013)	483.84	4	
4	Tower Hamlets Homes (2011/2012)	477.23	4	

9.1.3 **Direct Housing Management** - the direct cost of housing management (excluding overhead allocation) is less favourable however THH still outranks a number of its peers.

Organisations:

1	Swan Housing Association	4	Poplar HARCA	7	Gateway Housing Association
2	East Thames Group	5	Tower Hamlets Homes (2011/2012)	8	Eastend Homes
3	Old Ford Housing Association	6	Tower Hamlets Homes (2012/2013)	9	Tower Hamlets Community Housing



Direct cost per property of Housing Management				
Comparator Group Quartiles		Upper	Median	Lower
		283.16	313.16	340.94
Id	Results for Tower Hamlets Homes	Result	Rank	Quartile
6	Tower Hamlets Homes (2012/2013)	327.51	5	
5	Tower Hamlets Homes (2011/2012)	317.80	5	

## 9 Benchmarking (Continued)

9.1.4 **Housing Management Direct Employee Cost** – housing management employees per property THH compares well to peers:

Organisations:

1	Old Ford Housing Association	4	Gateway Housing Association	7	Poplar HARCA
2	Swan Housing Association	5	Tower Hamlets Homes (2012/2013)	8	Eastend Homes
3	Tower Hamlets Homes (2011/2012)	6	East Thames Group	9	Tower Hamlets Community Housing

Cost per property of direct Housing Management employees				
Comparator Group Quartiles		Upper	Median	Lower
		226.56	243.15	259.35
Id	Results for Tower Hamlets Homes	Result	Rank	Quartile
5	Tower Hamlets Homes (2012/2013)	242.47	4	
3	Tower Hamlets Homes (2011/2012)	225.38	3	

### 9.2 Peer comparison

9.2.1 We spoke to a peer ALMO and Registered Provider (RP) to compare and contrast the processes and costs of THH and the two peer organisations in relation to leasehold service charges. This information is presented in the table below:

	THH	ALMO 1	RP 1
	Location: London Units: 22,000 Leaseholders: 9,000	Location: London Units: 15,000 Leaseholders: 5000	Location: London and Southeast Units: 30,000 Leaseholders: 4,500
1. Are management costs associated with the delivery of a specific service (such as repairs) included in the direct cost or recovered independently?	These are currently shown next to the direct cost as 'management' charge.	On-costs are incorporated into the direct cost of delivering services shown on the statement. For 2012/13 these were as follows; <ul style="list-style-type: none"> <li>• Caretaking 33.19%</li> <li>• Tech repairs 27.03%</li> <li>• Entry Phones 31.03%</li> <li>• Lifts 48.30%</li> </ul>	Yes – management of repairs is included in the cost of the individual repair which includes on-costs of the contractor and any management associated with the service. The management fee is designed to cover all other – non attributable costs.

## 9 Benchmarking (Continued)

### 9.2 Peer comparison (Continued)

	THH	ALMO 1	RP 1
	Location: London Units: 22,000 Leaseholders: 9,000	Location: London Units: 15,000 Leaseholders: 5000	Location: London and Southeast Units: 30,000 Leaseholders: 4,500
2. What was your average leasehold service charge bill for 2012/13?	£1,215.05	£1,127	This varies too much to provide a reliable average. Some properties have a charge of £200 whereas others are charged £1,200.
3. Roughly, what is your management cost per unit and what services are covered by this?	Housing services (incl. pest Control, ASB, Resident Engagement) = In 2011/12 the average cost per property (based on 15,000) would be roughly £100.	Housing services (incl. ASB, Customer services and Resident Engagement) = £45.76	Management fee of between 5% and £200 of direct cost is applied depending on the terms of the lease.
4. What is the cost of delivering the leasehold service?  Is this fully recovered from leaseholders?	Leasehold services = £200.76  No, there is an element of subsidy in both leasehold and housing costs.	Leasehold services = £148.17	Management costs are typically applied as a % of direct costs and are not directly related to the actual costs of providing the leaseholder service.
5. How do you allocate charges to individual properties?	GV is used. This allows the GV of the property to identify the % of the total GV (arrived at by adding up all properties in the block or estate) to be apportioned to that individual property.	Costs are identified at an estate or level and then either apportioned equally by the number of properties (including rented) with either the block or estate.	Where a % is stated in the lease this is charged, however for other charges a % allocation is made based upon the size of the property.

## 9 Benchmarking (Continued)

### 9.2 Peer comparison (Continued)

- 9.2.2 As discussed previously in this report, our peer comparison confirms to us that the splitting out of management costs relating to each service on the face of the service charge statement is not a common practice.
- 9.2.3 The costs of delivering leasehold services and housing services appear high compared to the London ALMO in our peer comparison, especially in view of the dampening subsidy. However we acknowledge that THH is adopting a full cost recovery model whereas the other ALMO can not demonstrate full recovery of overheads.
- 9.2.4 We consider the GV method of cost apportionment used by THH to be transparent and would appear to be a more equitable approach than simply dividing costs equally between leaseholders, a practice adopted by some peers. The allocation of costs based on floor area is the most common apportionment method that we see, however this does not necessarily deliver a more equitable apportionment of costs than the GV method.

## 10. Action plan agreed with management

Ref	Observation	Recommendation	Management response	Timescale / Responsibility
10.1	<p><b>Billing methodology</b></p> <p>THH currently presents the management costs in relation to each service separately on the face of the service charge statement. In our experience it is more common to include these costs within the direct cost of the service.</p>	<p>THH should consider providing the total cost of direct services on the face of the statement instead of listing separate management charges for each service provided.</p> <p><b>Update June 2016:</b> Completed: leaseholder statements show the full cost of each service. Additional information is also available that breaks down costs for those leaseholders who wish to see it.</p>	<p><b>Agreed.</b> Now leaseholders are familiar with the detailed information available on demand, we will simplify the top level breakdowns to show just the full cost of each front line service, including breaking down 'management services' into ASB, pest control, resident engagement and customer access.</p>	<p>Implementation for 2014-15 estimates onwards.</p> <p>Service charge manager.</p>
10.2	<p><b>Failing to provide accurate costs for communal electricity</b></p> <p>THH is accounting for electricity costs on a cash basis. Our testing revealed that a number of the costs included in 2012/13 and 2011/12 leaseholder actuals related to previous years.</p> <p>Although it is not uncommon for landlords to account for utilities in this manner given the issues encountered in obtaining regular and reliable invoices from suppliers, accounting in this way means that actual costs are likely to fluctuate as a symptom.</p>	<p>THH should endeavour to ensure that smart meters are installed for all communal electricity supplies where this is technically possible.</p>	<p><b>Agreed.</b> This project is in progress and we expect to complete it by the end of 2015. However, we will also accrue costs for each year where evidence of unusual billing patterns exists until then.</p> <p><b>June 2016:</b> In progress: There are over 900 landlord supplies. Smart meters have been installed in one third, where it has been possible to do so without significant other works. A budget has been agreed that will allow more to be converted and this work will be ongoing for some time.</p>	<p>This project is in progress and we expect to complete it by the end of 2015.</p> <p>Service Charge Manager.</p>

Ref	Observation	Recommendation	Management response	Timescale / Responsibility
10.3	<p><b>Dampening of leaseholder and housing costs</b></p> <p>Our validation of the 2011/12 and 2012/13 statements identified that THH subsidises leaseholders dampening the costs that it recharges in the sum of £889,680 in both 2011/12 and 2012/13, which works out at £100 per leaseholder per year.</p> <p>The aim was for the subsidy to be removed at a rate of 25% each year on a straight line basis, however our testing revealed that the full subsidy still exists in the 2012/13 actuals.</p>	<p>It is recommended that the policy of applying the dampening subsidy be reviewed so that leaseholders are not subsidised by the HRA.</p>	<p><b>Agreed.</b> We have reduced the dampening to 50% in the 2013-14 actual, will reduce it further to 25% for the 2014-15 actual and eliminate it for 2015-16 in line with the estimates for those years and in line with the original plan.</p> <p><b>June 2016:</b> Completed: this subsidy expired in 2014-15.</p>	<p>Implementation as described in response.</p> <p>Service Charge Manager.</p>
10.4	<p><b>Duplicate repairs</b></p> <p>We used Computer Assisted Audit Techniques (CAATs) to identify a number of duplicate repairs over the two year period tested.</p> <p>The full list of 56 potential duplicates identified was provided to management for investigation where 14 were confirmed as duplicates totalling £1,262 of overcharging.</p>	<p>THH should run similar tests to those performed by Mazars in future to mitigate the risk of this occurring again.</p>	<p><b>Partially Agreed.</b> We note the error rate is already low (0.01% per paragraph 3.3) and further changes may not be cost effective. However, we will review of processes at the repairs call centre and supervision of contractors. We will also implement CAATS to further reduce any duplication of communal outs were identified.</p> <p><b>June 2016:</b> Completed: this is now part of the process of constructing the service charge bills.</p>	<p>Implementation for 2013-14 actuals onward.</p> <p>Head of Neighbourhoods, Planned Maintenance Manager, Service Charge Manager.</p>

Ref	Observation	Recommendation	Management response	Timescale / Responsibility
10.5	<p><b>Drain repairs and jetting</b></p> <p>Following our testing we raised concerns with management about the volume of preventable repairs being charged to residents. An example of this is Ambrose Walk which had a total repairs cost (across the entire estate) of £34,170 in 2011/12 of which £12,837.96 related to responsive maintenance to the drainage. This trend also existed in 2012/13 where from a total of £42,566 spent on the estate in the year £9,851 related specifically to repairs to drainage. This would indicate an underlying issue that is not being dealt with through communication to residents and as a result estates are experiencing a high number of preventable call outs and should be liaising better with their residents.</p>	<p>It is recommended that THH considers ways to improve communication with leaseholders in order to prevent unnecessary repairs, such as drain works.</p>	<p><b>Agreed.</b> We will publicise the effects and costs of continually having to unblock drains to raise awareness with residents of the effect of pouring fats/oils and flushing objects down drains.  <b>June 2016:</b> This article is scheduled for the autumn/ winter edition of Open Door.</p>	<p>Implementation in a future edition of Open Door.</p> <p>Head of Communications &amp; Governance.</p>
10.6	<p><b>Billing and statements</b></p> <p>When reconciling the 8,995 leaseholders at the end of March 2013 to the leaseholder statements provided we found that 312 were not billed as a result of being sold during the year. Therefore although a service had been provided a system restriction means that leaseholders cannot be billed for a part year service.</p>	<p>It is recommended that this system limitation be addressed so that charges are recovered for all leaseholders in receipt of a service throughout the year.</p>	<p><b>Completed.</b> We have already implemented a system fix that removes this problem from 2014-15.  <b>June 2016:</b> Completed: system changes have been made and the problem resolved since 2014-15.</p>	<p>Implementation as described in response.</p> <p>Service Charge Manager.</p>



Ref	Observation	Recommendation	Management response	Timescale / Responsibility
10.7	<p><b>Billing and statements</b></p> <p>Our testing revealed that the estimated service charge is consistently being underestimated. As a result significant costs are being recovered from leaseholders at the year end despite the actuals only showing a modest change over the two years.</p>	<p>It is recommended that THH considers how it can improve the accuracy of its estimated charge.</p> <p><b>Updated June 2016:</b> Completed: estimated bills are calculated in the same way as actuals, leading to much closer billing since 2013-14. Although there will always be certain items such as estimated block repairs and possibly utility charges, which can be prone to wide variability.</p>	<p><b>Completed.</b> We accept that there were variances between the estimates and actuals for 2011-12 and 2012-13 for two main reasons. Firstly, estimates were issued before the new methodology was implemented in Summer 2012 and the actuals were calculated afterwards. Secondly, repairs expenditure was higher than anticipated and some variation with the repairs head of charge is always to be expected. However, for 2013-14 onwards, estimates and actuals will have been calculated under the same methodology and average variances will be smaller.</p>	<p>Implementation for 2013-14 actuals onwards.</p> <p>Service Charge Manager.</p>

Ref	Observation	Recommendation	Management response	Timescale / Responsibility
10.8	<p><b>Value for money</b></p> <p>THH has published a document on value for money for leaseholders and tenants. However it is considered that this document is high level in the way that value for money is going to be provided to leaseholders.</p>	<p>It is recommended that THH develops detailed plans for the delivery of VFM objectives including consultation with leaseholders on how these objectives are going to be achieved.</p> <p><b>Updated June 2016:</b> Completed: A VFM statement is on our website, and in addition forms part of our business plan, project initiation documentation and is specifically addressed when procuring and managing contracts which leaseholders will be consulted with as part of the s20 process.</p>	<p><b>Partially Agreed.</b> Extensive savings have already been achieved, including as part of the 2014-15 budget process around overhead reductions. The vfm document published in Open Door was intended as a summary and high level document. In addition, services are generally provided on a tenure neutral basis so it would not be appropriate to consult exclusively with leaseholders as the recommendation implies. However, we will put a VFM Statement document detailing THH's focus on vfm on the THH website.</p>	<p>Implementation by end 2014-15.</p> <p>Service Charge Manager.</p>

# Report: independent audit of leasehold service charges

## Tower Hamlets Homes

JANUARY 2015

*Strictly private and confidential*



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## 1 The background and the brief

Following a campaign over a number of years from leaseholders and Tower Hamlets Leaseholders Association, Tower Hamlets Council agreed in autumn 2008 to commission an independent audit of leasehold service charges to ensure these were accurately calculated in accordance with best practice and to ensure that the charges levied were fair, accurate and transparent. One of the main reasons for this audit was to provide a basis for rebuilding trust and confidence among leaseholders as the relationship between the Council and leaseholders had become difficult due to a number of issues including the level of service charges and how they were calculated, and the level of consultation and engagement with Tower Hamlets Leaseholders' Association.

From the recommendations of this, and other audits between 2008- 2010, and the work of the Leaseholder Service Improvement Group, a Leasehold Action Plan containing 54 service recommendations was developed. This provided Tower Hamlets Homes (the Council's arm's-length management organisation) and leaseholders with an agreed basis on which to improve the service provision to leaseholders.

In 2012, after 18 months of regular meetings between Tower Hamlets Homes (THH) and leaseholders, the relationship deteriorated significantly. Leaseholders felt that little progress had been made in addressing and implementing the original recommendations and that significant changes had been made by THH outside of the recognised forums. Additionally they felt that changes implemented by THH did not reflect the audit recommendations, and did not include the leaseholders' involvement in working parties on the issues and also THH reverted on previous signed-off actions, without formal notification and/or agreement of recognised forums. THH, however, stated that they had given due consideration to the original audit report and had implemented a significant number of the 54 recommendations.

In light of the above, Tower Hamlets Council agreed to conduct an independent review to assess progress of implementation of the Leasehold Action Plan. HQN was commissioned to undertake this review in September 2014.

The specific requirements of HQN's review were to:

- Provide an independent assessment of the original and agreed objectives and processes set out in the Leasehold Action Plan
- Explore the cause of the breakdown in the working relationship between Tower Hamlets Homes and Leaseholders that has led to a clearly unsatisfactory situation at present
- Make recommendations on establishing a constructive working relationship between leaseholders and Tower Hamlets Homes.

This report sets out our findings and recommendations.

## 2 Our approach

The review work took place between October and December 2014. It was conducted by HQN associates, Jackie Dickins and Emma Towler, who are specialists on leaseholder services, service charges and resident involvement. The work was divided into three stages:

### ***Stage one: fact finding and desktop study***

The first stage consisted of a fact finding meeting with all the key personnel to familiarise themselves with the current situation and to better understand the scope of the previous audit. This was followed by a desktop study reviewing core documents including:

- Beever's and Struthers report
- Sign off sheets
- THH action plan
- LBTH leases.

A full list of the documents which was supplied is provided in appendix one.

### ***Stage two: interviews with key staff, leaseholders and councillors***

The second stage involved an 'on-site' assessment. Jackie and Emma spent three days in total on site undertaking structured interviews with key staff who deal with service charges and are involved in delivering leaseholder services. Jackie and Emma also undertook face-to-face and telephone interviews with leaseholders and Councillor Khan, the portfolio holder for housing. The purpose of this on site work was to explore the progress made in implementing the recommendations made by Beever's and Struthers.

During the course of the review regular meetings were held with the Project Steering Group (three in total). These were used to explore issues with the Project Steering Group (PSG) as well as feedback and talk through findings. Three days were spent on site. A list of all of the people interviewed is provided in appendix two.

### ***Stage three: assessment and draft report***

In the final stage HQN analysed all the findings and prepared a draft report with recommendations. This was circulated for comment. A second draft of the report was produced which took the feedback received into consideration.

Throughout the review Jackie and Emma were looking for evidence of implementation and sign off, based on audit principles, triangulation of findings. There was a considerable amount of information to review and digest within the time allocated. Jackie and Emma did their best to delve as deeply as possible into each of the actions whilst at the same time exploring the relationships between the three parties – THH, Tower Hamlets council and PSG.

We believe that THH have been transparent and co-operative with this review and have made information available to us in an efficient and timely manner. We requested a variety of evidence from THH and challenged them during the interviews.

We understand that between the B&S and this review THH/LBTH commissioned an audit from Mazaars into service charges. We understand that this was a very in-depth and detailed review. We requested a copy of the report as we believe that it is very relevant to this review but understand that the report is still in draft format. Unfortunately, we have not had sight of the report and have been unable to take its findings into account. We believe that this report would have provided a very relevant reflection of the current position.

A report on the determination of a first tier tribunal was received on 14 December 2014 and made available to us in January 2015. This considered a number of matters which have direct relevance to this review. We have therefore taken its determinations on board in this second draft of the report. The key issues that the FTT determined in favour of THH were:

- Use of GRV as a method of apportionment – the FTT was of the view that using GRV as a method of apportionment is within the range of options that can properly be considered reasonable
- Apportionment of management charges – the FTT considered that THH provided a reasonable explanation about how it apportioned management charges and had allocated management charges in a careful and sensible manner.
- Charges – the FTT considered the amounts charged under the various heads of charge to be reasonable.

### 3 Overview of findings – progress against the action plan

In summary:

- At the start of the review during the first meeting with Emma and Jackie the PSG agreed that seven of the 54 recommendations had been implemented. Therefore HQN looked at the remaining 47 recommendations
- Of those 47 recommendations HQN found that:
  - 26 had been implemented
  - 16 had been partially implemented
  - Five had not been implemented.
- As a result of the review HQN made 23 recommendations for further action.

The detailed findings are set out in the table on the following pages. Each recommendation has been marked as:

- Implemented – recommended for sign off
- Partially implemented
- Not implemented

The detailed findings against each action point are set out in the following table. For ease of reference the actions which we recommend are ready for sign off are marked in green.



THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
<b>Review high cost of leasehold services</b>					
1.1	Audit Commission identified parts of the service as high cost and recommended that these should be reviewed.	Implemented	<p>A thorough review of service costs was carried out in 2011. The audited accounts for 2011/12 reflect the outcome of the review.</p> <p>The review looked at direct service costs such as horticulture/caretaking as well as the management costs.</p> <p>The audit commission had identified some costs that had not traditionally been charged to leaseholders, eg, ground floor flats had not been re-charged for cleaning costs of common parts or for lifts in blocks where they live. As from 2011/12 these are now being charged.</p> <p>As a result of the review THH are now able to identify indirect (back office costs) costs and these are reflected in the accounts sent to leaseholders.</p>	<p>In terms of management costs, benchmarking/comparison of these costs with other organisations can be of limited use as it is not always easy to make like for like comparisons.</p> <p>There is a trend towards organisations charging the 'actual' costs of management for management fees (rather than setting a management fee as a percentage of costs). This is the favoured approach of RICS/ARHM and the FTT.</p> <p>In December 2014 an FTT determination found that the management costs are reasonable.</p>	This action should be signed off as implemented.
1.2	<p>Concierge service to be fully consulted with leaseholders to ensure the service is effective and delivers value for money.</p> <p>The new contract could produce a satisfactory service providing:</p> <p>a. There is close monitoring and supervision of the contractor</p> <p>b. Managers hold the contractor to account</p>	Partly implemented	<p>During 2011 THH procured a new contract which commenced in December 2013 and which provides savings of £44,000 per annum compared to the 2008/09 cost.</p> <p>Leaseholders were consulted about the specification prior to the contract being awarded:</p> <ul style="list-style-type: none"> <li>Formally by letter in line with Section 20</li> </ul>	<p>There is no question in the survey about satisfaction with the concierge service (this is provided to 4 blocks). Whilst this was not specifically included in the recommendations it is required in order to measure the quality of the service being delivered.</p> <p><b>June 2016:</b> At the present time there are no major issues or queries in relation to this service, but like most others</p>	Introduce a separate question asking about satisfaction with the concierge service for the blocks where this service is provided.

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			<ul style="list-style-type: none"> <li>Informally through face-to face-contact</li> </ul> <p>The environmental services service improvement group was involved in evaluation of the bids. The above is in line with best practice.</p> <p>September 2014 satisfaction survey results show that overall satisfaction has increased to 57% for block and estate cleaning from the previous level of 44%.</p> <p>Monthly performance and monitoring meetings take place with the contractor.</p>	if residents want THH to review the service then we will. We will be conducting a survey on this service in 2016.	
1.3	<p>Block and estate cleaning. THH needs to recognise this as a failing service. Therefore THH needs to undertake a fundamental review of the service. This will include a comparison of how this service is delivered in other ALMOs. This should also include consideration of outsourcing the service.</p> <p>1. Service improvement should be made:</p> <p>a. increased and more effective supervision</p> <p>b. timesheets to be introduced so that charge hands confirm the block/estate cleaning schedule has been carried out</p> <p>c. the frequency of stairs cleaning should increase</p>	Partially implemented	<p>During 2010 this service was reviewed. Two restructures have taken place – the first in 2010 and the second in 2013.</p> <p>September 2014 satisfaction information shows that satisfaction has increased from 44% in 2010/11 to 57% in 2012/13.</p> <p>The service charges team has a project planned for 2014/15 to consult with all residents on budgets and levels of repair spend in blocks.</p> <p>THH have examined the possibilities of outsourcing this service and concluded that this would not provide substantially better value for money.</p> <p>1 THH have introduced regular block inspections and 121s. 99%</p>	<p>This matter was considered by an FTT in December 2014. It considered the amounts charged under various s heads of charge in respect of previous years and considered them to be reasonable in the absence of a more persuasive challenge. It also noted that THH had been through an extensive process of consultation and market-testing of costs.</p> <p><b>June 2016:</b> At present we conduct rolling monthly cleaning surveys that cover both lessees and tenants with residents asked to rate the cleaning of their block. As part of our new customer access policy we will be looking for opportunities for online feedback.</p>	Include cleaning as a topic for feedback on the website.

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	<p>d. common part window cleaning should be introduced</p> <p>3. cleaning standards should be applied to individual blocks and not just estates</p> <p>f. the website should invite comments from residents of cleaning standards which should be acted upon</p> <p>2 Estate cleaning could be linked to the horticultural contract and thus separated from block cleaning. This will enable estate cleaning and gardening to be more integrated and will also increase the focus on block cleaning</p> <p>3. Leaseholders could be consulted as to whether they wish to be given the opportunity to self-clean their blocks and therefore not charged for cleaning</p>		<p>of blocks receive a silver or gold service. All notice boards have a record of daily and weekly tasks.</p> <p>The biggest number of complaints were about not having the same operatives, agency staff issues and high levels of sickness. This has now improved:</p> <ul style="list-style-type: none"> <li>▪ A spreadsheet is maintained of all operatives' sickness status</li> <li>▪ 80 operatives had no sickness days in the last year</li> <li>▪ Operatives are given a £20 voucher for each six months with no sickness</li> <li>▪ Agency workers cover sickness periods of more than two weeks.</li> </ul> <p>A time sheet exercise was not carried out – this was conducted as a desktop exercise. THH did trial a timesheet exercise in one area but felt it provided limited value as they had no proof that staff were where they said they were.</p> <p>THH are now moving away from a strict allocation of time. They are adopting a less prescriptive approach – one which is more outcome based and gives operatives more flexibility and responsibility. The operative has the ability to spend the time which</p>	<p>At present residents can provide general feedback on cleaning.</p>	

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			<p>is required on a task in order to get the quality up to the required standard.</p> <p>A poor rating on a monthly survey triggers an email to the manager/team leader who will visit the area and speak to residents.</p> <p>THH maintain a 'lessons learnt' sheet for complaints.</p> <p>HQN was advised that residents can comment on cleaning on the website although this is via a general housing enquiry form. Cleaning is not specifically on the list of topics covered.</p> <p>2. Improved co-ordination between estate cleaning and horticulture has been implemented - for example litter picking is carried out just before grass cutting. THH did look at separating it out but concluded it wasn't sensible to do so.</p> <p>3. Blocks with 100% leaseholders were consulted on whether they wanted to take on the cleaning themselves. One block decided to take it on themselves.</p>		
1.4	<p>The renegotiated horticulture contract could produce a satisfactory service providing:</p> <p>a. There is close monitoring and supervision of the contractor</p> <p>b. The empowerment of middle managers to hold the contractor to</p>	Implemented	<p>The contract was renegotiated prior to 2010. A further new contract was set up in 2012. This failed to deliver a satisfactory service for two years. The contract was subsequently terminated in September 2013.</p>		<p><b>This action should be signed off.</b></p> <p>Continue to monitor and report on complaints and satisfaction to ensure that the contract is delivering the level of service required.</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	<p>account</p> <p>c. The website invites comments from residents of horticultural standards which should be acted upon.</p>		<p>The work was brought in- house in 2014 with a client team to monitor performance.</p> <p>There have been teething problems with this arrangement but complaints have started to reduce. There were issues at the beginning of the season (March/April) due to the extremely wet and warm weather. The cutting season is being extended into October where necessary at no extra cost.</p> <p>KWEST undertake satisfaction surveys. There is a target of 80% of people contacted being satisfied (excellent, good, fair). Performance in August was 64% and in September 75%. The team won most improved team of the year in 2014.</p>		
<b>Review VfM of repairs service</b>					
2.1	<p>1. The financial regulations need review and clarification.</p> <p>2. Schedule of rates should not be used for high value repairs.</p>	Partially implemented.	<p>The financial regulations have not been reviewed or clarified.</p> <p>Since the Beevers and Struthers report a new contract has been procured with Mears that addresses value for money. Comments and observations regarding value for money were invited from leaseholders during the Section 20 process.</p> <p>THH have stated that schedule of rates are not used for high value work.</p>	In terms of value for money it should be noted that THH have a repairs budget to work to for the rented stock. They therefore have a similar interest to leaseholders in trying to drive costs down and ensuring that the repairs service achieves VfM.	<p>Review and clarify financial regulations.</p> <p><b>June 2016:</b> HQN stated that this has been partially implemented and that in terms of value for money THH have an 'interest to leaseholders in trying to drive costs down'. The current contract with Mears is likely to be extended and a clear requirement of this will be to achieve value for money and clarify any financial issues.</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
2.2	<p>TTH should review the regime on quotations and the control of quote information.</p> <p>In future the SOR contract should have discounts built into it for higher value repairs. If this is not the case we recommend independent quotations should be obtained for all repairs over £2,000</p>	Implemented	There is flexibility within the revised partnership with Mears to obtain alternative quotations for jobs over £2,000.		This action should be signed off
2.3	<p>1. The inspection regime should be increased for common part repairs, as they are not subject to tenant oversight. We suggest doubling the percentages of all inspection categories</p> <p>2. Post repair telephone surveys should always include leaseholders regarding common parts</p> <p>3. Estate inspections should always include a review of common part block and estate repairs carried out since the last inspection</p> <p>4. There should be an automatic inspection if a repair has apparently been repeated within the last four weeks</p>	Partially implemented.	<p>Since June 2012 a weekly report of completed jobs is produced on a block basis which contains communal and individual repairs. From this list 140 post inspections per week are carried out.</p> <p>The number of leaseholders included in surveys has been increased.</p> <p>Section C of the estate inspection form includes repairs to common parts.</p> <p>An inspection is not automatically triggered however when a new repair request comes in but the arrangements have been strengthened. The staff raising the repair look at the repairs history and will not raise a new job unless they are sure it is a new job, or it is the same job but a new repair due to vandalism. (eg, light fitting replaced on Monday and smashed by vandals on the Tuesday). If they are not sure, then they either do a recall or</p>	There is a facility for leaseholders to see what repairs are raised each month on the 'see my data' portal. This is now in line with good practice	<p>This action should be signed off</p> <p>PSG agrees that this should be signed off</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			arrange a pre-inspection.		
2.4	<p>1. No orders should be cancelled without a properly recorded explanation</p> <p>2. The number of cancelled orders should be reported regularly to the performance committee of THH and regularly reviewed by senior management</p> <p>1. The requirement for NHOs to authorise estate works should be reviewed</p> <p>2. Estate repairs that have not been authorised by NHOs within a week of the order should be reported to and reviewed by a manager</p> <p>3. Where an NHO does not authorise a repair this should be communicated to the person who reported the repair by the NHO</p>	Partially implemented.	<p>This has not been fully addressed. The system is currently unable to record the reason why the repair has been cancelled. There is a cost implication for making the modifications to the IT system. THH do not believe there is a sufficient cost benefit to this.</p> <p>There is a management process in place to monitor and report on this but it operates at a manager level and does not include a report to the performance committee (as THH consider this to be primarily an operational matter)</p>	<b>June 2016:</b> Completed. Jobs that have been cancelled are shown on the Northgate system.	<p>Carry out a cost benefit exercise for making the IT modifications. Share findings with leaseholders.</p> <p>Alternatively introduce a process that provides a clear audit trail that identifies why repair orders are cancelled.</p> <p>Establish reporting to higher level, eg, Performance Committee.</p>
2.5	The number of service requests not generated into an order should be reported regularly to the performance committee of THH and regularly reviewed by senior management	Partially implemented.	<p>A weekly report including description of works, estimate, who created the job and when it was raised as well as other useful information is circulated to relevant staff so that they can look at the service requests that have not had an order to repair generated.</p> <p>This might be because it requires inspection before generating an appropriate order. Staff are required to either generate an order or cancel the service request. Otherwise the service</p>	<b>June 2016:</b> Completed. This is similar to item 2.4 above and likewise this process can be monitored via the Northgate system	<p>Introduce a process that provides a clear audit trail that identifies why service requests do not generate an order.</p> <p>Establish reporting to higher level, eg, Performance Committee.</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			<p>request might be sitting around with nothing happening, including keeping the resident informed of progress.</p> <p>There is a management process in place to monitor and report on this but it operates at a manager level and does not include a report to the performance committee (as THH consider this to be primarily an operational matter)</p>		
2.6	<p>1. THH should include with the annual service charge actuals a list of all block and estate repairs included within the service charge. In order to mitigate the costs of this leaseholders should be given a choice of receiving this by email and/or opting out</p> <p>2. Leaseholders should be able to request a quarterly list of chargeable repairs and a contact point for this request</p> <p>3. THH to provide quarterly reports on the website so that leaseholders can view and raise queries quickly rather than at the end of the year</p> <p>4. Where any of the repairs listed have been inspected the date of the inspection should be disclosed in the report.</p>	Partially implemented.	<p>1. 2011/12 This is now in place. It forms part of an inspection file that all leaseholders have access to.</p> <p>2. This has been met – quarterly reports are provided on the website.</p> <p>3. This has not been implemented. It has not been possible due to IT issues. These do not allow communal repairs to be viewed on line.</p> <p>4. Block and estate repairs can be provided on request through the key leaseholder's scheme in electronic or paper format.</p>	<p>Based on HQN's experience THH are in line with best practice - as far as the technology allows so that they are still providing VFM in my view. This could otherwise require an entire post. Enfield who are much smaller stopped issuing a schedule as it is too time consuming.</p> <p><b>June 2016:</b> CMYDATA is currently on hold due to the Customer Access project. Leaseholders can request a full breakdown of the repairs undertaken to their block. A number of key lessees have also volunteered to review in year repairs.</p>	The IT (CMYDATA) is developed further to enable the schedule to be accessed via this portal for block/estate



THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
<b>Major works</b>					
3.1	Audit Commission recommendation: Improve property management in consultation with residents by: providing leaseholders with long-term estimates for major works	Not Implemented.	<p>The Decent Homes programme can be accessed on line. This shows the works planned to the end of the next year, but this does not incorporate planned work outside of the Decent Homes programme, ie, cyclical work, re roofing, fire risk works, etc.</p> <p>Residents are able to in-put their post code to find out what is planned for their block.</p> <p>Further development of the IT functionality is taking place to establish a portal link via Keystone, for all investment planning.</p> <p>THH's focus is on engagement with residents on the Decent Homes programme. However this does not extend to major works. There is no communications strategy or major works strategy in place which incorporates communication over issues such as pre S20 and S20, timings etc. needs to include the whole programme.</p>	<p>THH have agreed that this has not been implemented.</p> <p><b>June 2016:</b> As part of our new offer to leaseholders we are reviewing how we consult with leaseholders on the capital programme. As part of this we are seeking to bring forward the annual programme, conduct detailed pre-survey reports and provide indicative costs.</p>	<p>Adopt a wider approach that ensures leaseholders are notified of all works, even if the associated costs are not provided.</p> <p>This will ensure that leaseholders are at least put on notice that works are likely to happen. This should be undertaken on a rolling programme basis.</p> <p>A communication strategy should be established for major works, including the Decent Homes programme.</p>
<b>Insurance</b>					
4.1	Leaseholders should be consulted as to excess to be applied in the building insurance as well as accidental damage	Implemented.	An extensive benchmarking exercise was carried out by Jardine Lloyd Thompson (JLT) and the findings presented to the PSG in March 2012.		This action should be signed off

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			<p>The benchmarking exercise considered the value of the premium where the excess was nil/£50/£100 and compared LBTH to two other London Boroughs, which demonstrated that there is variation depending on the size of the property and the excess. The exercise did not indicate that LBTH's costs are excessive.</p> <p>The insurance cover was retendered in October 2012. Consultation was carried out in the usual manner, under the S20 regulatory procedures. This provided a further opportunity for leaseholders to comment on the arrangements.</p>		
4.2	<p>1. The insurance SLA represents a duplication of charges and should be removed from the management and administration costs</p> <p>2. LBTH/THH should justify to leaseholders the £10 administration charge</p>	Implemented.	<p>The SLA covers all insurance matters between THH and LBTH not just property insurance.</p> <p>The £10 administration fee covers LBTH's costs in employing someone to deal with leaseholder building insurance issues.</p> <p>An exercise was carried out prior to September 2012 to assess officer time spent on leasehold issues. The council calculated that the amount that could be charged is £14.20 per leaseholder.</p> <p>A detailed breakdown showing how the £10 charge was calculated was circulated to leasehold panel working group (LPWG) in August 2012.</p>		This action should be signed off

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
4.3	An independent insurance consultant to be engaged to provide leaseholders with assurance that insurance claims which ordinarily have been settled by tenants' insurers are not settled through the leaseholder policy	Partially implemented	A detailed claims audit report was carried out in October 2012 by JLT and submitted to the PSG. This report found that there was a high standard of claims handling, but did point out that the number of claims considered (5) was limited, and suggested that a further audit was carried out 'within 8-12 weeks'.	It could be argued that JLT are not wholly independent of THH/Council.	<b>This should be signed off despite JLT not being totally independent.</b>  Carry out a periodic audit of a sample number of claims on a regular basis.
<b>Service charges</b>					
5a.3	CCL costs since the inception of the levy should be calculated and refunded to leaseholders (and recovered by THH)	Implemented.	Leaseholders were refunded in the 2010/11 accounts.  However leaseholders are concerned that the refunds have not been widely publicised and that not all CCL charges have been refunded.	HQN does not believe that this problem is likely to arise again. We saw no evidence of any outstanding/missed refunds	<b>This action should be signed off</b>  Credits should be clearly shown on future audited accounts.
5a.4	LBTH to invoice additional charges as they arise in the year and to submit an invoice for each charge	Implemented.	The SLA between the Council and THH allows for yearly or monthly charges. These are all raised monthly. The SLA covers costs such as telephone services, insurance, legal services.  Leaseholders have concerned about extra charges being added in without notice.  However there are very few/if any circumstances when an additional charge, that had not been anticipated and therefore included in estimates at the beginning of the year, would be raised.		<b>This action should be signed off</b>  If additional costs are incurred during the year which are unforeseen, the Council should invoice THH but the re-charge to leaseholders should be included in the audited account for that year with a clear explanation in the accompanying documents as to what the charge is for

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5a.5	The contract variation needs to be properly explained or the excess costs refunded to leaseholders	Implemented.	Horticulture work does not meet the criteria for 'qualifying works' under the Commonhold and leasehold reform act 2002. In any case the works were not more than £250 per leaseholder so there was no requirement for consultation.  The cost increase was as a result of additional estate improvement works prior to audit commission inspection in 2008.		<b>This action should be signed off.</b>  Ensure there is a process in place which provides transparency and clarity if contracts are varied for any reason.
5b.1	The basis of apportioning service charges to leaseholders and tenants should be compatible	Implemented.	Having reviewed a tenant and leaseholder service charge statement for Lister House HQN is satisfied that charges are calculated and apportioned on the correct basis.	It should be noted that the legislation is very specific about what tenants can be charged for and what is included in their rent.  THH are bound by this legislation. Furthermore it is in THH's interest to ensure tenants are charged the full amount possible in order to maximise income.	<b>This action should be signed off</b>
5b.2	All service chargeable items should be charged to tenants. Where applicable these charges should be de-pooled from the rent	Partially implemented.	Caretaking, concierge, grounds maintenance, bin hire and bulk waste, boiler fuel have been de-pooled from rents and are charged in line with costs to leaseholders.  Communal electricity is charged in with the rent but could be depooled.	<b>June 2016:</b> Completed: Electricity was de-pooled from tenant rents during the April 2016 rent decrease process.	Depool communal electricity charges from the rent.

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
5b.4	<p>1. Staff members to confirm the level of time spent on leaseholder activities by producing timesheets authorised and reviewed by line managers</p> <p>2. Further training may be necessary to achieve this</p>	<p>Not implemented</p> <p><b>June 2016</b> Completed. Leaseholder contributions to customer access are based on an analysis of a sample of calls to identify tenure type of the caller.</p>	<p>THH have carried out an exercise to understand the percentage of time spent on leaseholder activities and have trialled timesheet exercises.</p>	<p>Filling in time sheets on a regular daily or weekly basis is not considered to be effective use of time nor value for money. These exercises should be undertaken on a periodic basis, ie, for a week every quarter.</p>	<p>Undertake a timesheet exercise periodically so that it does not impact on day to day activities.</p> <p>This will provide the necessary evidence, if a case is brought to the FTT, of THH's time input and associated costs.</p>
5b.5	<p>A complete reassessment is required and an exercise is needed to calculate a cleaning charge per block based on a reasonable assessment of the actual time taken to clean</p>	<p>Not implemented.</p>	<p>No timesheet exercise has been undertaken to understand the total staff time involved in delivering services, calculating and collecting service charges.</p>	<p><b>June 2016:</b> Completed: Caretaking is charged on gross hours. So, a caretaker who divided their time equally between two blocks would charge 17.5 hours to each site with residents consulted on increases or decreases in hours as appropriate.</p>	<p>Undertake a timesheet exercise periodically so that it does not impact on day to day activities.</p> <p>This will provide the necessary evidence, if a case is brought to the FTT, of THH's time input and associated costs.</p>
5b.6	<p>Leases to be scanned and maintained on a secure network for access by THH.</p> <p>Lease particulars to be reviewed to ensure the correct block definitions are being applied when recharging services.</p>	<p>Partially implemented.</p>	<p>There are 'map sites' which staff have access to (leases do not define what an estate is). These actually cover a smaller area than might be otherwise defined as an estate so puts the leaseholder into a better position. Map sites are available for every single property and they are held on the website, seen by HQN. They show roads and boundaries.</p> <p>There are only two types of leases (based on the information which has been provided to HQN).</p> <p>Therefore there is no need to hold each individual lease –individual copies can be obtained from land registry when needed.</p>		<p><b>This action should be signed off.</b></p> <p>Map sites should be included in pre sale enquiry packs and welcome letters.</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
5b.9	THH to continue efforts to ensure the freeholders are in accordance with the transfer agreements	Implemented.	Transfer agreements for freehold properties were reviewed between 2010 and 2012 and a database set up. In addition to this, and to avoid further sales taking place without sufficient consistency, the legal team is required to consult with THH for all sales.		This action should be signed off
5b.10	THH to re-introduce block and estate accounting on the JDE system so as to increase efficiency and make budgetary control more effective	Implemented.	Now on SX3 system. Accounting is to block and estate level. Map sites have been set up.	As SX3 can now account to block and estate level JDE is no longer relevant	This action should be signed off
5b.11	In accordance with the lease, any leaseholders on higher floors, or who benefit from an entry phone system or lift should not pay more than if all units were being charged for the service	Implemented.	LBTH historically did not charge ground floor premises for lifts. However the cost was apportioned on the basis of all units and upper floor properties paying their correct charge only. THH has introduced charging for all units regardless of whether the occupant of a ground floor property uses the lift service or not.		This action should be signed off
5b.12	LBTH/THH to review the block cleaning charged to leaseholders who do not access the block and implement a policy not to recharge these services	Implemented.	LBTH historically did not charge premises which had no access to common parts for the common parts. However the cost was apportioned on the basis of all units and upper floor properties paying their correct charge only. THH has introduced charging for all units regardless of whether the occupant of a property uses the service.		This action should be signed off

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
5b.14	<p>All the standing data in the service charge module in SX3 needs to be reviewed. In particular boiler points and GRVs need to be corrected.</p> <p>The procedure needs to be communicated to other departments who are involved in changes to the standing data. The main department are repairs, eg, changes to boiler points (number of radiators)</p>	Implemented.	<p>All standing data was reviewed within SX3 in 2011. Schedules of all data are held in the inspection file and can be viewed by a leaseholder.</p> <p>The report following the review is available on the THH website.</p>		This action should be signed off
5b.15	LBTH to audit its records and ensure leases for all leaseholders are found or an appropriate copy obtained	Technically not implemented.	<p>There are only two types of leases (based on the information which has been provided to HQN).</p> <p>There are 'map sites' which staff have access to (leases do not define what an estate is). These actually cover a smaller area than might be otherwise defined as an estate so puts the leaseholder into a better position. Map sites are available for every single property and they are held on the website and seen by HQN. The LSIG has signed off 170.</p> <p>Therefore there is no need to hold each individual leases –individual copies can be obtained from land registry when needed.</p>		<p>This action should be signed off</p> <p>Map sites should be included in pre sale enquiry packs and welcome letters.</p>
5b.16	<p>THH should review the charging of SLAs to leaseholders and for transparency make it simpler and easier to understand.</p> <p>Leaseholders should be given a credit for the excess of SLA charges made to them for 2008-9 and 2009-</p>	Implemented.	<p>A full review was carried out in 2011 which identified undercharges for a number of services provided by the Council. These negated the overcharges.</p>		This action should be signed off

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	<p>10. That is the SLAs for:</p> <ul style="list-style-type: none"> <li>▪ Payroll and pensions</li> <li>▪ Customer access</li> <li>▪ IT</li> <li>▪ The two ASB SLAs</li> </ul> <p>In addition the homelessness SLA was wrongly recharged to leaseholders and should be refunded.</p>		<p>A leaflet 'Value for money for leaseholders and tenants' was produced in May 2014 and issued to residents.</p> <p>However THH recognises that office costs are high. An office move is being considered.</p>		
5b.17	<p>THH should investigate the feasibility and economics of identifying ASB costs (in particular caretaking and horticulture costs) with a view to quantifying these costs</p> <p>The fairness of recharging all ASB to leaseholders needs to be reviewed in conjunction with leaseholders</p>	Not implemented	<p>HQN was advised that the Resident Scrutiny panel carried out a review of ASB in October 2012 addressing the issues raised by B&amp;S. We found no reference to the particular issues of costs and fairness of re-charging.</p>	<p><b>June 2016:</b> Completed: ASB is now charged separately on each service charge bill, so that leaseholders can see the full cost of the service.</p>	That the B&S recommendations be carried out
5b.18	<p>The basis of reducing the estate cleaning charge where estate maps have shops situated on the map site should be applied to the number of shops so the deduction is fair. For example applying the average GRV on the estate to each shop.</p> <p>Where estate maps have chops situated on the map site a reduction should be made for horticultural maintenance and estate maintenance</p>	Implemented.	<p>THH considers this was reviewed and is happy that the costs that can be recovered from shops/commercial are recovered, and where costs can be re-charged they have been. THH is bound by the terms of the commercial lease, restricts what can be re-charged.</p>		This action should be signed off.



THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
5b.19	<p>An independent energy consultant should be appointed by THH to investigate the correct charging of energy to community centres</p> <p>THH should take the community buildings into account when apportioning the estate charges</p>	Partially implemented	<p>Whilst an independent electricity consultant was not appointed THH do take account of community buildings when apportioning charges.</p> <p>Community centres are included in the calculations. Community centres' electricity is billed separately whilst smaller resource rooms are included as part of the block charge. Estate services are not charged to the community centre.</p>		This action should be signed off
5c.1	<p>THH should review the method of calculation of the management and administration fee to reflect the level of services to each block</p> <p>In our report we recommend two methods for ensuring fees reflect the level of service to each block. We favour the fixed percentage of all block costs which would be closer to reflecting services at each block.</p>	Implemented	<p>A review was carried out in response to the Beevers and Struthers audit in 2011. A change to the management fee was implemented during 11/12. Audited accounts are based on the outcome of this review.</p>	<p>The format for the accounts which is favoured by LAPWG is confusing and in HQN's view fails to meet the accounting criteria required and included in the judgement of L B of Southwark v Woelke case, ie, that it should not be an expectation for the leaseholder to 'get his calculator out to do the maths.'</p> <p>In December 2014 an FTT determination found that the management costs are reasonable and that management charges have been allocated in a careful and sensible manner in respect of the years in question.</p>	This should be signed off.
5c.2	THH should align its management and administration charges with other ALMOs with immediate effect until there has been a thorough	As above	As above	As above	As above

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	review of the cost base and a determination to reduce these costs.				
<b>Communications</b>					
6.2	<p>THH should produce a service charge manual to document the policy and processes applied in charging service charges. Consultation is recommended with the leaseholders and the policy should be approved by the board and/or council cabinet.</p> <p>The policy should be clearly communicated to all staff dealing with leaseholders and advertise on the website.</p> <p>Leaseholder handbook to ensure all methodologies of charging for services are included as well as documenting what shouldn't be charged for.</p>	Partially implemented.	<p>HQN has seen evidence, (including staff explanation, guides for calculating actual) that staff are now aware about service charges and have received training as well as a very comprehensive manual (2012).</p> <p>The leasehold handbook is currently being worked on. It has been reviewed but it does not explain all the methodologies for charging for services or states what shouldn't be charged for</p>	<p><b>June 2016:</b> Completed. Leaseholders are directed to the website in relation leaseholder information. Leasehold Focus always includes how the estimated and actual service charges are calculated and this is sent to all leaseholders and published on our website.</p>	<p>Include within the welcome pack for new purchasers the leasehold handbook and the most recently published Leasehold Focus which describes the methodology for calculating service charges</p>
6.3	A comprehensive review be undertaken of the effectiveness of the handling of complaints	Implemented.	<p>October's monthly performance report was provided. It is comprehensive with challenging targets and in HQN's view demonstrates that THH is taking complaints monitoring very seriously. The report includes a section on lessons learnt and indicates that there has been an increase in satisfaction with the</p>		This action should be signed off

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			<p>complaints process.</p> <p>THH is introducing a new software packing for dealing with complaints. HQN anticipates this will further assist with more efficient complaints handling.</p>		
6.4	<p>Audit Commission recommendation to:</p> <p>Improve customer care and communications in consultation with residents by tailoring services better to meet residents' needs, particularly around communication.</p>	Not implemented	<p>An exercise was carried out to increase the profiling data held on leaseholders.</p> <p>In addition staff were provided with training manuals on how to update the Northgate system with the data</p> <p>However there is no current strategy for collecting information on an on-going basis nor making use of it.</p>	<p><b>June 2016:</b> THH regularly reviews communication with its lessees and the content in its Leasehold Focus magazine. The issue of improving communication was discussed at the recent Leaseholder workshop. THH's ability to collect profiling data is restricted by the terms of the lease, data protection issues and that lessees are not obliged to provide this data. As such there are no plans collect profiling data as an ongoing strategy.</p>	<p>Develop an on-going strategy for collecting profiling data and using it effectively. For example at re-sale and using it to shape services.</p>
<b>Leaseholder engagement</b>					
7.1	Improve leaseholder engagement	Implemented	<p>THH did review engagement and a further restructure took place.</p> <p>There is evidence to show that this has led to improvements. There are:</p> <ul style="list-style-type: none"> <li>▪ More people involved</li> <li>▪ A wider range of groups with leaseholders, eg, residents panel, leaseholder improvement group.</li> </ul> <p>In 2013 the Resident Panel Scrutiny Group produced a briefing on options for leaseholder engagement.</p>	<p>HQN believes the current structure and approach is as good as it can be although, in line with many other landlords, the groups are still not very representative</p> <p>However the PSG currently sits outside the structure and in order for it to be effective it needs to have a clear role within the engagement structure.</p> <p>The focus of engagement should be on getting all parties to work together effectively and this relies on making the</p>	<p>See options and suggestions in section 4.</p> <p><b>June 2016:</b> We continue to publish our Leaseholder Focus newsletter which is sent to all leaseholders twice a year. Each respective edition sets out how we calculate the estimates and actual charges. In addition we will always publicise our new repayment arrangements for major works. We also held a leaseholder workshop in May and hold regular meetings of the Leasehold Service Development Group to take soundings on our current level of service and potential improvements to it.</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
				relationships work.	
7.2	THH to ensure a proportional representation of leaseholders are surveyed each month to ensure survey results are accurate	Implemented	In September 2010 the number of leaseholders included in surveys was increased from 50 to 83 a month and the number of tenants reduced from 200 to 167 per month. The current ratio of tenant/leaseholder is 60/40	PSG agree this can be signed off	This action should be signed off
7.3	Survey data to include leaseholders who have reported communal repairs	Implemented.	Leaseholders were not included in surveys of those reporting communal repairs, but this was changed overnight and leaseholders say that this is happening.	PSG agree this can be signed off	This action should be signed off
7.4	THH should thoroughly research how leaseholder views can be properly measured and change the consultation measures accordingly	Implemented.	THH has changed the methodology and increased the proportion of leaseholders' views requested.		This action should be signed off
7.5	We understand that it is the intention of THH to put neighbourhood action plans on the website and invite comments from residents. THH must ensure staff have the power to deal with matters and achieve the improvements implied.	Partially implemented.	Housing Officers are responsible for delivering the neighbourhood plans and for providing day to day housing management services to both tenants and leaseholders. Their duties include: tenancy matters, sign ups, estate inspections, repairs, neighbourhood action plans, community based issues, support function, TRA meetings, decants for redevelopment, low level ASB  Housing officers do not believe they treat leaseholders any differently to tenants and have as	<b>June 2016:</b> This was partially implemented and work continues to ensure that Housing Officers and indeed all staff at THH are trained to deal with the aspects of leasehold management that they are responsible for. All residents can feed into the plans via the monthly estate inspections or separately specially organised walkabouts.	Ensure residents play are actively engaged in developing and monitoring the action plans.  Ensure Housing Officers have the tools and information they require to deal with leasehold matters effectively and to achieve the improvements outlined in neighbourhood action plans.  Ensure the plans and progress made against them is reviewed and monitored via performance improvement plans and one to

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			<p>much contact with them as they do with tenants.</p> <p>Housing officers did feel that they sometimes lack information about leaseholders, ie, they don't know which leaseholders live in their properties and who are absentee landlords</p> <p>Nor do they have access to systems whilst on site, eg, tablets/iPads with access to Northgate.</p> <p>Every block on every estate is inspected once on every month. Residents do not generally attend the entire estate inspection but come out for 'their bit'. Typically there will be about 25 - 30 issues raised on each estate inspection.</p> <p>Housing Officers carried out a timesheet exercise last year but this did not differentiate the time spent on tenant issues compared with leasehold issues.</p>		<p>ones.</p> <p>Ensure this is promoted and made available to residents.</p>
7.6	<p>1. Estate inspections should include an inspection to each block</p> <p>2. Estate inspections should be carried out at a time which will maximise the number of residents available to attend</p> <p>3. Gradings from estate inspections should be agreed and signed by the residents attending to confirm accuracy</p> <p>4. Reports should be displayed on</p>	<p>1. Implemented</p> <p>2. Implemented</p> <p>3. Implemented</p> <p>4. Implemented but</p>	<p>THH has strengthened their approach to estate inspections since September 2010. Team leaders inspect blocks. Ratings are based on an average. Residents are given an opportunity to agree or not with the rating.</p> <p>Monthly estate inspections include blocks. HQN was provided with inspection reports as evidence of this. Estate inspection forms</p>	<p>We understand that THH agree the ratings with residents attending the inspections. The number of residents who attend is low - this is a common problem experienced by many organisations and needs to be something which is encouraged on an on-going basis – continually exploring new and different ways of engaging effectively with residents</p>	<p><b>This should be signed off</b></p> <p>Leaseholders should be consulted on the appropriate mechanism for providing information on the outcome of estate inspections.</p> <p>Information should be widely promoted and easily available to residents.</p> <p>Residents should be encouraged to provide their</p>

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	the website for leaseholders who did not attend to view and add their comments	then discontinued	<p>record - interior floors and walls clean and free from graffiti, stairs and railings clean, light diffusers/covers clean and bulbs working, bin chutes and surrounding areas clean and tidy, lifts clean, door furniture and intercom pad(s) clean, communal windows and window ledges clean</p> <p>Estate inspection reports are available on the website. The ratings are posted on the notice boards.</p> <p>Inspections out of office hours are at the request of residents. These are carried out on an ad-hoc basis and THH do not currently record the frequency.</p> <p>Ratings for 2010 to 2012 were available to view on the website but this was discontinued after THH reviewed the number of hits to that part of the website and the cost of providing the information in this format.</p> <p>It is understood that one inspection per year is carried out, out of hours.</p>		views and feedback.
<b>Heating</b>					
8.1	<p>THH to ensure meters are read at least annually so that leaseholders are charged accurate costs</p> <p>THH to review electricity meters and ensure its records capture all meter numbers and what the meters are</p>	Partially implemented	Up to 2011/12 the meters were not being read. THH now has a contract where the meters are read once every 2 years. There is a programme for introducing SMART meters across the	<b>June 2016:</b> Completed. All bills include the meter numbers.	Provide evidence to PSG that all meter numbers and the properties they supply have been captured.

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	supplying. Following this costs need to be apportioned correctly so that leaseholders are charged accurate costs.		borough. 40% have been fitted so far but in doing so the contractor has identified some issues with the deterioration of the meter housing. Therefore the installation has been put on hold. The meter housing renewals are part of the Decent Homes programme. Bills are received monthly and used in the estimates. There has been a conscious decision to install SMART meters to the very involved leaseholder's blocks, there are about 20.  Leaseholders have some concerns that THH do not fully understand which meters supply what.		
8.2	The basis of charging boiler repairs should be reviewed  1. Boiler repairs to individual dwellings should not be recharged to leaseholders  2. THH to ensure boiler repairs to individual units are coded to the individual dwelling and not to the communal boiler  3. Credits should be applied to leaseholders who have been recharged tenant repairs  4. THH to review the apportioning of boiler servicing costs and ensure residents are not being penalised for other residents disconnecting from the communal boiler system	Implemented.	1.2012 THH examined whether any individual repairs had been recharged to leaseholders .  2.Any incorrectly coded repairs are picked up when calculating the actuals.  3.No credits were issued as THH found that no leaseholders had been recharged  4.THH have a strategy in place for decommissioning - where decommissioning had previously taken place, units are still included but not charged for purposes of apportioning.  5.THH looked at whether any residents had been overcharged but found none so no credits have		This should be signed off

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	<p>5. A credit should be applied where it is found that residents have been overcharged</p> <p>The updating of boiler point information on SX3 is vital in producing a correct charge for boiler costs. Credits should be applied where this has led to incorrect charging</p> <p>LBTH/THH to consider the cost/benefits of decommissioning communal boiler systems and installing individual boilers where costs to individual residents are excessive</p>		<p>been given.</p> <p>Boiler repairs and servicing are now charged on GRV.</p>		
8.3	<p>LBTH/THH need to improve the management of boiler and lighting systems (as opposed to capital improvements) This will include:</p> <p>a. Identifying clear responsibility within THH of who is responsible for energy management and communicating this to leaseholders</p> <p>b. Better and clearer management of boiler stop and start dates</p> <p>c. Better management of lighting controls</p> <p>d. More consultation with residents about energy consumption</p>	Partially implemented	<p>THH have introduced Keystone as an asset management tool. It is being developed to deal with asset management, servicing and planned maintenance. Data is being loaded from the existing Comino system. This will enable officers to see the number of boilers in a building, annual gas safety and renewal and look at energy ratings.</p> <p>There is currently a programme in place for dealing with risers and laterals, ie, renewing wiring.</p> <p>There is a borough wide lighting programme to move towards LED.</p>	<p><b>June 2016:</b> Boiler and lighting systems are generally managed to an acceptable standard. Boilers are started and stopped depending on temperature with an override if vulnerable residents require more heat and are generally turned off between 1am and 4am. We are installing heat meters in every block and may extend heat meters to every property depending on feasibility studies. Leaseholder energy costs are charged and apportioned accurately: they are 're-billed' the bills we receive and provided with a list of those bills or access to the original bills as required.</p>	Complete implementation
8.4	THH to make it clear to leaseholders that communal boiler and communal electricity invoices are available for inspection	Partially implemented	Boiler invoices and meter readings are available for leaseholders in the inspection file and on the website.		This should be signed off



THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	Meter readings should be put on the website		Electricity meter readings are not on the electronic file of bills that THH receives therefore they are not in the inspection file. As THH receives up to 50,000 bills and credit notes per year, they do not hold them on paper but they can download and print off the ones relevant to a particular property when asked to do so on an individual basis. Leaseholders are informed that this information is available with their bills		

## 4 Findings – the relationship between LBTH, THH and PSG

As part of the review we undertook to explore the cause of the breakdown in the working relationship between THH and leaseholders and make recommendations on how to move things forward. During their interviews and meetings Emma and Jackie probed this. They also considered the involvement structures – the involvement opportunities that were offered to leaseholders and the remits of the different bodies as well as how these compared with best practice. They took into account leaseholder engagement and leaseholder satisfaction generally as well as the views of the PSG members.

We are aware that this is likely to be the most controversial part of the report and also, for us, the hardest to pin down and evidence. We have tried to be as candid as possible about our findings and our views and are happy to be challenged on them. We recognise, due to the subject matter and that we are dealing with people's perceptions of what has happened over a significant period of time, that it will be difficult to reach full consensus.

Our review – as detailed in section three – found that a great deal of progress has been made on the B&S recommendations although not all the recommendations are ready for sign off. Since the B&S report there have also been changes made to the engagement structure and we found evidence of improvements – more people involved, a wider range of opportunities offered to leaseholders, increased leaseholder satisfaction. It needs to be acknowledged that the current structures and opportunities for leaseholder involvement, along with the satisfaction levels which are being reported have improved and are typical of ALMOs and councils across the country. The recent FTT determination supported this.

However we found that there is still a great deal of mistrust from the PSG members of both THH and Tower Hamlets Council and that relationships had worsened rather than improved since the B&S report. Our impression is that PSG members are of the view that there is no separation between LBTH and THH and that neither parties can be relied on to deliver what they have agreed to do. This appears to stem from the mistrust which set in following the revision to the management costs in the accounts for 2011/12 and in particular the way this took place – without any notice to PSG members. It is important to note that THH, on the Council's behalf, has a fiduciary responsibility to recover all costs and maximise income. Therefore when they identified that they were not collecting what they could they did have to act. However this situation could have been better handled and communicated.

Many of the relationship issues relate to very fine detail which, given the passing of time and the time constraints that we were working to, were difficult for us to get to the bottom of. In our view more time spent on this would not really help to move matters on.

Progress and improvements have undoubtedly been made on the B&S report – however things could have been progressed quicker, they could have been approached and handled in a different manner and communicated better by both THH and LBTH. There also appear to have been tensions in the relationship between THH and LBTH and sometimes a lack of shared objectives. These would have had a detrimental impact on the relationship between all three parties.

We did not find any evidence that leaseholders are being excluded from involvement but the current remit of PSG appears unclear to us as does its relationship to other groups of involved residents and the decision making process. Regardless of what has taken place in the past the current arrangements must clarify these roles and responsibilities going forward as well as PSG's links to other groups and to decision making processes.

We believe that all parties have to bear responsibility for the breakdown in the relationship and play an active part in improving it – if it is to improve. LBTH has perhaps inadvertently inferred that PSG has a right to be consulted on all operational details, in reality the only right for consultation is as set out in the Landlord and Tenant Act 1985 since amended, and recognised widely as S20 Consultation, applying to 'tenants' paying a variable service charge (Tenants in this regard meaning leaseholders). This, together with the management agreement between THH and LBTH as well as individual leases are the "minimum standards" that all parties must sign up to.

There also needs to be a recognition, that it is difficult to achieve constructive engagement if there are on-going issues between individuals and the organisation(s). It is, for example, considered best practice in the sector to agree standards of behaviour and a code of conduct for residents who are formally involved. This usually includes a list of things which would preclude individuals from holding a position until such time as they are resolved, eg, a dispute or a complaint which has gone beyond a certain stage, outstanding debts which are not subject to a repayment plan. But this does not mean that these individuals should be excluded from all engagement activities as it is very useful to maintain links with them in order to better understand reasons behind some issues, eg, complaints, non-payment, etc.

In order to move things forward we have set down a number of options that we suggest you consider. These are all examples of things that have worked for other organisations in similar positions to yourselves:

- Dispute resolution by an external agency with the objective of agreeing ways to work together in the future. A number of organisations offer this service. CEDR for example is London-based and has relevant experience. See [www.cedr.com](http://www.cedr.com)
- Reviewing the current arrangements for engaging with leaseholders. Perhaps the PSG is no longer required and the current members' valuable knowledge and experience could be useful in helping to establish/develop other groups which would achieve a broader reach across the leaseholder population. Any new group will need clear terms of reference, expected outcomes and ways of demonstrating value for money
- Considering the options that are open to leaseholders – namely that leaseholders consider, and perhaps THH provides more signposting and/or promotion, of options open to leaseholders in exercising their rights, such as, enfranchisement and/or, right to manage. More information about this can be found on the Leasehold Advisory Service website. See [www.lease-advice.org](http://www.lease-advice.org).

## Appendix one – documents

- PSG minutes
- THH structure chart
- Beevers and Struthers Audit Report
- LBTH structure chart
- Leases
- STAR survey report
- Newsletters
- Service charge manual
- Repairs reports
- Sign-off sheets
- Terms of reference
- VfM leaflet
- Emails
- Rent and service charge statements
- Complaints report
- Documentation on freeholder project.

## *Evidence*

- LBTH calculation of insurance admin costs
- Examples of service charge format
- Insurance claims audit report
- Comparison of leaseholder premium rates between three London Boroughs

## Appendix two – interviewees

- Melanie Vickers: Leasehold Improvement Manager
- Minesh Jani: Head of Insurance (LBTH)
- Steven Holmes: Contract Relationship Manager (repairs)
- Shabana Yousaf: Asset Manager
- Sarah Pace: Head of Business Development (investment planning)
- Andrew Crompton: Head of Finance
- Fokrul Hoque: Strategic Engagement Manager
- Ben Whiteside: Head of Leasehold Services
- Neighbourhood officers: Mark Eccleston, Shelley Chowdhury, Godfrey McCurdy
- Nick Spenceley, Head of Environmental Services (At Wyn Garrett centre)
- Fokrul Hoque, Strategic Engagement Manager
- John Bloxham
- Anthony Duggan
- Alison Charles
- Cllr Rabina Khan.

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# Agenda Item 3d

<b>Housing Overview and Scrutiny Committee</b>  <b>July 18<sup>th</sup> 2016</b>	 <b>TOWER HAMLETS</b>
<b>Report of: Aman Dalvi</b> <b>Corporate Director - Development and Renewal</b>	<b>Classification:</b> <b>Unrestricted</b>
<b>Housing Policy and Affordability Commission</b>	

<b>Lead Member</b>	<b>Councillor Blake</b> <b>Cabinet Member for Strategic Development</b>
<b>Originating Officer(s)</b>	<b>Martin Ling – Housing Strategy</b>
<b>Wards affected</b>	<b>All</b>
<b>Community Plan Theme</b>	<b>Great Place to Live</b>

## **1. EXECUTIVE SUMMARY**

- 1.1 Mayor John Biggs established a Cabinet Commission to investigate the delivery of genuinely affordable housing in Tower Hamlets. The Commission was chaired by Cllr Rachel Blake, Cabinet Member for Strategic Development.
- 1.2 This report sets out the aims of the Commission, the terms of reference and process that took place, key issues arising from its meetings and draft recommendations agreed by the Mayor in Cabinet in order to improve the affordable housing offer in the Borough.

## **2. Cabinet decision**

- 2.1 On May 10<sup>th</sup> 2016, the Cabinet agreed the following:

To agree the recommendations of the Affordability Commission as set out in Appendix 1 to this report taking account of the constraints within the Housing Revenue Account and pending Housing legislation, in particular the Housing and Planning Bill.

### **3. REASONS FOR THE DECISIONS**

- 3.1 To assist in the development of housing policy in relation to the Council's response to the provision of genuine affordable housing in the borough and to provide guidance on future rent setting decisions for new build housing in the borough.
- 3.2 To set out clear policy priorities for future decision making in relation to the Council's new build programme.

### **4. ALTERNATIVE OPTIONS**

- 4.1 The alternative options were to not approve the recommendations or set out the priorities for future decision making in relation to the Council's new build programme.

### **5. BACKGROUND**

- 5.1 Mayor John Biggs established a Cabinet Commission to investigate the delivery of actual affordable housing in December 2015. The Mayor appointed an expert external panel who met three times: December 2015, January 2016 and February 2016.
- 5.2 The Affordability Commission met during an uncertain phase for the future of social housing development. During the course of its deliberations, the impact of the Housing and Planning Bill, the Chancellor of the Exchequer's announcement of an annual 1% rent reduction for social landlords and increased industry costs were all flagged up as potential barriers to the future development of affordable housing. These issues are discussed further in this report.
- 5.3 Set out below are the terms of reference and details of the expert panel.

The Council set up dedicated webpages which published all the briefing papers, presentations and minutes from the meetings.

- 5.4 Four briefing papers were produced in advance of the first meeting:
  - Defining Affordability
  - The legal framework and grant conditions attached to rent setting for both the Council and Registered Providers
  - Local affordability – Analysis of incomes, benefit support, welfare reform, service charge costs and access to affordable homes
  - Overview of current and future housing need, and current letting patterns

All the Affordability Commission documentation can be viewed at:

<http://moderngov.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=755>



## 6. TERMS OF REFERENCE

### 6.1 The Terms of Reference were set out as follows:

Tower Hamlets is one of London's most unaffordable boroughs and Mayor John Biggs is committed to delivering affordable housing that is actually affordable to local people.

Acceptable rent levels affordable to people in LB Tower Hamlets identified by the Commission will be applied to future housing development schemes currently in the pipeline and recommended for future approval including:

- Schemes built by the Council using its Right to Buy receipts
- Schemes built by Registered Providers using Council Right to Buy receipts provided as grant
- Open market ex Council properties acquired by either the Council or Registered Providers using Council Right to Buy receipts.

### 6.2 The Commission also considered current models for low cost home ownership.

The Commission also considered the impact of the proposals set out in the 2015 Housing and Planning Bill on affordability in the borough, particularly the Starter Homes initiatives and Pay to Stay for higher income social tenants.

### 6.3 The Affordability Commission - Membership

<b>Council</b>		
<b>Name</b>	<b>Role</b>	<b>Organisation</b>
Cllr Rachel Blake	Chair and Cabinet Member for Strategic Development	LB Tower Hamlets
Mayor John Biggs		LB Tower Hamlets
Cllr Siraj Islam		LB Tower Hamlets
<b>Expert Panel</b>		
<b>Name</b>	<b>Role</b>	<b>Organisation</b>
Yvonne Arrowsmith	Chief Executive	East Thames
Duncan Bowie	Senior Lecturer	University of Westminster
Sarah Sackman	Barrister	Francis Taylor Building
Dan Hopewell	Director of Strategy	Bromley By Bow Centre
Faraz Baber	Planning and Development Policy	London First
Alastair Baird	Regional Managing Director	Barratts London

### 6.4 The proposed contribution from panel members was set out as follows:

- To receive and read any papers in advance of each meeting
- To attend 3 public meetings and contribute to the discussion accordingly

- To comment on the report to LBTH Cabinet Report at both initial and final draft stage
- To agree to be named in any publicity arising from the work of the Commission in their capacity as a contributor to the expert panel.

## **7. FORMAT AND OUTCOME OF MEETINGS**

### **7.1 Format**

The first three meetings were held in public and involved presentation on key issues, contributions from both the panel members and from the public. Issues that arose were then summarised by the Chair.

One addition meeting between the Mayor, Cllr Blake and panel members was also held to discuss the Commission's findings and inform this report and subsequent policy development.

### **7.2 Meeting 1 – LB Tower Hamlets Housing context – 15<sup>th</sup> December 2015**

At the first meeting officers presented the key facts about housing in the borough covering:

- Population growth - Population expected to increase from 254,000 in 2011 to 370,000 by 2035
- Current tenure mix - Private Rented Sector is now the biggest single tenure at 39% of homes in the borough
- Housing need – nearly 20,000 households on the Common Housing Register with over 50% in high priority need
- Projected housing need - evidence from both the GLA London and LBTH Strategic Housing Market Assessments estimate that LBTH will require an additional 58,000 homes by 2035
- Projected housing development and growth – GLA has set LBTH a target of 3,931 homes per year for the next 10 years
- Affordable housing delivery – 4,386 new affordable homes built over the last 5 years.

<b>2010/11</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>	<b>5 bed</b>	<b>6 bed</b>
Social Rent	65	91	105	29	28	5
Intermediate Rent	65	73	30			
Shared Ownership	46	53	43	13		
<b>2011/12</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>	<b>5 bed</b>	<b>6 bed</b>
Social Rent	377	536	427	187	78	5
Intermediate Rent	20	30	1			
Shared Ownership	142	127	31	16	4	

<b>2012/13</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>	<b>5 bed</b>	<b>6 bed</b>
Social Rent	129	80	122	30	20	
Affordable Rent	1	1		1		
Intermediate Rent	6	6	3			
Shared Ownership	52	94	23			
<b>2013/14</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>	<b>5 bed</b>	<b>6 bed</b>
Social Rent	47	95	102	33	26	
Affordable Rent	35	26	22	4		
Shared Ownership	78	70	40	2	1	
<b>2014/15</b>	<b>1 bed</b>	<b>2 bed</b>	<b>3 bed</b>	<b>4 bed</b>	<b>5 bed</b>	<b>6 bed</b>
Social Rent	64	96	95	32	10	
Affordable Rent	75	46	29	14	2	
Shared Ownership	45	74	28			
<b>Total</b>	1,247	1,498	1,101	361	169	10
<b>Total</b>	<b>4,386</b>					

It should be noted that this scale of delivery up to 2014/15 relied heavily on the 2008-11 National Affordable Housing Programme which provided significant grant levels to Registered Providers delivering target rent homes. At this point, target rents were comparable to social or council rents and 'Affordable Rent' (where rent is set as a proportion of market rents) had not been established as a rent policy.

- Rental costs in the borough across all tenures – Average weekly rental costs are well above Local Housing Allowances
- The Housing market in LBTH with slides illustrating current for sale and market rent levels – Vast range of for sale and rental costs
- Affordability tables – detailing impact of Housing benefit top ups for people in work and negative impact of the welfare benefit cap on affordability
- The potential impact of the 2015 Housing and Planning Bill on supply and affordability.

The presentations from all the sessions are attached at Appendix 3

7.2.1 The panel then heard contributions from the Tenants and Residents Federation and Tower Hamlets Renters (an independent umbrella group for private renters) that set out the concerns on affordability from a residents' perspective.

7.2.2 The discussion that followed highlighted that there was a clear need for truly affordable housing in the borough and that the current levels of 'affordable rent' introduced since 2010 were beyond many households on full benefits and that those receiving in work housing benefit would be vulnerable if they lost their employment. The tables set out in the briefing paper on 'Local Affordability' demonstrate in detail the impact of the benefits system and in

particular how the reduction of the benefit cap in late 2016 to £23k will make all new homes at affordable rents unaffordable or risky for people who are benefit dependent or on low incomes. The briefing papers are attached at Appendix 2.

- 7.2.3 The local housing market was also discussed in detail and it was recognised that the borough's desirability, land values, competition amongst developers, high construction costs and shortage of labour all added to the overall costs of schemes which impacted on affordability.
- 7.2.4 The need to keep London competitive as a world city and make housing affordable for the workforce not just those in housing need was also recognised.
- 7.2.5 It was acknowledged that there are no easy solutions to making new housing more affordable and that the next meeting would consider how the Borough could respond to the challenges considered.
- 7.2.6 The meaning of affordability in terms of relationship to income was a common issue raised throughout the session. As set out in the briefing paper, although there is no definitive calculation, it has been generally accepted that 25% - 30% of a gross household income has been used as a reasonable benchmark for housing costs in recent assessments. It is very clear that for private sector housing, residents on low to average incomes would expect to be spending more than 50% of their income on housing costs in the borough which was generally viewed as too expensive by the Mayor and panel members.

### 7.3 **Meeting 2 – Responding to the challenge – 18<sup>th</sup> January 2016**

- 7.3.1 The second meeting considered how the borough could respond to the critical issues impacting on housing need.
- 7.3.2 The presentation to the Commission set out how the Council could explore providing lower rented housing on its own sites by cross subsidising from market housing. It also put forward the notion of different rent levels for different income groups with a mix of lower and higher rents rather than across the board affordable rents. The presentation described the different delivery models that could be considered and innovation taking place in other boroughs.

The discussion that followed presented a number of challenges for the Council which will have to be addressed either individually, through the Council's emerging Housing Strategy or during the development of the Local Plan including:

#### 7.3.3 **Meeting Need:**

- Which particular target groups (by household /need/ income etc) are the Council's priority for new housing on Council sites?

- What is our overcrowding and under occupation strategy? Are we making best use of the existing stock?

#### 7.3.4 **Land:**

- What is the Council's capability and capacity to develop its own sites?
- What is the proposed scale of development? Would we rather build to higher or lower density?
- Would we consider using commuted sums from higher value developments?
- Do we have a clear picture of available Council land to develop on?
- Have we mapped out a site development programme in the short/medium/long term?
- Have we developed options for land disposals and subsequent use of receipts?
- Have we considered joint strategies, equity shares, including deferred payments on disposals for partners with payback deferred when set thresholds for development are achieved?
- Do we have a land assembly plan making use of Compulsory Purchase Order powers with other public bodies such as Transport for London?
- What is our view on demolition and regeneration?
- Have we identified where our land is in close proximity to land held by other Government bodies – have we considered the 'marriage' values?
- Have we identified what we want to develop on an area basis?

#### 7.3.5 **Delivery:**

- Is the Council confident in its role as a developer?
- Have we considered making use of temporary structures, making savings on manufacturing and providing flexible solutions?
- Does the Council have the capacity to challenge viability studies?
- Where will subsidy in addition to 'free' land come from to keep rents affordable?
- Should we use cross subsidy from outright sale of other sites or market housing on other sites?

- Will this require a ‘whole borough’ approach and to what extent should commuted sums be used?

### 7.3.6 Partnership

- Have we considered developing out of borough in neighbouring authorities where better value could be achieved?
- What is our position on self build and social enterprise housing, are we being innovative and thinking beyond HRA borrowing restrictions and standard development models?

The Chair agreed that all these issues would require consideration when taking forward future housing policy.

## 7.4 Meeting 3 – 10<sup>th</sup> February 2016

The meeting considered 11 draft recommendations as set out below:

### Discussion of Recommendations

#### 1. Priority for affordable housing

Key Findings – The Council needs to make it clear who its priority group for affordable housing is.

Recommendation: Agree a clear statement of intent over who the Council wants to assist over the lifetime of the current parliament and in response to changing market conditions.

#### 2. Social rented housing on Council owned sites

Key Findings – The local affordability papers demonstrate the need for homes rented at social target rents to protect tenants from either being hit by the benefit cap or overly reliant on housing benefit if they are on lower incomes.

Recommendation: Explore options to produce a lower (social) rent product on Council owned sites not necessarily with market sale cross subsidy.

#### 3. Bespoke intermediate rented product on Council owned sites

Key Findings – As above - where will subsidy come from to keep rents affordable? – cross subsidy from outright sale of other sites or market housing on other sites? – will require a ‘whole borough’ approach.

Recommendation: Explore options to produce an intermediate rent product for households with average/median incomes on Council owned sites not necessarily with market sale cross subsidy.

Explore how will this relate to lettings policy – will higher rent properties be let separately with income/residency related criteria?

#### **4. Market Housing**

Key Findings: That market housing is no longer affordable for those with reasonable deposits and average earnings and saving for deposits is extremely difficult whilst paying market rents.

Recommendation: Develop clear policy for market sale, for discounted market sale including Starter Homes and shared equity schemes.

#### **5. Institutional investment and other delivery models in affordable housing**

Key Findings – Attracting institutional investment is an ongoing debate across London with GLA/HCA past initiatives producing limited success – How can we make it work in LBTH, who would be the key local Business partners from Canary Wharf/City?

What other types of joint venture companies and/or the Council's own development vehicle could be developed to lever in institutional investment.

Recommendation: Explore long term financial investment from institutions to develop an intermediate rent product for households with average/median incomes.

#### **6. Guidance for lower than current affordable rents for Registered providers**

Key Findings – Partners would welcome lower rents but warn that it would impact on viability – would the Council be willing to give up a percentage of affordable housing for lower rents? How would this sit with planning policy/London Plan requirements?

Recommendation: Explore the option to reduce Borough Framework rents to more affordable levels taking into account the impact on viability and possible reduction in overall affordable housing units. Could they be reduced enough to make work pay better without recourse to Housing Benefit subsidy for those on lower incomes?

#### **7. Making best use of Council owned land/assets**

Key Findings – What would be the timescale for a short/medium/long term plan? How dependent is the link to the Local Plan/Whitechapel Civic Centre funding?

Recommendation: Commit to carry out a full capacity study of Council owned land and sites to identify opportunities and funding options.

#### **8. Private sector licensing**

Key Findings – What is the longer term plan for Council interventions in the private rented sector? There is major bureaucracy to produce further licensing approved with private landlord groups ever more willing to challenge in the courts.

Recommendation: Review selective/additional licensing schemes for the private rented sector and explore options for extensions to schemes.

## **9. Develop a quality Housing in Multiple Occupation model for younger people**

Key Findings: Any such development would require a pilot study, identification of sites or buildings etc.

Recommendation: Consider using private sector renewal empty property grants to assist in the development of higher quality HMO provision for younger people under 35 who can only claim shared room rates if requiring Housing Benefit subsidy.

## **10. Self Build housing/Co-operative housing**

Key Findings: Self Build is now a statutory requirement but the GLA is leading on a London wide register. Possible low priority as self build does not necessarily meet affordable housing need.

What is the future for Community based housing?

Recommendation: Develop position on self build options in line with statutory requirement and in order to inform the Local Plan. Monitor the development of the Community Land Trust model.

## **11. Out of Borough solutions**

Key Findings: Out of Borough development in lower value areas could provide an affordable solution for some households.

Recommendation: Should the Council consider working with other outer London Boroughs and brokering agreements to provide a long term solution to affordable housing need?

- 7.5 Discussion centred around recommendations 2, 3 & 7 which the panel felt presented the Council with the most opportunity to have control and could yield the most viable solution for producing rent levels which could be truly affordable.

The meeting also considered the Government's recent announcements on estate regeneration. It was generally agreed that whilst improvements and better use of space is welcome, more detail was required and that the needs of existing residents should be paramount.



## **8. CALL FOR EVIDENCE - SUMMARY OF RESPONSES**

8.1 The Commission called for evidence from the public and partners and received 4 submissions.

- Tower Hamlets Federation of Tenants and Residents Association
- Tower Hamlets Renters
- Ms Cate Tuitt - Trustee East London/London community land trust. Trustee Tower Hamlets law Centre. Bethnal Green resident
- Peabody Trust

8.2 The first two contributions set out the challenges in providing truly affordable housing in the borough across both the public and private sector.

8.3 The Tenants Federation was particularly critical of the impact of the Right to Buy policy and successive government housing policies. The Tenants Federation is of the view that the Council should strive to achieve rents that are linked to median incomes across the Borough. The Federation also urged the Council to ensure that when disposing of its own sites it ensures that at least 50% of the new housing is affordable.

8.4 Tower Hamlets Renters set out the unaffordable levels of private rent and the conditions and compromises which many residents have to endure as a consequence.

They state that the only credible solution to this situation is for firm rent regulation to be implemented (in whatever form) and for vast amounts of social or 'affordable' housing to be built and be primarily allocated to local people. Tower Hamlets Renters acknowledge that the former is beyond local authorities, but call on the Council to do more to oversee an increase in social/affordable house-building as well as protecting the existing stock.

8.5 The third contribution set out the benefits of Community Land Trusts and Co-operatives as well as providing an overview of the impact of the Housing and Planning Bill.

8.6 The Peabody Trust emphasised the need to contribute homes across the spectrum of affordability to meet the needs of different groups in society.

The submissions are attached at Appendix 3

## **9. POLICY CONSIDERATIONS – WIDER CONTEXT**

9.1 The evidence set before the Affordability Commission and the contributions from both the panel and the public all demonstrated that delivering truly affordable housing and meeting local need across the borough will be extremely challenging. The Commission also took into account the wider national and regional context through the course of its meetings.

## 9.2 Government announcements

9.2.1 It is significant that the Commission's deliberations coincided with the initial passage of the 2015 Housing and Planning Bill through Parliament which when enacted will add to the complexity of achieving the Commission's goals. Central Government policy for new housing as set out in the Bill is firmly aimed at increasing homeownership, an aspiration that is unaffordable for the vast majority of people with housing need in the Borough. The detail of the potential for the Starter Homes proposal to diminish levels of other forms of sub market housing has yet to be fully agreed but it is expected that this initiative will reduce the delivery of truly affordable homes in the borough.

9.2.2 In addition, the extension of the Right to Buy to Housing Association tenants funded through a levy on stock holding Local Authorities through the sale of high cost voids and the introduction of the Pay to Stay are also likely to impact on the supply of affordable housing in the borough. Furthermore, the annual high cost void levy will also have a negative impact on the Housing Revenue Account which could compromise the Council's ability to subsidise future Council new build developments as proposed at 10.2 below.

It is estimated that the Council will need to meet a levy of around £8.4m related to the calculation of high value void sales.

9.2.3 Equally significant was the Chancellor of the Exchequer's announcement in July 2015 that rents for existing Council and Housing Association tenants would decrease by 1% per year for each of the next 4 years. Whilst the reduction is welcome for tenants in work and has primarily been introduced to reduce the cost of Housing Benefit, it has caused major concern for Councils and housing associations with regard to their long term business plans and viability in developing new homes.

The impact of the 1% rent reduction for each of the next four years on the Housing Revenue Account has been modelled and indicates a loss of rental income over four years of £24 million, and a loss in excess of £400 million over 30 years (this includes estimated inflation).

## 9.3 Mayor of London

The Commission was also mindful of the role of the Greater London Authority in steering city wide policy and rent setting for grant funded properties as set out in briefing paper 2 and the potential impact of a new Mayor being elected to City Hall in May 2016.

## 10. POLICY DIRECTION

10.1 The Mayor and the Chair of the Commission met once further with Panel Members to discuss the process of setting policy direction arising out of the Commission's work.

The opportunities for the Council combined with the challenges, constraints and uncertainties at a regional and national level were recognised and it was

agreed that the Council should develop a rental policy on its own sites as a first priority. It will then develop other policies on affordable housing in the medium and longer term for the whole borough which will be captured in both the Housing Strategy and Local Plan in 2016 and 2017 respectively.

## 10.2 The Council's own sites

10.2.1 Land holdings in either the General Fund or the Housing Revenue Account present the best opportunity to produce affordable housing in the Borough. This is because there is no land purchase involved and the Council can use its retained Right to Buy receipts and potentially, other resources such as appropriate capital receipts or uncommitted New Homes Bonus to subsidise the development in order to produce lower rents. This however will have implications for the financing of other council priorities.

The Council has a programme to deliver a minimum of 553 new homes at the following sites:

Site	No of affordable homes at Borough Framework rents
Bradwell Street (completed)	12
Poplar Baths	60
Dame Collet	40
Watts Grove	148
Jubilee Street	26
Baroness Street	22
Locksley Estate	54
Hereford Street	37
Ashington Street	53
Tent Street	56-84
William Brinson/Arnold Road	45-65
	<b>553 (minimum)</b>

10.2.2 Rent models for these homes either built or in development were produced through a development model which sets the rents at the Borough Framework rents, often call POD or affordable rent levels in line with 2011 government affordable rent guidance. However the rent model for those sites that have yet to be built out can be reviewed as the findings of the Affordability Commission emerge.

10.2.3 The Commission agreed that the Borough Framework rents are too high and are unaffordable to non-working households and require many working households on low incomes to be dependent on housing benefit. In addition, the model is now flawed as it was based on the link between market rents and the percentage of household income which is now broken as the market rents were set at 2011. Since then market rents have risen at much higher rates over the last 5 years whilst salaries have remained relatively static.

10.2.4 It should also be noted that the Borough framework took into account a range of values across the Borough reflecting the high values in areas such as the

City fringe, Wapping and Canary Wharf as well as lower values in Poplar and some parts of Bow. The range of property values are not reflected in local incomes in those areas which further undermines the rent/income relationship at the centre of the framework.

- 10.2.5 The evidence to the Commission demonstrated a need to move back to social target rents but to also moved the Commission to consider introducing a median rent or 'living rent' (at or below Local Housing Allowance levels) that is affordable without recourse to benefits for households with higher incomes. This group would be expected to pay around 30 – 35% of their gross income in rent as a living rent. For a 2 bedroom property this would amount to an annual rent of £15,704. To meet the 35% criteria, the gross income of the household would therefore have to be around £45,000.
- 10.2.6 Initial modelling demonstrates that in order to produce a 100% rented site with a mix of social target rents and higher rents (at or below Local Housing Allowance levels), additional subsidy will be required in order to not have a negative impact on the Housing Revenue Account. The Council is currently in a position to commit up to 30% of scheme costs through its retained Right to Buy Receipts and consider adding additional subsidy via other available HRA resources, including earmarked New Homes Bonus.
- 10.2.7 The modelling demonstrates that if the rents were all set at Borough Framework Rents levels then the schemes would break even in 24 to 31 years – depending upon the site. Moving the rents to social target rents would increase the break even time to between 69 and 78 years which is unacceptable. If the sites were split at 50% social target rent and 50% Local Housing Allowance the break-even point is a more acceptable time period of between 28 and 32 years.
- 10.2.8 Financial viability modelling which includes high levels of subsidy on four estates where the Council is committed to developing 100% rented schemes, demonstrates that the Council could produce a mix of new homes at both social target rents and the higher rents as described above. It should be noted that the modelling will also need to include a service charge element in the overall rent. The Council will take forward this proposal in order to deliver new homes at social target rents.
- 10.2.9 However there is concern that this model would not be sustainable in the long term as the high levels of HRA resources required to offset the negative impact on the HRA will not be available in the current fiscal climate. The Council will therefore need to consider other models which could include cross subsidy through market sale of homes on sites it owns, borrowing against General Fund reserves, and use of commuted sums.
- 10.2.10 Cabinet is asked to approve the testing of this model further against the selected Council sites where a development opportunity has been identified to confirm whether it is viable to have a mix of social target rented properties and living rents. This work will be undertaken in parallel with the options appraisal for potential delivery options through a Company either wholly or partially owned by the Council.

10.2.11 The median, 'living rent' target group for the working households who would be eligible for the higher rents will be those with an income in the region of £30k to £45k per annum, paying 33% of their income on rent. This income to rent ratio was identified as a fair level through the Commission. This formula equates to a minimum of £13k per year rent - £1,100 per calendar month for a one bed rising to around £1,500 for a three bed. This would become more affordable where more than one person in the household is working and will meet the need of couples or shared households.

10.2.12 Whilst the target rented properties will continue to be let through the Common Housing Register, further consideration will need to be given to letting the higher rent homes through a separate waiting list and potentially developed by a Housing Company. Eligibility criteria based on local connection will need to be established as well as regular reviews of the households' eligibility to remain in the property. These properties could be let on longer term assured shorthold tenancies to give the residents added security.

### 10.3 Sites not owned by the Council

#### **Rented Homes**

10.3.1 The majority of new housing supply is through homes negotiated with developers and housing associations through Section 106 agreements. Since 2011, the majority of new homes have been let in line with the Borough's Affordable Rent Framework.

10.3.2 The Commission suggested reviewing the impact of requiring that rented homes are let at social target rent on these sites. Registered Providers may welcome units at social target rents as they are cheaper for them to buy from the developer. However, the concern is that lower rents will lead to an overall loss of affordable units. Consideration will need to be given as to whether this can be justified given the high level of need in the Borough despite reservations about the true affordability of Borough Framework rents to significant numbers of households in priority need.

10.3.3 As set out above the Council's current policy for these sites also requires 30% of the affordable housing to be built as intermediate housing, generally as shared ownership, and this would need to be factored into the overall tenure mix calculation.

10.3.4 In addition the Council would need to consider the impact of a lower rent/lower output proposal on the delivery numbers if the recommendations are incorporated into the Local Plan.

It will be challenging to deliver such a proposal in the context of the National Planning Policy Framework and the GLA London Plan. The risk of being challenged by the Planning Inspectorate or GLA by making homes more affordable but reducing regional and local affordable housing supply targets will need to be considered.

## **Intermediate Homes**

- 10.3.5 The type and tenure of intermediate homes provided through Registered Providers will to some extent depend on the area, especially in relation to the affordability of Shared Ownership. It has become clear that 3 bedroom Shared Ownership homes are unaffordable in the more expensive parts of the Borough and this will need to be reflected in the Local Plan. Residents who might consider such an option would be able to consider buying outright on the fringes of London at a similar price and may prefer to travel to work from Zone 6 as an annual travel card is relatively affordable.
- 10.3.6 Shared equity is likely to be less attractive to Registered Providers as it is more expensive for them to buy. The Council will also consider an intermediate product that does not leak subsidy by restricting 100% incremental purchasing of further shares in the house (also known as stair casing) up to 100% to full ownership. Alternatively the Council could let the market take its course as there is limited subsidy.
- 10.3.7 Analysis of recent shared ownership sales by Housing Associations shows that the majority of applicants are based in the Borough and their previous tenure is the private rented sector. Median incomes range across the postcodes, with higher incomes in E1, E2 and E14 (£45k to £67k) compared to E3 (£35k - £55k). E3 also had some purchasers with much lower entry point incomes at around £21k - £24k compared to entry levels of over £30k in other postcodes.
- 10.3.8 However many of these residents will be purchasing as little as a 25% share in the property. This suggests that due to their income constraints, their initial aspiration is to buy into a property with a lower deposit requirement and where they pay a high rent with smaller mortgage. The income outlay will be similar to a local private rented home but offers both long term security and a degree of ownership. It should also be noted that as all intermediate housing is now marketed through the Mayor of London's First Steps program, the Council has less influence on setting local priorities for intermediate housing in the Borough.
- 10.3.9 In addition there is a role for higher quality private rented sector housing outside of S106 delivery. New homes provided in the borough by Essential Living, Fizzy Living and across London by Pocket Housing show demand for a product which provides a better value, well managed product for young professionals and can make a valuable contribution to housing those in less housing need.
- 10.3.10 Decisions on the provision of such homes is made through the planning system and they are not classified as intermediate housing on a small site or as part of the intermediate offer on an s106 scheme.
- 10.3.11 As set out earlier in this report, the impact of the Housing and Planning Bill 2015 on all schemes, particularly the introduction of Starter Homes, will need to be taken into consideration once the Government's regulations are published.

## 10.4 Local Plan

In developing the Local Plan, the Council will need to address the following:-

10.4.1 **Density** – At what point do higher additional costs for lifts, security, concierge and maintenance of communal areas render a scheme as unaffordable due to the higher service charge costs?

10.4.2 **Use of off-site and commuted sums.** The Council will need to identify how it can get the best return from commuted sums. Land values vary greatly across the borough and developing affordable housing in high value areas, particularly when at high density, creates further affordability issues, especially when service charges are taken into account. Accepting commuted sums which could increase the number of affordable homes in cheaper parts of the Borough will need to be considered in the context of the new Local Plan.

10.4.3 **Affordable Housing tariffs** - The existing use value versus development value of land debate will continue and provides flexible negotiation space for viability consultants. Setting an Affordable Housing tariff at a target range of 25% - 40% with a 70/30 split could bring more certainty to the process. This is a proposal which is set out in the recent IPPR London Housing Commission report and this stance could be supported in discussions with regional and central government.

10.4.4 **Housing Supplementary Planning Document** - Further consideration needs to be given to developing a revised Affordable Housing Supplementary Planning Document. . As part of the statutory development plan an SPD can help the Council to lay down more detailed, prescriptive policies for the delivery of Affordable Housing providing it is in compliance with NPPF paragraph 153.

## 10.5 Housing Strategy

10.5.1 Several other ideas that emerged during the course of the Commission will be incorporated into the consultation and development of the 2017-20 Housing strategy.

These will include:-

- Revision of the Allocations policy
- Creation of a separate waiting list for higher rental homes
- Private Rented Sector Policy
- The way forward for the Preferred Partner Protocol
- Delivering homes through the Estate Capacity Study and Growth Strategy, land disposal and asset management generally.

- 'Tied housing'. There are huge companies in the Borough that need a workforce that can live near to them. CWG, NHS, Banks. The Council could explore the possibility of companies subsidising PRS for their employees?
- Out of Borough solutions
- Self build and custom build housing

## **11. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 11.1 The report sets out a number of recommendations of the Affordability Commission. These need to be fully evaluated as the financial implications for the Council are likely to be significant and will need to be considered in the context of the medium term financial strategy and the impact of the delivery of affordable housing in the borough. A comprehensive assessment of the implications will need to be undertaken to ensure the options that are developed do not adversely affect the sustainability of the Housing Revenue Account in the medium to long term.
- 11.2 Appendix 1 of the report includes a specific recommendation in respect of the proposed level of rents that will be charged on new developments and acquisitions. That will have an immediate impact upon the new housing supply programmes that are being undertaken within the Housing Revenue Account.
- 11.3 Recent Government announcements have set out a number of policies that will affect the delivery of social housing. The implications of the reduction in rents on social housing properties by 1% a year for each of the four years from 2016-17, were incorporated into the Housing Revenue Account 2016/17 budget report (Cabinet – 2<sup>nd</sup> February 2016), however the full impact on the HRA is not quantifiable until all other specific legislation is adopted and detailed guidance on the proposals is published. The combined impact of the rent reduction, the possible impact of the Sale of High Value Voids and 'Pay to Stay' rent policies will mean that significant savings will be required in order to maintain a sustainable HRA in the long term.
- 11.4 A significant risk to the council relates to the levels of Right to Buy receipts that have been retained under the one for one arrangements for the provision of new housing supply. These have accumulated significantly following the government's reinvigoration of the Right to Buy system and currently total approximately £50 million. Tight time constraints apply to the use of these resources (they must be spent within three years of receipt) and if not utilised they must be paid to the government with large interest penalties falling on the council. The use of the resources is limited in that they can only be used to fund up to 30% of a scheme's costs, meaning that in excess of £160 million of expenditure on new supply is necessary with the council or partners needing to finance £110 million of the costs. Furthermore, RTB receipts cannot be applied to schemes that attract GLA or other government grant funding.
- 11.5 The report recommends that housing developed by the council is 100% rented, combining social target rents and homes at a median rent or a 'living



rent' that is affordable without recourse to benefits for households with higher incomes. The 'living rent' will be at or below Local Housing Allowance levels. This must be considered in the context of the government's commitment to introduce some form of 'Pay to Stay' tariff which could render the HRA non-sustainable and render any policy to be ultra vires. It is essential that any policy that is introduced complies with all relevant legislation.

- 11.6 Various new build proposals are currently being developed, in addition to the initiative to repurchase properties that have previously been sold under right to buy legislation for which a capital estimate of £27.28 million has been adopted.
- 11.7 If developed within the HRA, any new build properties will be 30% funded through retained one for one receipts. The council will use its own available capital resources to finance the required 70% contribution, with the residual element being a call on the council's HRA borrowing requirement. The loan charges that result from this borrowing are met through HRA revenue resources, predominantly the rental income. Any reduction in rental income will therefore put additional pressure on the HRA and will reduce the funding for other schemes to be developed within the HRA. Previous viability modelling undertaken on new developments has assumed that all properties would be let at 'POD' rents. As outlined in paragraphs 10.2.6 to 10.2.10, it is therefore essential that modelling is undertaken at the proposed rental levels to quantify the impact of any proposed scheme on the overall HRA.
- 11.8 The tables below provide a comparison between the average council rent for 2016-17 and the Local Housing Allowance on both a weekly and an annual basis.

	Number of Bedrooms			
	1	2	3	4
<b>Weekly</b>				
LBTH Average Weekly Rent 2016-17 (£)	98.29	111.04	124.75	139.73
Local Housing Allowance 2016-17 - London Inner East (£/week)	257.35	302.33	354.46	417.02
<b>Annual</b>				
LBTH Average Annual Rent 2016-17 (£)	5,111	5,774	6,487	7,265
Local Housing Allowance – London Housing East (£/annum)	13,382	15,721	18,431	21,685
Difference between LHA and LBTH Rent per annum	8,271	9,947	11,944	14,420

11.9 As can be seen there is a significant difference between the social rent (at the council's current average rent) and the Local Housing Allowance. In the case of a two bedroom property, this is approximately £10,000 per annum, which would provide resources to finance and repay a loan in the region of £100,000.

## **12. LEGAL COMMENTS**

- 12.1 Section 8 of the Housing Act 1985 places an obligation on a local housing authority to consider housing conditions in their district and the needs of the district with respect to the provision of further housing accommodation. In line with government policy, the Council is required to deliver affordable housing in the Borough. To achieve this aim the Council will have to take account of its various powers and duties in relation to rent setting and managing the Housing Revenue Account and its Housing Strategy. Section 24(1) of the Housing Act 1985 gives the Council the power to make such reasonable charges as it may determine for the tenancy or occupation of its houses. Under section 24(2) of the Act, the Council is required to review rents from time to time and make such changes, either of rents generally or of particular rent, as circumstances may require.
- 12.2 The Council is required to maintain a balanced HRA and therefore care must be taken to ensure that any policy the Council adopts to achieve affordable housing in the Borough does not impact on its ability to maintain a balanced Housing Revenue Account. The comments of the Chief Financial Officer have highlighted a number of potential significant risks to the Housing Revenue Account if the recommendations of the Commission are taken forward. The Council must consider how those risks can be eliminated or minimised before proceeding with the recommendations.
- 12.3 In formulating its policy, the Council will also need to take account of the government's policies on rents for social housing. These are explained in detail in Appendix 2 attached to this report. Government proposals in the Housing and Planning Bill will also have an impact on the Council's ability to deliver affordable housing in the Borough and will have to be factored into any schemes that the Council decides to adopt.
- 12.4 The recommendations at present will require further detail to be produced before the Council is in a position to finalise any policy or scheme that it wishes to adopt to deliver more affordable housing. In particular the effect on the Housing Revenue Account and to ensure that all relevant legislation has been complied with.
- 12.5 When deciding whether or not to proceed with any project, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). Some form of equality analysis will be required which is proportionate to proposed projects and their potential impacts.

### **13. ONE TOWER HAMLETS CONSIDERATIONS**

- 13.1 Concerns regarding the affordability of housing can impact on all sections of the community and the findings and recommendations of the Committee provide an opportunity to take forward a number of initiatives to address these concerns and assist in community cohesion between groups across the Council.

### **14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 14.1 The actions and recommendations taken forward from the Affordability Commission relate to the built environment and will have an impact on the Green Environment. All new build schemes are subject to environmental appraisal in line with Local Plan requirements and related building regulations.

### **15. BEST VALUE (BV) IMPLICATIONS**

- 15.1 The recommendations set out in this document align with the Council's Best Value duty. Actions taken forward from the Affordability Commission will aim to ensure that consideration of best use of resources is effectively appraised and that best value is achieved.

### **16. RISK MANAGEMENT IMPLICATIONS**

- 16.1 The actions and recommendations taken forward from the Affordability Commission will be subject to further financial appraisal and risk assessment in line with best practice. Issues around risk related to new development and the Housing Revenue Account are set out further in the financial comments above.

### **17. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 17.1 There are no specific crime and disorder reduction implications.

### **18. SAFEGUARDING IMPLICATIONS**

- 18.1 There are no significant implications arising from the recommendations in this report.

## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

None

### **List of Appendices**

Appendix 1 – Summary of recommendation

Appendix 2 - Briefing papers

Appendix 3 - Presentations


Appendix 4 - Submissions

Appendix 5 - Panel Questions

## **Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012**

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<b>List of “Background Papers” used in the preparation of this report</b>	Martin Ling Development and Renewal London Borough of Tower Hamlets Mulberry Place, 5 Clove Crescent London, E14 2BG Tel: 020 7364 0469
Housing and Planning Bill 2015	

<p>Non-Executive Report of the:</p> <p><b>Housing Scrutiny Sub-Committee</b></p> <p>18 July 2016</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Aman Dalvi, Corporate Director, Development and Renewal</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Housing and Planning Act 2016</b></p>	

<b>Originating Officer(s)</b>	Jackie Odunoye, Service Head, Strategy, Regeneration, Sustainability and Housing Options
<b>Wards affected</b>	All wards

## Summary

This report sets out the main reforms introduced by the Housing and Planning Act 2016 which received Royal assent on 12 May 2016

## Recommendations:

1. The Housing Scrutiny Sub-Committee is asked to note the contents of this report and reflect on its provisions in determining the work programme for the Sub-Committee

## **1. BACKGROUND**

- 1.1 The Act is intended to support the delivery of the Government's commitments as put forward in the Conservative Party manifesto and the productivity plan *Fixing the foundations: Creating a more prosperous nation*. Throughout this Act, the Government aims to take forward proposals to build more homes that people can afford, give more people the chance to own their own home and ensure the way housing management is improved, particularly in the private sector.
- 1.2 The Act seeks to make these improvements, in part by implementing reforms that will make sure that the planning system does not add any unnecessary obstacles to the delivery of new homes. The Act allows for much of the detail to be determined through regulations made by the Secretary of State. This report sets out a summary of the current position and some initial considerations on how the Council can respond to the "known unknowns".

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Housing and Planning Act 2016 has now been enacted, so the Council will need to look again at relevant policies to reflect the new legal position.

## **3. DETAILS OF REPORT**

- 3.1 This report is broken down into several sections to reflect the policy issues covered in the Act.
- 3.2 **Providing a statutory framework for the delivery of new starter homes**
- 3.3 Starter homes are restricted to first time buyers, between 23 and 40 years of age and sold at 80% of market value. The discount is met by the Council reducing "planning gain" from other affordable housing. Consultation on the technical aspects of starter homes closed on May 18<sup>th</sup> 2016. The suggestion is that 20% of all new homes on sites of over 20 units should be starter homes. There is concern that starter homes policy requirements, applied uniformly, as currently proposed in high value areas such as Tower Hamlets, could both displace planned market and affordable supply and reduce overall supply by creating new planning uncertainty and financial risks to developers. If the Council is limited in its delivery of affordable housing, households in need will be further hit. London Councils are proposing a new model of "London Starter Homes", encompassing a wider range of affordable home ownership products and embracing an overall ambition for additional low cost home ownership supply. This would require Government to agree through negotiation with the GLA and London Councils that this model is possible.
- 3.4 **How can the Council respond:**
- 3.5 The Mayor has sent a robust response to the consultation, setting out why starter homes will not be affordable to people in housing need and how they

will impact on the Council's ability to provide truly affordable housing. The viability of starter homes will be tested as part of Local Plan evidence base gathering. The initial starting point will be current planning policy (35-50% affordable housing, plus 20% starter homes). All future planning applications that include starter homes will be scrutinised to ensure the Council can get the maximum affordable housing levels in the borough.

### **3.6 Rogue landlords and letting agencies**

3.7 Local authorities will have greater powers to identify and tackle rogue landlords in the private rented sector.

### **3.8 How can the Council respond:**

3.9 The Council can use these additional powers along with the selective licensing scheme in operation in the west of the borough to tackle rogue landlords.

### **3.10. Recovering abandoned premises**

3.11. Reforming abandonment in the private rented sector to more effectively recycle rented property.

### **3.12. Social housing**

3.13. The Act will extend voluntary right to buy discount levels to housing association tenants. It is intended that all housing association tenants will be offered the right to buy at discounts similar to council tenants, up to £100,000. The scheme will be phased in and is currently being piloted by a handful of housing associations across the country. However, there may be restrictions on certain types of properties – rural, specialist housing and those covered by section 106 covenants. Local authorities will be required to manage their housing assets more efficiently, with the most expensive vacant properties sold and replaced with new affordable housing in the area to fund housing association right to buy discounts. Each local authority with council housing will be required to pay a levy to pay for this based on estimated sales. Until the Secretary of State determines the value of a “higher value” home, the exact value will not be known. Initial estimates suggest at least £8,000,000 per year could be lost to the Housing Revenue Account. The gradual loss of stock could in return result in high temporary accommodation costs for homeless families as the number of lets will decrease. The Government says that all sold houses in London should be replaced on a two to one basis but not necessarily be for rent.

### **3.14. How can the Council respond:**

3.15. The Council will need to set out its response once the detail is known. It could meet the levy by other means than selling vacant homes, but this may not be

sustainable. The Council could also consider selling homes to another landlord who could use them for either temporary housing or other social housing. But this may also be financially difficult given the additional strain on Registered Providers Business Plans caused by the 1% rent reduction (see below) and the extension of the right to buy. Tower Hamlets will work with London Councils and other partners to determine how best to ensure the replacement housing is provided in the borough and can remain truly affordable.

### **3.16. End of lifetime tenancies**

3.17. Councils will no longer be able to offer new tenants lifetime tenancies. Instead, there will be fixed-term tenancies of between two and ten years, which will be reviewed at the end of each term and longer terms for tenants with children under the age of ten. Existing tenants who have to move as a result of regeneration or major works, will maintain their current lifetime tenancy. Succession rights to a deceased tenant's property will remain for spouses or civil partners, though the new tenancy will be a fixed-term tenancy.

### **3.18. Reducing regulations**

3.19. This clause will allow the Secretary of State to reduce regulations on housing associations. An additional clause will remove local authorities ability to nominate housing association board members and thus reduce the Council's influence over housing associations.

### **3.20. How can the Council respond:**

3.21. The Council will work with housing associations and encourage them to keep places on the board for Council members voluntarily, if the regulations will allow.

### **3.22. High income social tenants**

3.23. Tenants in social housing on higher incomes (over £40,000 in London and £30,000 outside London) will be required to pay market rate, or near market rate, rents. At the outset of the Bill, the Government wanted tenants earning over a certain threshold to pay market rent. After the House of Lords objected, a paper was introduced, peers pushed for 10p in the pound for every pound over thresholds of £40,000 in London, but the Government finally settled on 15p in the pound for every pound over the threshold. This means that for each additional pound earned over £40,000 a household would pay 15p per year extra. A household earning £45,000 would pay an extra £750 per year or around £15 extra per week. The definition of "household" will be tenants, joint tenants and their spouses, partners and civil partners. Non-dependent children living at home but not on the tenancy will not be included.

3.24. In terms of income only taxable income will be assessed. Some tenants on benefit will be exempted and the thresholds reviewed annually and uprated to



be in line with the Consumer Price Index. The Government has indicated during debates in Parliament that Tax Credits, Child Benefit, Disability Living Allowance, Housing Benefit and Universal Credit will not be considered as income. Any additional rental income the Council collects through Pay to Stay (minus an administration fee) has to be paid to the Government, which intends to spend the proceeds paying off the national debt. This means residents on higher incomes paying higher rent, but receiving the same level of service. The scheme is voluntary for housing associations who will be able to use the additional income to reinvest in new housing. In terms of administration, the Council will have to identify the income of all 12,000 Council tenants and reset the rent of those earning over £40,000. How this can be achieved will be reliant on further guidance and in particular, how Councils will be able to check data collected from Her Majesty's Revenues and Customs - HMRC (or the Tax Office).

**3.25. How can the Council respond:**

3.26. The Council will probably not have any option but to comply with this part of the Act as it will be the tenant's responsibility to declare their income and pay the additional rent. If the Council was to meet the cost it would be through other tenant rents and would reduce services elsewhere.

**3.27. Summer Budget 2015**

3.28. In July 2015, the Government announced it would reduce rents in social housing in England by 1% a year for four years, requiring housing associations and local authorities to deliver efficiency savings. This will mean a 12% reduction nationally in average rents by 2020-21 compared to current forecasts (as most forecasts assumed an above inflationary increase each year as a strategy for market rent convergence rather than the now evident 1% reduction per annum). The net impact of the 2015 summer budget changes is that by 2019/20 the average rent will be 12% lower than previously assumed and this equates to an estimated loss of £24,000,000 for the Council over four years. If no mitigation is made then the on-going shortfall in resources is estimated to be £130,000,000 over thirty years; these sums have generally been assumed in previous long term Business Plans to be used to support capital works as a successor to the Decent Homes programme and to support building of new homes. This added to income lost from high value voids will have a significant impact on the Housing Revenue Account and future service delivery, which will need to be reviewed to see where efficiencies can be achieved.

**3.29. How can the Council respond:**

3.30. The Council is working on a medium term financial plan for the Housing Revenue Account which will take into account; the 1% rent reduction, sale of high value voids, Pay to Stay, decent homes work and the new build Council programme.

**3.31. Planning Implications**

3.32. The neighbourhood planning process will be simplified and speeded up to support communities that seek to meet local housing and other development needs through neighbourhood planning. The act also gives the Secretary of State further powers to intervene if local plans are not effectively delivered and further powers have been devolved to the Mayor for planning in Greater London. The Act has created a duty on local authorities to hold a register of various types of land, with the intention of establishing a register of brownfield land and giving housing sites identified in the brownfield register planning permission in principle. Developers who wish to include housing within major infrastructure projects can apply for consent under the nationally significant infrastructure planning regime.

**3.33. How can the Council respond:**

3.34. Through the production of the Local Plan for 2017, the Council will be able to address these issues.

**4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 This report outlines the provisions of the recently enacted Housing and Planning Act 2016. As has been outlined in the report, there will be a significant impact on the Authority's finances; this will mainly affect the Housing Revenue Account (HRA), although there may be an impact on the General Fund, for example through an increased incidence of homelessness as a side-effect of the various policies contained within the Act.

4.2 It is important to note that although the Act received Royal Assent in May, the specific detail on various aspects of the legislation has not yet been released. This is of particular concern in relation to two major areas that will affect the HRA – the Sale of Higher Value void stock and the Pay to Stay legislation. Although provision has been included within the HRA budget and the medium term financial plan for the assumed impact of these policies, the lack of specific details means that there is a significant risk that the assumptions may be incorrect. On publication of the detailed regulations, the implications for the Council will be reviewed and any reassessment of the financial impact will be incorporated into the HRA medium term financial plan and 30 year HRA business plan which will form the basis of future budgetary reports to Cabinet.

**5. LEGAL COMMENTS**

5.1 The Housing & Planning Act 2016 received royal assent on the 12<sup>th</sup> May 2016. The effect will be a fundamental change in the way local authorities have to manage their housing stock in the future. The government has moved from a position of giving local authorities more freedom and flexibility in the management of their housing stock to a one of greater control and the imposition of a mandatory regime. Much of the Act will be governed by regulations yet to be introduced by the government. Local authorities will need

to review their tenancy agreements, policies and procedures and implement changes to ensure that they act in accordance with their new statutory duties under the Act.

- 5.2 The Act will impact on the Council as Local Planning Authority as identified in this report. As set out, the Council will be required to carry out its planning functions with a view to promoting the supply of starter homes in the borough. Importantly this will apply to taking decisions on planning applications and in plan making. Further details are still awaited in the form of regulations however this report identifies the potential impacts for housing within the borough. Section 106 planning agreements will be used to ensure that any starter homes are captured and bound by the requirements in the Act and regulations.
- 5.3 The Council will need to ensure that applications for the designation of neighbourhood areas are assessed against any prescribed criteria, and that the applications are determined within any time limits that may follow in the regulations to prevent the automatic designation of an area.
- 5.4 A new system of planning permission in principle is introduced by the Act. This can be granted in two ways. Firstly based on allocations in specified documents, plans and registers or secondly on direct application to the Council. In both cases the permission in principle is time limited, for five and three years respectively (unless a longer period is specified). The permission in principle must then be followed by a second stage being a technical details consent.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The purpose of this report is to brief Members of the Sub-Committee on the implications of the Act for the Council. The practical effects of the Act in terms of its impact on specific Council objectives, policies and services will be assessed in more detail in other reports, for example the progress of the new Housing Strategy.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The purpose of this report is to brief Members of the Sub-Committee on the implications of the Act for the Council. The practical effects of the Act in terms of its impact on specific Council objectives, policies and services will be assessed in more detail in other reports.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 7.2 The purpose of this report is to brief Members of the Sub-Committee on the implications of the Act for the Council. The practical effects of the Act in terms

of its impact on specific Council objectives, policies and services will be assessed in more detail in other reports.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The purpose of this report is to brief Members of the Sub-Committee on the implications of the Act for the Council. The practical effects of the Act in terms of its impact on specific Council objectives, policies and services will be assessed in more detail in other reports.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 The purpose of this report is to brief Members of the Sub-Committee on the implications of the Act for the Council. The practical effects of the Act in terms of its impact on specific Council objectives, policies and services will be assessed in more detail in other reports.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- NONE

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- NONE