



London Borough of Haringey

Leasehold Service Charge Audit

June 2010

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1 Executive Summary

1.1 Introduction

Homes for Haringey (HfH), an Arms Length Management Organisation established in 2006 manages 16,347 homes on behalf of the London Borough of Haringey ("the Council") including 4,455 homes which were bought leasehold by their tenants under the Right to Buy.

This report provides an overview and assessment of HfH's and the Council's arrangements for levying service charges for day-to-day management and maintenance services for these leasehold properties. It does not include service charges for major works. The leaseholder service charge system is managed by the Home Ownership Team (HOT) within HfH.

It is not designed as in-depth study but instead as a high-level diagnostic which indicates which areas may require further and more detailed examination.

1.2 Our approach

The service charge system should meet the following requirements:

- the Council and HfH should have systems in place to calculate and collect the service charge due to it;
- the service charge should be "fair and reasonable" and reflect the actual cost of services; and
- the Council and HfH should act as the leaseholder's agent in ensuring the quality and "value for money" of the services.

In our review we have used a diagnostic check list, set out in detail in section 4, which focuses on the following key areas of enquiry:

- core business systems and data quality;
- procurement, cost and quality of services;
- cost allocation; and
- leaseholder information.

1.3 Findings

Key Messages

Overall we conclude that HOT appear to operate an efficient and effective service in terms of calculating and issuing annual service charges to leaseholders and we would highlight the following areas of good practice:

- the HOT provides clear statements of account to leaseholders, on time, and with good quality explanatory information; and
- the HOT is introducing a new initiative - the "Key Leaseholder Scheme" - which will enable leaseholders to review the records of communal repairs undertaken to their block on a quarterly basis and raise any issues of quality of repairs or accuracy of the record.

We have also identified some areas of review and we would highlight the following:

- in common with other local authorities, HfH's financial systems are not always able to report costs at a block/estate level. Of necessity the HOT has put in place manual processes to sort data. Whilst it appears that this process is diligently followed, it is inevitably time intensive and potentially prone to subjectivity and error. We therefore recommend that HfH reviews the scope and business case for the analysis of costs at estate and block level and the separate job coding of chargeable/non-chargeable work within the functionality of its SAP system;
- in the case of internal block cleaning where costs are calculated on a pro-rata basis from area wide totals, we recommend that this is reviewed as it is potentially subject to challenge; and
- we recommend that a formal process is put in place in which the Director of Corporate Resources is able to review and sign off annual service charges based on a high level assessment of chargeable and non-chargeable expenditure within the Housing Revenue Account.

Commentary

A key principle that we have applied is that service charges should be calculated on the costs of services to the relevant estate or block. There is no concept of pooling costs or of one estate/block subsidising another. Therefore financial systems and contract specifications should be aligned to reporting costs as far as possible at an estate or block level.

However for local authority landlords this is often not the case as the authority manages its housing stock with a view to balancing the Housing Revenue Account (HRA) at a council-wide level and has no statutory requirement to account for costs at anything other than a HRA level. This means that cost information is often held at a council-wide or area level (in cases where a contract covers a specific geographic area) rather than being reported at an estate or block level.

We have found this to be the case at a number of other local authorities and in common with them, HfH has had to put its own systems in place to sort cost data. Whilst this is not unique to HfH it does raise some risks with regard to the accuracy of individual service charges. These include:

- The HOT has to manually sort data (e.g. repairs) to identify individual block and estate costs. This is a time intensive process and potentially prone to subjectivity and error.
- In some cases (e.g. internal block cleaning) area costs are pro-rated to individual units. There is a risk of challenge to these charges on the basis of fairness.

Therefore, we have recommended that these processes are reviewed to improve ways of reporting and that HfH considers the scope and business case for the reporting and analysis of costs at estate and block level and the separate job coding of chargeable/non-chargeable work within the functionality of its SAP system.

There is also a need to reconcile service charge totals to control totals within the Housing Revenue Account (HRA). This would provide an independent check that all chargeable income is being claimed as well as a check against error and fraud. At the current time there is no formal process for reporting this, although the HOT Manager does undertake various checks and reconciliations. We have therefore recommended that a formal process is established whereby the Director of Corporate Resources is able to review and sign off annual service charges based on a high level assessment of chargeable and non-chargeable expenditure.

Notwithstanding these issues, the HOT is able to collate cost data from a number of sources including SAP; the repairs database (TASK) and reports from service managers, and uses databases and spreadsheets to calculate unit charges which act as an audit trail for individual charging decisions.

Whilst we have not carried out any sample testing the HOT systems do appear to operate effectively and efficiently in the following ways:

- the HOT carries out an annual check and reconciliation with SAP and property databases;
- the approach used for apportioning costs from an estate/block level to individual units is reasonable;
- estimated and actual bills are issued on time;
- there is an audit trail of decisions whether to charge or not; and
- statutory requirements for consulting leaseholders on Qualifying Long Term Agreements have been followed.

Generally the level of information provided to leaseholders appears to be good - the service charge account statement provides a clear statement of account with relevant breakdowns and explanatory notes.

In addition HfH are launching a new initiative - the "Key Leaseholder Scheme" - which will enable leaseholder representatives to review the records of communal repairs undertaken to their block on a quarterly basis and raise any issues of quality of repairs or accuracy of the record. This should offer an opportunity to address concerns on the accuracy of repairs records on a concurrent basis and thereby reduce disputes when bills are presented at year-end.

HfH can justify that it has sought to obtain "Value for Money" for leaseholders through the competitive tender of services or through benchmarking reviews for retained in-house services. We understand that more detailed reviews of the outcomes for in-house services are being undertaken to assess whether efficiencies have realised costs savings to leaseholders and/or quality improvements in service delivery.

We have also identified some other areas of risk which would benefit from further review. These are:

- HfH has a number of systems in place for checking on the quality of service delivery, including good practice such as the "Key Leaseholder Scheme" highlighted above. A more detailed review of the mechanisms that underpin these systems would help to ensure that quality thresholds can be agreed and enforced e.g. this would cover:
 - the Schedule of Rates and pre- and post-inspection regimes;
 - how effectively performance is addressed in contracts and Service Level Agreements, including in payment mechanisms, and how any savings are passed on to leaseholders; and
- We have not had the opportunity to talk to leaseholder representatives; this would help to identify key service issues from a customer's viewpoint.

1.4 Way forward

Our action plan is set out in section six.. In most cases the Council and HfH have agreed to implement our recommendations. For areas where implementation has not been agreed we do not regard this as fundamental but would urge the Council and HfH to keep these areas under review when future improvements to arrangements are being considered.

Finally we would like to thank officers in the Council and HfH for their time and assistance during this review.

2 Introduction and Context

2.1 Introduction

This report provides an overview and assessment of the London Borough of Haringey's ("the Council's") arrangements for levying service charges for day-to-day management and maintenance services on housing within its stock which has been bought under Right to Buy.

2.2 Context

Most of the homes for which the Council is responsible are houses and medium rise flats located in the east of the borough. The majority were built after 1945. Homes for Haringey (HfH) manages 16,347 tenanted homes on behalf of the Council including 1,479 used for supported housing. HfH also manages 4,455 council homes which were bought by tenants under Right to Buy under a 125 year lease.

As with other residential leases, the leaseholder is responsible for the interior of the flat and HfH on behalf of the Council, as landlord, is responsible for managing and maintaining the exterior of the building and surrounding estate and, in some cases, supplying services such as central heating. The Council charges the leaseholder for the cost of these services through their annual service charge.

The following service charges were levied by HfH in 2008/09:

Actual service charges 2008/09

Service area	Charge (£)
Cleaning	1,160,504
Lifts	23,600
Communal lighting	140,008
Grounds	294,218
Concierge	235,656
Heating - fuel	5,982
Heating - maintenance	0
Insurance	764,468
TV aerials	11,052
Controlled entry system	88,459
Pest control	11,117
Management charge	1,012,105
Ground rent	44,518
Repairs	494,128
Major works below £250	24,956
TOTAL	4,310,771

The mean average charge per leaseholder was £968, although within that average the charge varies between £136 for those properties liable only for responsive repairs, insurance, ground rent and a management fee, to almost £3,000 for those receiving a full range of services including a concierge system.

3 Approach

3.1 Scope of work

This review is designed to give an overview of the Council's arrangements for levying leasehold service charges. It addresses the following requirements:

- the Council should have systems in place to calculate and collect the service charge due to it;
- the service charge should be "fair and reasonable" and reflect the actual cost of services; and
- The Council should act as the leaseholder's agent in ensuring the quality and "value for money" of the services.

It is not designed as in-depth study but instead as a high-level diagnostic which indicates which areas may require further and more detailed examination.

The review focuses on service charge systems for day-to-day management and maintenance. It does not include service charges for major works.

3.2 Our Approach

In order to gain a high level overview of existing systems in these areas we have:

- undertaken interviews with key personnel - interviewees are listed in Appendix A; and
- undertaken a review of key documents and databases used for calculating the annual service charge - these are listed in Appendix B.

Using this information we have:

- undertaken an assessment using a diagnostic check-list focussing on the following key areas:
 - core business systems and data quality;
 - procurement, cost and quality of services;
 - cost allocation; and
 - leaseholder information
- identified examples of good practice by HfH; and
- identified areas of risk where HfH may not fully meet the objectives set out our diagnostic check-list.

4 Findings

4.1 Introduction

We have set out our findings under each item from the diagnostic check-list. As we have not undertaken detailed sample checking our findings are necessarily "high-level". However we have identified where it would be of benefit to test compliance with system requirements through sample checking.

Within this review we have examined the following service areas:

- Responsive repairs;
- Lift maintenance and repairs;
- Controlled entryphones maintenance and repairs;
- Cleaning of internal communal areas of residential blocks ("block cleaning")
- Cleaning of external areas of residential estate ("estate cleaning"); and
- Grounds maintenance.

These service heads account for £2,085,855 in service charges for 2008/09 which is 48% of the total charge of £4,310,771.

We have not reviewed the management charge in detail which accounts for a further £1,012,105 of the total charge.

In each sub-section we have set out the rationale for our review and the "ideal" case against which we have tested the current systems.

4.2 Core Business Systems and Data Quality

4.2.1 Estate and block costs

Service charges should be calculated on the costs of services to the relevant estate or block. There is no concept of pooling costs or of one estate/block subsidising another. Therefore costs should be reported wherever possible at an estate or block level. Ideally:

- the financial system will report costs at an estate and block level and differentiate between chargeable and non-chargeable costs¹ within its reporting structure; and

¹ In most cases chargeable work will be work undertaken in communal areas and non-chargeable work will be work undertaken in "non-communal" areas (i.e. inside individual properties). However as some non-communal works may be chargeable (e.g.

- the contract specification and invoicing structure will require contractors to invoice on an estate or block basis; and where relevant differentiate between chargeable and non-chargeable costs.

Findings

Repairs

The HfH Direct Labour Organisation (DLO) delivers the responsive repairs service based on a Schedule of Rates. Repairs are ordered through the TASK system. The Home Ownership Team (HOT) utilises reports from TASK to filter repair orders into communal (chargeable) and non-communal (non-chargeable) repairs and then allocate the cost of communal repairs to estates and blocks. The HOT Manager estimated that, from a total of 60,000 repairs, he filters out a list of 25,000 communal repairs using a word-search of repairs descriptions. These are then individually checked and sorted into costs for individual estates and blocks. In cases where there is ambiguity (e.g. as to the correct block address; or uncertainty as to whether the repair may be a duplicate order; or where the description is unclear) the HOT will refer back to the repairs team for further information.

Whilst it appears that this process is diligently followed ultimately the HOT will have to make a judgement as to whether or not a communal repair is rechargeable. Therefore there is a risk that as this is a manual system it is not only a time intensive process but also has the potential for subjectivity and human error.

Lifts

Lift maintenance and repairs are carried out under a Measured Term Contract (MTC) with two external contractors split on a geographic basis (North/South of the borough). The contractor invoices monthly for maintenance costs which are defined per block under the contract and for responsive repairs which are priced under a Schedule of Rates (SoR).

Controlled entryphones

Maintenance and repairs are carried out under a MTC by two external contractors split on a geographic basis (East/West of the borough). Annual maintenance costs are defined per block within the contract; any responsive repairs in excess of £300 in value are priced under a SoR. Monthly valuation reports are collated through OHMS (the client-side repairs system)

Block cleaning

The cleaning of the internal communal areas of blocks is carried out by HfH's in-house Estate Services Team. Costs are split by geographic areas. Whilst costs for external cleaning, chute clearance and weekend cleaning are calculated based on the level of services provided, block costs for internal cleaning are calculated through a pro-rata allocation of area costs based on unit numbers.

With regard to internal cleaning, in general there is a risk of challenge to charges which are pro-rated in this way and not based on defined block costs. A recent Leasehold Valuation Tribunal² found that "the apportionment of cleaning charges on

repair work to windows, or repairs to a district heating system inside a flat) we have used the term "chargeable/non-chargeable" rather than "communal/non-communal". These terms will require careful definition and separate coding between communal/non-communal work in developing the specification for financial systems and contracts.

² LB of Haringey vs Ms Kaya LON/00AP/LSC/2009/0102

a borough wide basis could result in unfairness to smaller blocks". Although LVT decisions do not set a precedent, similar conclusions have been reached in other LVTs and this remains a risk to future service charge recovery.

Estate cleaning

There is a Service Level Agreement (SLA) between HfH and the Waste Management Department of the Council for estate cleaning. The contract is delivered by an external contractor - Enterprise - which is contracted to the Waste Management Department. Costs are allocated to estates on a formula based on the square meterage of the estate served and the frequency of provision.

Whilst this provides a rationale for calculating costs incurred at an estate level, the data defining estate areas is in a formula hard-coded into an excel spreadsheet. We understand the source data is held separately within HOT files but we have not reviewed these files or reconciled the two data sets.

Grounds maintenance

Grounds maintenance is undertaken by the Parks Service DLO under an SLA with HfH. Costs are calculated per estate or block on the square meterage of grounds maintained and frequency of visits (e.g. grass-cutting). This data is entered in an Access Database. Costs for additional "ad hoc" requests (e.g. for new planting) will be based on a quotation which can be allocated by the HOT to estates through interrogating SAP.

4.2.2 Repairs - warranties and insurance

Leaseholders should not be charged for repairs which are covered by warranties or insurance; therefore the repairs system should have the facility to flag where this applies to individual repairs so they do not form part of the chargeable total.

Findings

Repairs are ordered through a contractor call centre system (TASK) and logged on to HfH's client system (OHMS).

OHMS records decent homes work and will flag jobs covered by warranties from the decent homes programme. However individual operators can over-ride this and still order the job.

There is a risk that individual repairs covered by warranties will still be charged. Whilst the HOT are developing a centralised file of warranties to cross-check against repair orders this is a manual system which could be prone to error and omission.

Insurance claims were not seen as a material issue by the Repairs Manager as the repairs within the system would normally be below the threshold for policy excess and not claimable; higher value jobs which may generate a viable insurance claim would generally be tendered and so subject to review at this stage. However the HOT team do carry out a check of repairs against a report obtained from the Insurance Team to ensure repairs which are subject to an insurance claim are not charged. Again this is a manual system which may be prone to error and omission.

4.2.3 Repairs - S20 threshold

Under Section 20 of the Landlord and Tenant Act 1985 (as amended by the Commonhold and Leasehold Reform Act 2002) the landlord must follow a formal consultation procedure on any works for which any one or more leaseholders will pay a contribution of £250 or more. Therefore individual repairs in excess of this threshold should be subject to a separate consultation procedure. If not, the service charge will be limited to the S20 threshold and the Council/HfH will lose income. Therefore the repairs system should flag where repairs may exceed this threshold and retain an audit trail of the action taken.

Findings

The repairs system does not flag where repairs exceed the S20 threshold. When compiling the service charge, the HOT Manager checks all repairs orders against the S20 threshold. If any exceed this then the charge is limited to the maximum allowable without consultation (£250 per unit).

In 2008/09 21 repair orders were in this category, leading to estimated under-recovery of £15,000. In the context of 25,000 chargeable orders and a total recharge for repairs of c. £500,000 this is relatively low, but this should be kept under review.

4.2.4 System controls (1)

The leasehold charges system should operate in a controlled environment in which decisions (e.g. to charge or not to charge) are formally recorded and an audit trail established. This enables a check to be carried out that a consistent practice has been followed, and that an appropriate level of approval to decisions has been given.

Findings

We have reviewed the repairs database and the write-off process.

On the level of individual repair orders line-by-line checks of communal repairs are carried out by the HOT for duplication; repairs which, due to their unit cost, should have been subject to Section 20 consultation for major works; and that repairs are allocated to the correct block/estate addresses. The HOT team has access to the TASK system and can refer any queries back to the repairs team.

This will to some extent require subjective judgement in assessing whether the detail available on any particular repair is sufficient to accurately allocate a service charge.

Records of this process are kept within an Access database providing an audit trail of repairs which have or have not been charged.

Once charges are issued, the HOT Manager will only recommend the write-off charges in response to challenges on the recommendation of HfH's Legal Services or on advice from the service provider. A scheme of delegation is in place which requires the sign-off of the Director of Corporate Resources for all write-offs below £5,000 and the Lead Member for write-offs over £5,000.

4.2.5 Systems controls (2)

At a high level the authority should be able to reconcile the total expenditure within the Housing Revenue Account (HRA) on management and maintenance with the

total expenditure billed to leaseholder plus the expenditure deemed to be non-chargeable. This should include:

- identification and explanation of year on year changes in property numbers and charging profiles;
- identification of service areas/categories of expenditure and reasons for non-charging;
- reconciliation back to control totals within the authority's accounting system; and
- validation and formal signing off of the service charge accounts.

This allows senior management who are external to the operational management of the service charge system to monitor systems for fraud or error without dealing with or examining individual transactions. It also provides a check that all chargeable income is being claimed by reconciling charges back to total expenditure incurred and providing reasons for why categories of expenditure are not charged.

Findings

The HOT undertakes:

- an annual reconciliation of leasehold property records between OHMS, the leasehold database and records held by the Legal department;
- a reconciliation against SAP of total costs identified for individual service heads; and
- a comparison against the previous year's service charge level at a service area and overall level to identify trends and account for any unusual fluctuations.

However there is no reconciliation of these figures against control totals established within the HRA for overall costs incurred.

There is also no formalised process by which these findings are reported and signed off by senior officers within HfH (outside of the HOT) or the Council. There is a risk that HfH will not be able to demonstrate that the potential for fraud or error has been fully addressed and that the authority has maximised its service charge income.

4.3 Procurement, Cost and Quality of Services

4.3.1 Leaseholder consultation on Qualifying Long-Term Agreements

The authority should meet the requirements to consult leaseholders on Qualifying Long Term Agreements as set out in the Commonhold and Leasehold Reform Act 2002 (CLRA 2002).

The CLRA 2002 requires landlords to consult leaseholders prior to letting "Qualifying Long Term Agreements".

It defines Qualifying Long Term Agreements (QLTAs) as those which are more than 12 months in duration and will result in a service charge of more than £100 per leaseholder per accounting period.

This threshold includes VAT and on-costs and applies where one flat exceeds the £100 threshold, although as the Council is zero-rated for VAT the threshold does not include VAT for the Council's purposes.

The Act deems the following to be LTAs rather than QLTA's and therefore not subject to the requirements of Section 20:

- contracts of employment
- contracts with Tenant Management Organisations (TMOs) and Arms Length Management Organisations (ALMOs)
- contracts with associated holding companies
- contracts of over five years where there were no leaseholders at the start of the contract
- contracts entered into before 31 October 2003.

Findings

This has been applied in the following ways to the service heads which we have focussed on:

Responsive repairs

The HfH DLO was appointed in April 2008 following a competitive procurement through the OJEU procedure. HfH consulted with leaseholders using the S20 procedure.

Lifts and controlled entryphones maintenance

These contracts were competitively tendered in 2007 (lifts) and 2006 (controlled entryphones). The contracts were originally for 2 years and have since been extended. Leaseholders were consulted through a S20 procedure for the controlled entryphones contract; the lifts contract was below the £100 per dwelling threshold and so no leaseholder consultation was required.

Block cleaning and grounds maintenance

Block cleaning is delivered by the HfH Estate Services Team and grounds maintenance by the Parks Service under an SLA. As in-house services which have not been subject to tender these do not fall under the definition of a QLTA.

Estate cleaning

The estate cleaning contract was originally let in 1997 and has been extended to April 2011, with costs subject to indexation and some service extensions. As a contract entered into before 1 October 2003 it is not defined as a QLTA. However this service is now subject to tender and a competitive procurement process is underway which will require the Council to consult in line with CLRA 2002 - HfH officers have noted that they are planning to implement this.

General

The HOT Manager has issued guidance to procurement officers through circular emails as well as undertaking training seminars with them.

4.3.2 Value for Money

The authority should be able to demonstrate that it has sought to obtain Value-for-Money (VfM) either through the competitive tendering of contracts or the benchmarking of services against comparable providers.

Findings

Repairs, lift, controlled entryphone, estate cleaning

The contracts for responsive repairs, lifts, controlled entryphones and estate cleaning have, or are being, competitively tendered.

Block cleaning

We understand that the retained in-house contract for block cleaning was subject to a VfM exercise about 5 years ago and more recently as part of a Housemark benchmarking club for estate services. It was found to be in the third quartile on costs but performed well on quality indicators. There is also proposed to be a VfM review of Estate Services in 2010.

Grounds maintenance

Grounds maintenance was subject to a VfM review 2 years ago which concluded that there was scope for savings; the Council has targeted 10% savings by April 2011.

Note that it is not within the scope of this audit to examine the outcome of these VfM reviews or assess actual costs of services in comparison to industry benchmarks.

4.3.3 Service quality

In acting as "the agent" of leaseholders for service delivery, HfH should have robust systems in place to monitor and manage the quality of services delivered e.g. to ensure the accurate specification and pricing of works, and quality checks through pre- and post-inspection. Contract adjustments (e.g. the imposition of penalties for poor performance) should be reflected in the final charge to leaseholders.

Findings

Repairs

10% of repair orders are pre-inspected, although HfH are looking to reduce this to 5%. Less than 10% are post-inspected, although HfH are looking to increase this to 10%. Order variances are limited to £150 and those over £150 require officer approval.

HfH are aiming to reduce the number of items in the Repairs Schedule of Rates to less than 250 items priced on the basis of an averaged cost over time. Whilst this will simplify the ordering process and potentially improve response times there is a potential conflict with leaseholder interests in that by averaging costs over time the costs (and consequent charges) for individual repairs may not reflect the actual work undertaken.

Lifts

100% of lift repairs are pre-inspected; and 10% post-inspected.

Controlled entryphones

10% of repairs are pre-inspected and 10% are post-inspected.

Block and estate cleaning; grounds maintenance

Monthly monitoring of each contract is undertaken by Estate Services Managers which are fed into performance reports which are submitted to a resident representatives group which includes leaseholders. Feedback questionnaires are sent to residents (around 40 are returned per month) and HfH propose to target satisfaction surveys on individual estates during 2010.

We would expect to see an output specification which defines cleaning standards. However we note from a recent LVT case³ that the quality of cleaning output at least in that case was measured by the number of hours attendance by cleaners. If this is the commonly used measure then it has the risk of leading to subjective judgements of required cleaning standards and challenges from leaseholders.

General

We have not undertaken a review of contract terms to understand how under-performance is reflected in payment mechanisms, nor the frequency and scale of any errors found through pre- and post-inspection or repair orders.

There is a relatively low level of pre- and post-inspections (10% in most cases) and in similar circumstances other authorities have undertaken additional sample checking by external surveyors. It is not clear that the current system will address the risk that jobs which have been incorrectly specified or priced are not identified and leaseholders are incorrectly charged.

HfH are introducing the "Key Leaseholder Scheme" whereby leaseholders can volunteer to review records of communal repairs for their block on a quarterly basis and raise any issues in terms of the record's accuracy or quality of repairs. This is designed to act as a more effective and concurrent check on repairs than the current practice of issuing a list of repairs undertaken in the preceding financial year on the request of leaseholders once they receive their actual bill in the following August.

4.4 Cost Allocation

4.4.1 Unit costs

The authority should use a consistent and reasonable basis on which to allocate costs from estate/block level to individual units (this is usually on a formula basis based on the unit size).

Findings

Cost allocation is undertaken by apportioning the cost of a repair using either the rateable value (for flats bought before 1 April 1990) or a bed-weighting system (for flats bought on or after 1 April 1990).

This is a reasonable basis for calculating charges although we have not undertaken checks to confirm that this is applied consistently across the leasehold stock.

4.4.2 Indirect costs

The authority should have a consistent and reasonable basis for allocating indirect costs to leaseholders.

³ LB of Haringey vs Ms Kaya LON/00AP/LSC/2009/0102

Findings

A management fee is calculated which covers the work of the HOT; housing management services; and support services. Costs are assessed on estimated time spent on leaseholder related services. This is levied as a flat fee (rather than as a percentage of the service charge due) for two separate groups of leaseholders: firstly those who only receive lighting and insurance services; and secondly, those who receive these and other services.

This appears to be a comprehensive summary of indirect costs. However we have not checked the detail of the calculation or that it is applied consistently across the leasehold stock.

4.5 Leaseholder Information**4.5.1 Estimated and actual bills**

The authority should deliver estimated and actual bills within required timescales. Estimated bills should be a reasonable reflection of the final actual bill.

Findings

Leaseholders should be issued with an estimated charge at the beginning of the financial year. This is adjusted when the actual charge is issued following the end of the financial year. In 2008/09 estimated charges were issued in February 2008 and actual charges in August 2009. It is anticipated by the HOT that actual charges for 2009/2010 will be issued in advance of August 2010.

The total estimated and actual service charges from 2006/07 to present are compared in the table below.

Estimated and actual service charges 2006/07 to present

	Estimated	Actual	Difference
2006/07	£3,343,048	£4,028,887	+21%
2007/08	£3,917,365	£4,083,616	+4%
2008/09	£4,848,907	£4,310,771	-11%
2009/10	£4,671,733	N/A	N/A

A full breakdown is given in Appendix C.

The over-estimation of bills in 2008/09 is equivalent to an average of £120 per leaseholder. The primary reason for this is an over-estimation of responsive repairs which has been adjusted downward for 2009/10. Where there is an over-estimate the leaseholder's account is credited with the relevant adjustment.

4.5.2 Statement of Account

Leaseholders should be provided with a clear statement of their service charges broken down by service head, with an itemised breakdown of individual service heads available on request.

Findings

We have reviewed one statement of actual service charge for 2008/09 which was presented by the HOT as the standard format for Service Charge statements.

Costs are broken down over service charge heads. The statement identifies the cost for the block and the charge for the property, along with the estimated charge per service head for comparison.

Notes accompany the statement which break down each service head is further sub-headings on a block and unit basis.

An itemisation of estate repairs is also available on request by the leaseholder.

Leaseholders are provided with explanatory booklets with estimated and actual service charges.

Therefore we found that the level of information provided to leaseholds in respect of their annual statements is of a good standard.

4.5.3 Account adjustments

The reasons for credits (e.g. if an incorrect charge is refunded) and debits to the leasehold account should be clearly stated and explained to the leaseholder and applied where relevant to other properties.

Findings

We understand that the HOT write to leaseholders to inform them of the reasons for account adjustments, and these are recorded on the account, and where an adjustment is relevant to an entire block/estate it is applied to all relevant leaseholders.

We have not undertaken individual checks to verify this.

4.5.4 Housing and Regeneration Act 2008

The authority should be prepared for introduction of the Service Charge Statement of Account and Individual Leaseholder statements for each accounting period accompanied by an accountant's certificate (Housing and Regeneration Act 2008 - note the final format and approach for this is yet to be published).

Findings

The HOT currently produce individual statement of service charge accounts which are signed off by the Chief Financial Officer. Whilst the final requirements of the Act are yet to be defined the HfH statements of account appear to be aligned with the indicative structure so far published. The draft regulations have not yet been issued and so this should be kept under review.

5 Conclusions

5.1 Core Business Systems and Data Quality

5.1.1 Estate and block costs

In some areas core business systems are not aligned with the landlord leasehold management function.

Responsive repairs charges are manually compiled from the repairs database. Whilst we recognise that this is a similar situation to other local authorities we have reviewed recently, there is a risk that as the system of allocating repair orders, as a manual system is not only a time intensive process but also potentially prone to subjectivity and error.

In the case of internal block cleaning costs are disaggregated from area wide totals. Where charges are pro-rated from the overall charge for an area, as in the case of block cleaning, there is a risk of challenge on the basis of fairness.

5.1.2 Repairs - warranties and insurance

There is a risk that repairs covered by warranties or subject to insurance claims will still be charged.

5.1.3 Repairs - S20 threshold

There are some instances where repairs exceed the S20 threshold and cannot be recharged

5.1.4 System controls (1)

The HOT's Access database provides the basis on which to maintain an audit trail of decisions to charge.

HfH and the Council maintain a scheme of delegation for writing off charges.

5.1.5 System controls (2)

The HOT undertakes an annual reconciliation of leasehold property records between OHMS, the leasehold database and records held by the Legal Department. It also reconciles costs with SAP at a service area level, and undertakes a comparison of previous years' service charges at a service charges at a service area and overall level to identify trends and account for any fluctuations.

However there is no reconciliation of service charges totals to control totals established within the HRA for overall costs incurred. There is also no formalised process by which these findings are reported and signed off by officers outside of the HOT.

5.2 Procurement, Costs and Quality of Services

5.2.1 Leaseholder consultation on Qualifying Long-Term Agreements

HfH has carried out the required leaseholder consultation on the following QLTA's: responsive repairs, lifts, controlled entryphones.

Block cleaning and grounds maintenance do not fall under the definition of QLTA's as they are retained in-house services.

The HOT Manager issues an email reminder on QLTA procedures and carries out training sessions with procuring officers.

5.2.2 Value for Money

All of the service areas under consideration had been subject to competitive tender or a benchmarking review. We have not reviewed the outcome of these VfM reviews or assessed actual costs of services in comparison to industry benchmarks.

5.2.3 Service Quality

The relatively low level of pre- and post-inspections (10% in most cases) entails a risk that jobs which have been incorrectly specified or priced are not identified and leaseholders are incorrectly charged.

The use of a Schedule of Rates contract for responsive repairs means that in some cases there may be a mis-match between the actual scale of the job undertaken and the charge incurred.

HfH "Key Leaseholder Scheme" is a new initiative which has the potential to deliver a more effective and concurrent check on repairs.

5.3 Cost Allocation

5.3.1 Unit costs

The approach used by HfH for apportioning costs from an estate/block level to individual unit is reasonable.

5.3.2 Indirect costs

Indirect costs charges appear to be comprehensive.

5.4.1 Estimated and actual bills

Estimated and actual bills were delivered on time in 2008/09 and appear to be on schedule for 2009/10. The published estimates present a reasonable estimate of the actual bills and the HOT takes action in the following year to address inaccuracies where necessary.

5.4.2 Statement of Account

The service charge account statement provides a clear statement of account with relevant breakdowns and explanatory notes.

5.4.3 Account adjustments

We understand the HOT notifies leaseholders of the reason for account adjustments and where applicable applies them to all other relevant properties

5.4.4 Housing and Regeneration Act 2008

HfH statements of account appear to be aligned with the indicative structure which is to be required under the Housing and Regeneration Act 2008.

6 Recommendations and Action Plan

No.	Ref.	Recommendation	Management response	Implementation details
1.	4.2.1	<p>Estate and block costs</p> <p>In some areas core business systems are not aligned with the landlord leasehold management function.</p> <p>HfH should consider the scope and business case for reporting and analysis of costs at estate and block level, and the separate job coding of chargeable/non-chargeable work within the functionality of its SAP system.</p>	<p>Agreed in principle</p> <p>Although the system already exists within the functionality of SAP (in relation to capital projects on a scheme level), further work still has to be undertaken by a quantity surveyor to apportion costs between blocks, based on the level of work. However, it is not simply not practical to create over 1,850 blocks and over 100 estates individually within the SAP system. Each category of work still needs to be identified individually to determine whether the costs incurred are in respect of a block or an estate.</p>	<p>We do not propose to adopt this suggestion at this time. We are aware of work undertaken by 2 other boroughs to address this issue and both IT projects were abandoned. We understand that a 3rd borough has started looking at this and we will await the outcome.</p> <p>Furthermore the OHMS system will be replaced within the next 2 years.</p>

No.	Ref.	Recommendation	Management response	Implementation details
2.	4.2.1	<p>Estate and block costs</p> <p>The allocation of repair orders is a manual process, and as such is potentially prone to subjectivity and error. In the short term HfH should consider how to improve repairs job descriptions within TASK to allow more robust identification of chargeable works.</p>	<p>Not agreed</p> <p>This process would need to take place when calls are logged. However, we believe it will make it susceptible to more mistakes due to the volume of repairs being handled by staff who do not necessarily understand the recharge implications. It must be noted that this manual process is not unique to HfH since the allocation of block and estate repairs can only be done by verifying the description of each repair item manually. There is more risk involved if this process is automated since it is extremely difficult to differentiate between estate and block repairs without actually looking at the detail of the repair.</p> <p>We believe that we have adequately reduced the risk of errors by:</p>	<p>Not applicable</p>

No.	Ref.	Recommendation	Management response	Implementation details
			<ul style="list-style-type: none"> • Subjecting all work to further review / checks by the team leaders. • We have introduced a scheme (Key Leaseholders) whereby leaseholders can receive their repairs report well in advance of the billing so that they can check for any errors. Several other boroughs have expressed an interest in following our lead in this area. 	
3.	4.2.1	<p>Estate and block costs Charges are pro-rated for internal block cleaning from the overall costs for an area and there is a risk of challenge on the basis of fairness. HfH should review the scope within its contract/SLA specification and invoicing requirements to define costs on a block or estate basis against an output specification.</p>	<p>Agreed We have already started reviewing the methodology in respect of internal cleaning based on average time spent on each block and estate. Once the methodology has been finalised, we intend to consult with the Leasehold Panel. This may result in higher charges to dwellings in high-rise blocks.</p>	<p>A project is already underway to address this. Implementation from 1/4/2011</p>

No.	Ref.	Recommendation	Management response	Implementation details
4	4.2.2	<p>Repairs - warranties and insurance</p> <p>There is a risk that repairs covered by warranties or subject to insurance claims will still be charged. HfH should ensure that the repairs system will flag repairs in these instances and that the operator's response is logged to provide an audit trail.</p>	<p>Agreed</p> <p>HOT has always obtained a list from the insurance team detailing repairs that were subject to insurance claim. In any case £100 insurance excess is still rechargeable to leaseholders.</p> <p>In respect of normal and extended warranties, these are already captured on the repairs ordering system, and problems reported back to the installer to remedy. Further work is being undertaken to ensure that the time periods for warranties held on the system are updated regularly.</p>	<p>This is already in place</p>
5	4.2.3	<p>Repairs - S20 Threshold</p> <p>There are some instances where repairs exceed the S20 threshold and cannot be recharged. This should be kept under review and where necessary training requirements identified for officers responsible for ordering repairs.</p>	<p>Agreed</p> <p>As part of the preparation for producing the Actuals, we identify repairs which were not subject to section 20 consultation. In some cases, it may not be possible to consult if the works are of emergency nature such as roof repairs or water leaks.</p>	<p>Training or extra instruction will be undertaken wherever issues are identified, on an on-going basis</p>

No.	Ref.	Recommendation	Management response	Implementation details
6	4.2.5	<p>System controls</p> <p>There is no formalised process for signing off service charge totals to control totals within the HRA for overall costs incurred. HfH should establish a formal process for signing off annual service charge accounts by the Director of Corporate Resources. This should include a reconciliation of charges against total costs incurred in the HRA for repairs and maintenance, identification of amounts not charged and the rationale for not charging.</p>	<p>Partly agreed</p> <p>It is not possible to produce reconciliations for Decent Homes schemes since a portion of works are undertaken to tenants' flats which are not chargeable to leaseholders, and some leases do not allow for works of improvement nature. In other cases leaseholders' contributions are limited within the 5 years of purchase, if the works are not specified in their offer notice when they exercised their RTB. With regards to annual accounts, reconciliation can only be done on a higher level spend since the apportionment is based on the terms of the lease.</p>	<p>To be implemented (as far as possible) with the next release of Actual Bills – September 2010</p>

No.	Ref.	Recommendation	Management response	Implementation details
7	4.3.1	<p>Leaseholder consultation on Qualifying Long Term Agreements</p> <p>HfH have carried out the required leaseholder consultation for Qualifying Long Term Agreements. The HOT regularly reminds procuring officers of the required procedures and carries out training. Whilst this approach has been effective, we recommend that a written guide to leaseholder consultation procedures is included in HfH and Council procurement procedures.</p>	<p>Not agreed</p> <p>This is a very complex area and the advice is that the HOT should be notified of any procurement involving Council property. We believe that this is adequate.</p> <p>Since the introduction of CLARA 2002, from time to time a reminder is sent to all those who are responsible for procurement. HOT, in liaison with the Council's legal services, takes a lead on this matter. Since the QLTA is quite a complex area, current procedure is that the section 20s are not issued without Legal Service approval. In some cases LVT dispensation will be required in advance since full compliance with section 20 regulations is not always possible because of the nature of the procurement (especially works carried under a long term agreement).</p>	Not applicable

No.	Ref.	Recommendation	Management response	Implementation details
8	4.3.3	<p>Service Quality</p> <p>The relatively low level of pre- and post-inspections (10% in most cases) entails a risk that jobs which have been incorrectly specified or priced are not identified and leaseholders are incorrectly charged. The outcomes of the pre- and post-inspections checks should be reviewed to identify any common issues or trends. HfH should consider the use of independent surveyors to carry out sample checking of orders to check the nature and rate of errors.</p>	<p>Not agreed</p> <p>We believe that the introduction of the Key Leaseholder scheme adequately addresses this issue. Repair lists are now forwarded to all key leaseholders in advance which will give them the opportunity to query any costs and the HfH IT team is currently working to provide a list of repairs as soon as they are allocated to each block. This will give them an opportunity to inspect works as soon as the job has been carried out.</p> <p>Inspections are carried out by both the contractor and client side of the organisation and trends are already discussed as part of monthly contract meetings.</p>	Not applicable

No.	Ref.	Recommendation	Management response	Implementation details
9	4.3.3	<p>Service Quality The use of a Schedule of Rates contract for responsive repairs means that in some cases there may be a mis-match between the actual scale of the job undertaken and the charge incurred. Whilst there may be a benefit in improved response rates and scale of efficiencies through the use of a SoR contract for responsive repairs, prior to implementing a reduction in the number of job descriptions HfH should assess the impact on the accuracy of leaseholder charging.</p>	<p>Agreed</p> <p>We are already consulting with leaseholders about the impact of revised composite rates.</p> <p>The majority of responsive repairs carried out each year through the Schedule of Rates relate to tenant repairs and not to leaseholders. HfH moved 3 years ago away from an individual schedule to a nationally defined schedule in order to reduce the potential for mis-matched charging. A refined schedule has been introduced this year to streamline the process, but again this relates mainly to tenants and not leaseholders. The communal works which are chargeable to leaseholders are subjected to scrutiny as described at recommendation 2.</p>	<p>April 2011</p>

No.	Ref.	Recommendation	Management response	Implementation details
10	4.5.4	<p>Housing and Regeneration Act 2008 HfH statements of account appear to be aligned with the indicative structure which is to be required under the Housing and Regeneration Act 2008. This should be reviewed once the draft regulations are issued.</p>	<p>Agreed</p>	<p>The Government has yet to prescribe the format applicable to LAs and ALMOs.</p>

A Staff Interviewed

Name	Position	Organisation
Nesan Thevanesan	Home Ownership Team Manager	Homes for Haringey
Peter Purdie	Head of Estate Services	Homes for Haringey
Les Armstrong	Head of Design and Engineering	Homes for Haringey
Martin Hoor	Repairs Client Manager	Homes for Haringey
Phil Harris	Assistant Director, Strategic and Community Housing	Haringey Council
Doris Acquah	ALMO Client Manager	Haringey Council

B Documents Reviewed

Service charge database and spreadsheets for 2008/09

Lifts contract - progress meeting minutes

Door Entryphones contract - progress meeting minutes

Estate Services

- contract progress meeting minutes
- partnership board minutes
- performance reports

Report on charges to leaseholders - Peter Robinson Housing Consultancy

Explanatory publications for leaseholders:

- Leaseholders' Charter
- A guide to buying your home
- Actual Service Charge 2008/09
- Your estimated service charge 2009/10
- Recovering service charges through legal action
- Paying for major works invoices
- Information pack for leaseholders
- Information pack for sub lessees
- Key leaseholder scheme
- Plain English guide to your lease

Sample service charge account and certificate

Sample lease

C Estimated and Actual Service Charge Breakdown

Service area	06/07			07/08			08/09			09/10
	Est	Actual	% Diff	Est	Actual	% Diff	Est	Actual	% Diff	Est
Cleaning	£969,573	£1,101,347	14%	£1,072,168	£1,150,208	7%	£1,201,505	£1,160,504	-3%	£1,221,722
Lifts	£18,688	£20,448	9%	£21,136	£17,594	-17%	£21,121	£23,600	12%	£17,496
Communal Lighting	£126,975	£117,371	-8%	£108,776	£135,224	24%	£122,659	£140,008	14%	£188,890
Grounds	£185,299	£280,800	52%	£227,043	£276,767	22%	£258,365	£294,218	14%	£259,431
Concierge	£227,865	£223,801	-2%	£247,141	£221,613	-10%	£256,392	£235,656	-8%	£249,470
Heating - Fuel	£4,346	£4,857	12%	£5,082	£4,270	-16%	£6,952	£5,982	-14%	£5,151
Heating - Maintenance	£126	£0	-100%	£0	£0		£0	£0		£0
Insurance	£677,299	£705,125	4%	£717,269	£751,155	5%	£753,770	£764,468	1%	£811,115
TV Aerials	£11,571	£16,971	47%	£9,720	£14,864	53%	£18,874	£11,052	-41%	£13,694
Controlled Entry System	£70,684	£83,499	18%	£75,150	£88,638	18%	£84,779	£88,459	4%	£86,707
Pest Control	n/a	£5,715		n/a	£17,682		n/a	£11,117		n/a
Management Charge	£570,362	£1,007,585	77%	£948,560	£1,026,542	8%	£1,095,970	£1,012,105	-8%	£1,059,067
Ground Rent	£43,660	£43,752	0%	£44,120	£44,238	0%	£44,570	£44,518	0%	£44,840
Repairs	£436,600	£265,174	-39%	£441,200	£280,369	-36%	£668,550	£494,128	-26%	£400,850
Mws < £250		£152,442			£54,452		£310,400	£24,956		£313,300
TOTAL	3,343,048	4,028,887	21%	3,917,365	4,083,616	4%	4,843,907	4,310,771	-11%	4,671,733



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