

# OVERVIEW & SCRUTINY COMMITTEE

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Monday, 4 January 2016 at 7.15 p.m., Room C1, 1st Floor, Town Hall,  
Mulberry Place, 5 Clove Crescent, London, E14 2BG

## SUPPLEMENTAL AGENDA

**This meeting is open to the public to attend.**

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For further information including the Membership of this body and public information, see the main agenda.



# Scope for the Independent Review of the B&S Audit implementation

## BRIEF HISTORY:

### **Origin and aims**

Following a campaign over a number of years from leaseholders/THLA, full Council unanimously agreed in autumn 2008 to commission an independent audit of leasehold service charges. One of the main justifications of the audit was to provide the basis for rebuilding trust/confidence among leaseholders, which all accepted had broken down over previous years to the detriment of all sides.

In March 2010, Beevers and Struthers (B&S) audited the THH service charges covering the years 2008/9 to 2010/11 (estimated charges only). Their report was issued in July 2010 and was accepted and adopted by the Project Steering Group (PSG) in May 2011.

The Audit Commission (AC) inspected THH leasehold services in November 2010 and made a series of recommendations to improve leaseholder satisfaction. The internal Leaseholder Service Improvement Group had also been working to identify their priorities for change.

It was therefore agreed that a Leasehold Action Plan would be developed that brought together the recommendations of all three sources, giving THH and leaseholders an agreed basis by which THH could continue to improve services to leaseholders. These were combined into a single Leasehold Action Plan containing 54 service recommendations. Following PSG meetings in June and July 2011 the Action Plan was signed off by B&S as a "fit for purpose" draft for leaseholders to work on and formally adopted by THH.

A Project Plan was also formulated as a detailed subsidiary of the Action Plan. The Leasehold Action Plan Working Group (LAPWG), consisting of THH officials and leaseholders from the PSG, together with an LBTH officer representative, was created to oversee the review and implementation of these 54 recommendations.

### **Management & control of the plan**

- Action items (Action Plan and Project Plan) were to be managed and implemented by THH, and monitored by LAPWG/PSG
- The action plan and progress made, including actions ready for sign-off, were to be reviewed monthly at the LAPWG Meetings
- A bi-monthly progress report would be issued to the PSG
- Actions deemed to be complete by both THH and LH would be submitted to PSG
- No action could be closed without PSG sign-off

In autumn 2012, after 18 months of regular LAPWG meetings (and additional working sub groups set up to address specific issues) relations between THH and Leaseholders broke down completely. Leaseholders felt that whilst little progress had been made in addressing/implementing the B&S recommendations, significant changes had been made by THH outside of the LAPWG forum and the PSG. Changes implemented by THH (a new format and methodology said to inform 11/12 service charge actuals) did not reflect the B&S recommendations, were without reference to leaseholders involved in working parties on the issues and no justification was provided by THH for this change of direction prior to implementation. In addition THH reverted on previous signed-off actions, without formal notification and/or agreement at either the LAPWG or PSG.

THH say that they have given due consideration to the B&S report and have implemented a significant number of the 54 LAPWG recommendations.

## 2013 INDEPENDENT AUDIT REVIEW

### **Objectives:**

In light of the above council have agreed to conduct an independent review To assess progress of implementation of the Action Plan

To ensure impartiality the appointed auditors will not be presently working for the council or THH, or have done such work in the last 6 years.

The selection committee will consist of:

Leaseholders x2  
LBTH Procurement x1  
LBTH Strategic Client Team x 1  
Independent - Mike Tyrrell - Observer

### **Output:**

Six out of the 54 action points have been agreed. The appointed auditors will present a report to the PSG on:

- Progress on the implementation of the Action Plan –
- First steps on how Leaseholders and THH can best work together to resume and agree Action Plan activities
- Evaluate the potential risk which could arise from failure to implement actions.
- Provide recommendations to ensure the remaining Action Plan is completed swiftly and to the satisfaction of all involved.
- Cause of breakdown

### **Scope of the Independent Review:**

1. Recommendation on establishing a constructive working relationship between leaseholders and THH
2. The Auditors will review and assess the work of LAPWG and related working groups to October 2012 in relation to the original and agreed objectives and processes spelt out at the beginning of the Action Plan.
3. Explore the cause of the breakdown in the working relationship between THH and Leaseholders that has led to a clearly unsatisfactory present situation.
4. The Independent Review should take into consideration, but not be limited to:
  - a. The original B&S Report & Recommendations
  - b. The Leasehold Action Plan – containing the 54 combined recommendations, responses and updates
  - c. Minutes from the following meetings (including email and written exchanges between THH, LH and LBTH):
    - i. PSG
    - ii. LAPWG
    - iii. LSIG
    - iv. Building Insurance Working Sub Group
    - v. Management & Administration Costs working sub Group
    - vi. Energy Efficiency Working Sub Group
  - d. Leaseholder and THH observations to the original B&S Audit report,
5. The review will include interviews with PSG, LAPWG Leaseholders (including Leaseholders committed to LAPWG sub groups), LBTH and THH officers.(such as LSIG)

6. The on site review period should be completed within 2 months, with the provision for an agreed and time limited extension if necessary.

**Timescales:**

The Audit will commence on <Date>, consist of fortnightly meetings with LBTH, THH and LAPWG Leaseholders, and provide weekly e-mail updates to the PSG. Additional meetings to be organised at the request of stakeholders. The target completion date is <DATE>.

**Reporting:**

The Auditor will provide a draft report for management and leaseholder comments <Date>, followed by a final report on <Date>.

**Project Management:**

In line with the original process, LBTH will lead; both LH and THH will have opportunity to comment before any progress reports are presented to PSG.

Auditors must demonstrate at all stages of the process that they provide equality of access, input and consideration to all key stakeholders

The final report will be signed off by PSG. This report and subsequent comments from THH and LH will be made available to all residents via the THH and LH website and through concerted communications. THH/LH comments will appear as an appendix to the auditor report.

## Chronology of Procurement

Date	
16.10.12	PSG agreed to invite Beever & Struthers to return to check that recommendations arising from their audit are being properly implemented
5.2.13	JC confirmed to PSG that Beever & Struthers have indicated they do not wish to return to carry out this work. Leaseholders had met with Cllr Khan and JO to discuss appointing Deloittes, however leaseholders were unhappy with this proposal as they feel Deloittes have too close links with the Council to provide an impartial view
25.4.13	Meeting with Cllr Khan, leaseholders to discuss scope of review
August 2013	Approach made to East London Business Partnership to determine if any local companies available to bid for review work, in line with procurement rules
August 2013	No response received from East London Business Partnership
12.9.13	Invitation to tender published
24.9.13	Closing date for return of quotes
24.9.13	Only one submission was received which clearly did not meet any of the evaluation criteria.
4.10.13	New invitation to tender published
22.10.13	Closing date for return of quotes. Two submissions were received, one of which was from the same company as before
22/23.10.13	Evaluation of quotes by staff and leaseholders
5.11.13	Bid clarification meeting held with Contractor 2
7.11.13	Notification received from leaseholders that they did not feel Contractor 2 fit the bill
3.12.13	PSG Meeting. Cllr Khan doesn't want to appoint contractor that leaseholders are not happy with.
4.2.14	PSG meeting. It was agreed to i) contact Beever & Struthers again, explaining that they were not being asked to critique their previous work, and that leaseholders would welcome their return, and ii) if they are not interested, to go to open advert
11.2.14	Beever & Struthers declined invitation to conduct the review work
28.2.14	Advice received from Procurement that procurement thresholds have recently changed and the process can now be run by issuing invitation to tender e-mail direct to selected companies
21.3.14	Invitation to tender e-mail sent to 7 companies
11.4.14	Closing date for submissions, one submission (Housing Quality Network) received
8.7.14	Evaluation meeting with leaseholders
24.7.14	Bid clarification meeting with leaseholders and HQN
25.7.14	Appointment of HQN confirmed

## Chronology of Meetings between HQN and leaseholders

Date	Meeting type	Attendance
23/7/14	Bid clarification meeting	AC,AD,SB,JB, (CT,JK)
7/10/2014	PLG Kick-off meeting	JB, SB (CT, JK)
21/10/2014	Individual Interviews, HQN & JB, HQN & TD	
21/10/14	Follow up PLG meeting	JB,SB,AD (CT,JK)
12/11/2014	PLG progress meeting	JB,AD (CT,JK)
10/3/15	HQN to present final report	JB,AD,SB,(CT,JK)

JB = John Bloxam (leaseholder)

AC = Allison Charles (leaseholder manager)

AD = Anthony Duggan (leaseholder Officer)

SB= Sheila Beeton (leaseholder)

JK = John Kiwanuka (Housing Partnerships)

CT = Carol Tubb (Housing Management Contracts)



# Report: independent audit of leasehold service charges

## Tower Hamlets Homes

JANUARY 2015

*Strictly private and confidential*



### **The Housing Quality Network**

Fast practical guidance on everything to do with housing.



### **The Neighbourhood Network**

For everyone working in neighbourhood, tenancy and estate management.



### **The Excellence in Asset Management Network**

Asset management, repairs and maintenance, and environmental issues.



### **The Excellence in Health and Safety Network**

Promoting and supporting excellence in health and safety in the housing sector.



### **The Housing Finance Excellence Network**

Supports excellence in financial and business management arrangements.



### **The Leasehold Excellence Network**

Helps drive up service quality, performance and leaseholder satisfaction.



### **The Rent and Income Excellence Network**

Help housing providers maximise income collection & minimise arrears.



### **The Residents' Network**

The best place to keep up to date with co-regulation.



### **The Strategic Excellence Network**

A resource for everyone with an interest in policy and strategy.

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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:

- Beavers 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 Beavers 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>	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.	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>		
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>Include cleaning as a topic for feedback on the website.</p>



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>		

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.	Review and clarify financial regulations.

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>		<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>		<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>	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	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>	THH have agreed that this has not been implemented	<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

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
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.		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>	Not implemented	THH have carried out an exercise to understand the percentage of time spent on leaseholder activities and have trialled timesheet exercises.	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>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	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	Not implemented.	No timesheet exercise has been undertaken to understand the total staff time involved in delivering services, calculating and collecting service charges.		<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>	Partially implemented.	<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>		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

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	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>		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
6.3	A comprehensive review be undertaken of the effectiveness of the handling of complaints	Implemented.	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		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>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>		Develop an on-going strategy for collecting profiling data and using it effectively. For example at re-sale and using it to shape services.
<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>	See options and suggestions in section 4.

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		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

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
			<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		Provide evidence to PSG that all meter numbers and the properties they supply have been captured.

THH AP ref	Beever and Struthers recommendation	Review findings	Evidence, ie, the basis for our findings	Comments	Recommendations
	supplying. Following this costs need to be apportioned correctly so that leaseholders are charged accurate costs.		<p>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.</p> <p>Leaseholders have some concerns that THH do not fully understand which meters supply what.</p>		
8.2	<p>The basis of charging boiler repairs should be reviewed</p> <ol style="list-style-type: none"> <li>1. Boiler repairs to individual dwellings should not be recharged to leaseholders</li> <li>2. THH to ensure boiler repairs to individual units are coded to the individual dwelling and not to the communal boiler</li> <li>3. Credits should be applied to leaseholders who have been recharged tenant repairs</li> <li>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</li> </ol>	Implemented.	<ol style="list-style-type: none"> <li>1.2012 THH examined whether any individual repairs had been recharged to leaseholders .</li> <li>2.Any incorrectly coded repairs are picked up when calculating the actuals.</li> <li>3.No credits were issued as THH found that no leaseholders had been recharged</li> <li>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.</li> <li>5.THH looked at whether any residents had been overcharged but found none so no credits have</li> </ol>		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>		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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London Borough Of Tower-Hamlets

# Scope for Leasehold Services Audit

## **1.0 Introduction**

- 1.1 This document defines the scope and terms of references for an audit of Leasehold Service Charges which will inform the on-going costs reduction process being undertaken by Tower Hamlets Homes, and ensure that the costs charged to leaseholders are statute and lease compliant, transparent, and represent good value.
- 1.2 The document is designed to provide a reference point for the management and delivery of the audit project. Additionally, to ensure that the grounds on which the audit is carried out are clarified and that procedures are in place for any resulting issues to be identified, evaluated, escalated and rectified via normal project resolution channels.
- 1.3 Similarly, the document will act as a base document against which councillors, officers and leaseholders can assess progress, change management requirements, project viability and risk factors.

## **2.0 Brief History: - Origins and Aims**

- 2.1 This audit forms part of on-going work aimed to reduce service charge costs and charges to leaseholders. There are approximately 9000 such leaseholders, where Tower Hamlets Council is the freeholder.
- 2.2 Tower Hamlets Homes was established in 2008 as an Arm Length Management Company. It manages all housing stock owned by Tower Hamlets Council and as part of this work is responsible for leasehold management, including the calculation and collection of annual service charges, ground rent and insurance premiums from leaseholders.
- 2.3 This audit will check each stage of the calculation process and report on whether the methodology for calculating the service charges is in accordance with the relevant legislation/s e.g. Landlord and Tenant Act, and Common-hold and Leasehold Reform Act 2002, LVT determinations and good practice. It will also report on whether the charges levied are in accordance with the relevant lease. There are two main leases in use, commonly known as the Tower Hamlets lease and the GLC lease. The provisions for service charge calculation are different but for the purposes of efficiency and transparency it is considered important that a single charging methodology is adopted which is in accordance with both lease types.
- 2.4 The audit will also examine the allocation of direct costs and overhead apportionments to leaseholder's accounts and the methodology for splitting such costs between leaseholders and tenant. The audit will also explore pathways for enhancing transparency, including the way that cost information is presented to leaseholders and the way that invoices are formatted.

- 2.5 The base data for the audit will be the 2011/12 and 2012/13 actual charges, and will include consideration of the changes of charging methodology incorporated in those years – examining the reasons for such changes, their validity and their impact.

### **3.0 Scope of the Audit**

- a) Ensure that the methodology applied to calculating leasehold service charges in 2011/12 and 2012/13 complies with the relevant legislation e.g. Landlord and Tenant Act; Common-hold and Leasehold Reform Act 2002, best practice and relevant LVT determinations.
- b) Review direct cost allocations and overheads apportionments for service charges particularly 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.
- c) Verify whether the methodology is lease compliant.
- 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) Review the changes of calculation methodology in 2011/12 and 2012/13 to ensure that these are in accordance with statute, lease provisions and best accounting practice. Examine the reasons for these changes over previous methodology and practice, their validity and impacts.
- f) Examine the billing methodology, including the layout/structure of the bill to determine whether the bills are clear, understandable and that costs are transparent.
- g) Examine ways to improve transparency and value for money in the charging and billing process.
- h) Benchmark charges against similar landlords and ALMOs.

### **4.0 Access and Reporting**

- 4.1 The auditor will be given access to all legal documents, cost databases reports, correspondence (including all documents, minutes and emails from the PSG relating to the changed methodology introduced for the 2011/12 actuals) and any other information associated with the project and deemed necessary by the auditor. The day to day contact for the audit will be in the Council.

- 4.2 The Auditors will have weekly (1hr) progress meeting with the Lead Officer to present a summary progress report for discussion. The auditors and Lead Officer will also report to the PSG members on the same basis when required.
- 4.3 Key stakeholders (Mayor, Lead Member, Tower Hamlets Homes, and PSG) will be given an opportunity to comment on the final report before it is published, and a full summary of any such comments will be appended to the final report.
- 4.4 In addition the final audit report will:
- a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
  - b) identify specific deficiencies and areas of weakness in systems and controls and make recommendations for their improvement;
  - c) communicate matters that have come to attention during the audit which might have a significant impact on service charges.

## **5.0 Project Management**

- 5.1 Operational oversight of the audit will be the responsibility of the Lead Officer in the council with any issues of significance escalated to the Services Head: Strategy, Sustainability and Regeneration.

## **6.0 Procurement**

- 6.1 The intention is to procure this contract via the Croydon Partnerships Framework. Specifically the procurement will involve a direct call off from the framework.
- 6.2 To ensure transparency and breadth of experience and skills the evaluation panel for tender documents will comprise of five Council officers namely:
- a. Client team – John Coker, John Kiwanuka, and Carol Tubb;
  - b. Finance team– Katherine Ball, and
  - c. Mayor’s office – Ellie Kuper Thomas.
- 6.3 The Service Head Strategy, Housing, Regeneration & Sustainability will be responsible for appointing the successful candidate.



## Correspondence log - Mazars Audit

Date	Ref No	From	To	Subject
13.8.13	101			<p>PSG Minutes</p> <p>The Mayor has asked for an audit to be carried out looking very specifically at how service charges are calculated. The Audit will look at whether the service charge reconciliation process is in line with the Landlord and Tenant Act, and whether THH are in a position to provide invoices at the point at which the bills are raised. It will clarify the way service charges are apportioned and ensure that there is clarity and transparency associated with actuals on service charges.</p>
3.9.13	102			<p>PSG Minutes</p> <p>JC &amp; JK worked with Ellie Kuper Thomas and Cllr Khan on the terms for the audit, The paper distributed prior to the meeting shows tasks for the Terms of Reference – the actual Terms of Reference will be more detailed.</p>
1.10.13	103	CT	All PLG leaseholders	Attaching the draft scope/terms of reference for the Mayor's Audit, requesting comments by Tuesday 8th
7.10.13	103	JB	CT, All PLG leaseholders	<p>Providing comments on the draft scope/terms of reference for the Mayor's audit:</p> <p>Attaching an amended version to incorporate the main points</p>
7.10.13	103	JB	CT	Attaching an amended version of the draft scope/terms of reference to incorporate the points above. Reminding that it had been accepted at PSG that there should be an opportunity for dialogue about the issues before the deadline
17.10.13	104			<p>Attaching comment on Terms of Reference</p> <p>Sadly the documents were not sent out until the 04th making it impossible for me to respond within the deadline - my apologies for the delay.</p> <p>Querying Who is the lead officer, what role will leaseholders play in this regard? This document make very little mention of the role of leaseholders.</p> <p>There is no mention of time-lines, when do we hope to start, how long are we allowing for the audit? Would be grateful if you could outline how you plan to reconcile all views into a single working document.</p> <p>Can you please confirm the process/timelines for the appointment for the auditor</p>

12.11.13	105			<p>PSG Minutes</p> <p>JB doesn't think there has been any leaseholder input to the audit at all apart from the draft Terms of Reference Comments were sent which weren't acknowledged and no feedback was given, Cllr Khan explained that the Audit is a purely financial audit with a very clinical approach. The key concern is that the service charge methodology is lease compliant.</p> <p>AC and JB's comments have been discussed with JO. New Terms of Reference were sent out and documentation has been progressed with Procurement.</p>
15.11.13	103	JK	JB	<p>Attaching the TORs for the Mayor's Audit which have been signed off by Jackie in consultation with the Lead Member.</p> <p>Procurement of the auditors for the project will be conducted by officers, Leaseholder comments/suggestions have been incorporated into the TORs.</p>
4.2.14	106			<p>PSG minutes</p> <p>Updating on procurement</p>
1.4.14	107			<p>PSG Minutes</p> <p>Discussion around Scope/Remit of audit</p>
9.5.14	108	JK	All PLG leaseholders	<p>Mazars have now been commissioned to carry out the second audit which is focused on the lease compliance, reasonableness, calculation accuracy and value for money of the current service charge methodology and will review the 2011-12 and 2012-13 service charges, and the changes in methodology.</p> <p>Asking leaseholders to highlight any areas of particular concern in writing by 26th May 2014 so that they can be passed to the auditors for inclusion in their examination. All PSG papers will be provided to the auditors.</p>
9.5.14	108	AC	JK	<p>Requesting a copy of the Terms of Engagement. What are the agreed timelines/outlines in terms of gathering information, follow-up dialogue, final output?</p> <p>Have concerns about what information THH intends to submit to the auditors, Cllr Khan agreed that leaseholders should be given sufficient opportunity to both review this information and comment on it. Unclear exactly how it is going to be managed and when and how leaseholders will have opportunities to communicate with the auditors. Asking what was the outcome of the discussion between JC and auditors on this issue?</p> <p>Requesting more time to collate observations of leaseholders</p>
14.5.14	108	JK	All PLG leaseholders	<p>Attaching PSG papers sent to the auditors plus the terms of engagement.</p> <p>Again asking leaseholders to highlight any areas of particular concern, will share documentation which has been sent to the Auditor to inform the audit.</p> <p>THH have provided so far an inspection file for 2012-13 to the Auditors, I have this information on a memory stick and will send it to you shortly.</p>

				A formal report for management response is expected on 27/06/14, and PSG leasehold representatives will comment on the final report.
16.5.14	109	JO	AC	<p>Replying to points made in AC's e-mail of 9.5.14</p> <p>Audit will be different to the B&amp;S follow-up review, very much planned to be financial audit, reviewing way in which leaseholders are charged for services. Outlining the areas which she expects Auditors to cover. Detailing what info has so far been given to auditors. Not possible to e-mail inspection files due to size of files and ICT security, offering solutions for leaseholders to view files at THH offices.</p>
16.5.14	108	JB	JK	<p>Commenting on what has been communicated, and requesting that the different points are discussed in the first of the Progress meetings with the client scheduled for today</p> <p>Deadline of Monday 26th May 2014 for submissions from leaseholders, of any areas of concern is a Bank Holiday, Asking for confirmation of when the actual deadline will be, and also whether it will be by a particular time on the relevant date (e.g. by 5pm or another time).</p> <p>Querying level of engagement given to leaseholders in comparison with other stakeholders</p> <p>Agreeing with Allison's points about the 2 week period as being unreasonably short for leaseholders who do not have any of the resources of either THH or LBTH, requesting that the period for leaseholder submissions is extended by a further week, and that the last "closure" progress meeting with the Client is put back to 18/06 to allow proper consideration of what we have submitted.</p> <p>Querying whether PSG info given to auditors was complete, and whether the benchmarking report provided to Mazars is the most recent version</p> <p>Asking that leaseholders are informed of response to these points and outcome of deliberations at progress meeting</p>
20.5.14	108	JK	JB	Attaching Jackie's email of 16.5.14 to Allison, which goes a long way in addressing the issues you have raised in your email.
21.5.14	108	JB	JK	<p>Disagreeing that JO's e-mail addresses the issues raised. Again requesting confirmation of deadline/time for submissions. Also requesting one weeks extension and that closure meeting put back by one week accordingly. Still querying which papers were given to Mazars. Stating that the audit is more than financial audit, as stated by Jackie, asserts that the scope is much wider than that, and querying level of leaseholder involvement</p> <p>Requesting response today.</p>
21.5.14	108	JK	JB	<p>Agreeing to extend the deadline for submission of your contributions by a week to 02/06/2014 at 16:00</p> <p>The closure meeting has been extended for a week to 18/06/2014 to allow the Auditors ample time to consider contributions from leaseholders.</p>

				Attaching additional PSG information and correspondences from Allison and yourself that was sent to the Auditors.
2.6.14	108	JB	JK	Please find attached my initial submission/contribution to the Auditors, in line with the deadline indicated. Please confirm that it has been received and forwarded to them
2.6.14	108	JK	JB	Confirming that the documents "Initial submission" and "Scharges_Management have been passed to the auditors
26.6.14	110	AC	Cllr Khan - Formal Complaint	I'm contacting you with my continued concerns regarding the Mazars Audit. The Audit is not achieving what it was set up to do, inspection files do not contain info to allow auditors to verify costs  Concerns re way audit is being managed, LBTH not able to adopt impartial role. PSG minutes do not accurately record meeting discussions Full disclosure of documentation has been declined on data protection grounds Requesting proceedings are postponed and a meeting is scheduled to address leaseholders concerns
27.6.14	111	AC	JC	I'm sure you are aware that I recently submitted a formal complaint to Cllr Khan regarding this audit.  Having viewed the inspection files I fail to see how this audit can meet the agreed PSG objectives. Querying info available to Mazars in the inspection files. Assuming Mazars have been given additional access, then in the interest of the full disclosure agreed by Cllr Khan, I too require access to this additional information.
8.10.14	110	AC	Cllr Khan	Requesting confirmation which internal external audit THH have referred to in her LVT case and requesting access to these audit findings. Assuming that they are not referring to Mazars audit  Requesting confirmation that Mazars audit has not been allowed to continue until all concerns had been formally addressed
8.10.14	110	JB	Cllr Khan, JC, JK, CT	Requesting an update of the situation and explanation of :  – How the audit was allowed to proceed and, apparently complete, when the Terms of Reference were clearly not followed? – Why, despite all the verbal commitments at PSG about 'leaseholder involvement', none has been allowed that I am aware of apart from an invitation a few months ago to submit an initial submission?
9.10.14	110	AC	All	Requesting urgent response to JB's e-mail of 8.10.14 and to her complaint of 26.6,14. Concerns have been ignored, request for access to accounts have been ignored and has made no input into this review
17.12.14	112	JB	JK	Following up questions raised verbally re present status of Audit report, in particular issue of leaseholder input
23.12.14	112	JK	JB	Responding to individual point made in JB's e-mail of 17.12.14

JB = John Bloxam (leaseholder)

JC = John Coker (Strategic Housing Manager)

AC = Allison Charles (leaseholder)

JK = John Kiwanuka (Housing Partnerships manager)

AD = Anthony Duggan (leaseholder)

CT = Carol Tubb (Housing Management Contracts Officer)

SB= Sheila Beeton (leaseholder)



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# Review of Leasehold Service Charges

London Borough of Tower Hamlets

June 2014



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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>
<b>Leaseholder Service</b>	<b>2,432,860</b>	<b>61</b>	<b>626,954</b>	<b>1,805,845</b>	<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
	<p>Location: London</p> <p>Units: 22,000 Leaseholders: 9,000</p>	<p>Location: London</p> <p>Units: 15,000 Leaseholders: 5000</p>	<p>Location: London and Southeast</p> <p>Units: 30,000 Leaseholders: 4,500</p>
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>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>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>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>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.</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.</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>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>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>