

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.