


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

Originating Officer(s)	Jackie Odunoye (Service Head – Strategy, Regeneration and Sustainability) John Coker (Acting Divisional Manager - Housing)
Wards affected	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 4th 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 4th 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.

Appendix 2

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