

Board of Directors 26 February 2018	
Report authorised by: Susmita Sen, Chief Executive Report Author: Neil Isaac, Interim Director of Finance	Report type: For decision
Title: THH Management Fee Proposals for 2018/19	

1. Introduction

1.1 The Board and the Finance and Audit Committee received reports on the management fee for 2018/19 in December. Those reports set out the key safety issues that have dominated the current financial year, the tragic events at Grenfell Tower and the serious fire at Dickinson House. The reports also noted that:

- While the fire safety regime is well established in THH, the need not just to ensure safety, but also to demonstrate that safety is of paramount importance, has a significant impact on the management fee proposals for 2018/19.
- The use of THH reserves in setting the 2017/18 budget has reduced the ability of THH to undertake, “routine” investment in services so additional resources are now required for elements of work that might otherwise have been funded from THH reserves.
- THH has worked closely with LBTH colleagues during the year. This report also reflects in-year changes that have been discussed with LBTH to ensure all the management fee adjustments are in one place.

1.2 The budget proposals in this report are aligned with the work programmes arising from the THH Business Plan.

1.3 Please note that this report will be seen before Board by the THH Finance and Audit Committee and any recommended changes made to this report by FAC will be flagged up at the Board meeting.

2. Recommendations

2.1 That Board note the decisions taken by the Council and approve the budget proposals for 2018/19.

3. Background

3.1 THH reports to the Council towards the end of the each year setting out spending proposals for the forthcoming financial year. A detailed report was considered by THH Finance and Audit Committee on the 7th of December and by the joint LBTH/THH Quarterly Strategic Meeting on the 11th of December and subsequently at Board.

3.2 The Council has set THH a savings target to deliver £6m savings over the five years starting in 2017/18. While the required £1m savings have been identified for 2018/19, significant budget pressures have been identified that would result in an increase in the overall management fee compared with the base for 2017/18.

3.3 The savings are from a variety of sources with the most significant being the reduced office accommodation costs as a result of moving to Boatman's House. Within the delegated budget savings are accruing from below inflation indexation on the repairs contract. There are also the full year effect of savings arising from the transformation projects. Table of savings is as follows:

Savings generated by THH	£'000	£'000
Management fee		
Boatman House (net)	580	
Full year effect of restructure savings in Finance, Neighbourhoods and Business Transformation	166	
Management fee savings		746
Delegated budget		
Repairs contract renewal	123	
Establishment of commercial manager	132	
Delegated budget savings		255
Total savings generated by THH		1,001

4. Decisions taken by the Council

4.1 The Council's Cabinet considered the HRA budget as part of the budget setting report on 20 January. I am pleased to be able to report that the

proposals considered by Board were included in the budget proposals submitted to Cabinet and that those proposals have been agreed.

4.2 This means that the THH management fee has been set at £30.979m, calculated as follows:

	£'000	£'000
Management Fee 2017/18		31,946
Additional Resources agreed at Cabinet		2,447
Less Savings on the Management Fee	(746)	
Capital Salaries to be charged direct to capital	(2,668)	(3,414)
Management Fee for 2018/19		30,979

4.3 The budget proposals agreed by Board are attached as an appendix to this report.

4.4 The Cabinet also considered the Medium Term Plan for the HRA, which is attached at appendix 2 to this report. It is envisaged that the HRA Business Plan will be reviewed during 2018/19 and the revised projections will form part of the budget setting strategy for 2019/20.

5. Links to the THH Business Plan

5.1 A budget is often described as a business plan expressed in financial terms; it is therefore important to ensure that the Business Plan and the budget are closely aligned.

5.2 The Business Plan explains the context in which we work and provides an update on our plans as we continue to work towards our vision. This includes the continuation of the business transformation process through our newly launched Customer Access and Experience Programme and our 2018/19 Service Improvement Plan.

5.3 The Board has previously set aside £1m from reserves to facilitate the IT improvement programme this will ensure that residents can continue to make use of MyTHH and also ensure that our staff can use the technology for mobile working. The Council has also increased investment in THH to enable us to deliver the business plan objectives.

5.4 The move to Boatman's House will also improve collaborative work across the organisation, with the co-location of the rents and neighbourhoods teams in Harford Street also expected to improve coordination between those services.

5.5 The Better Neighbourhoods and Safer Homes work stream focuses not just on fire safety but also on other health and safety requirements such as water testing and asbestos.

6. Financial Implications

6.1 As set out in the report and summarised in appendix 1. The HRA four year plan is attached as appendix 2.

6.2 The detailed budgets will be distributed to budget managers in the next few weeks and reported to the next meeting of Finance and Audit Committee.

7. Legal Implications

N/A

8. Risk Management Implications

8.1 Fire safety and the need to demonstrate compliance is a risk that has significantly increased this year. The proposals set out in this report will mitigate these risks.

8.2 The new arrangements for charging salaries to capital are still being finalised, even when they have been agreed the change of approach represents a risk for 2018/19 that will have to be carefully monitored.

Proposals Approved by Board 18 December

1. Fire and other Safety related proposals

1.1 Asset Management Fire Safety and Compliance Team

It is proposed to establish a team to have responsibility not just for fire safety but also to ensure compliance with all other aspects such as asbestos, legionella and electrical safety. This is estimated to cost £351k.

1.2 Housing Services Fire Safety and Compliance Team

In a similar vein there are a number of resident support and enforcement actions that are necessary to ensure the safety of our residents. A significant element of this will be one off in nature, for example once front doors are replaced that work is complete. Rather than make changes to the Neighbourhood Officer restructure we are proposing to establish a time limited team to follow through such enforcement actions. This is estimated to cost £300k.

1.3 Utilising Estate Based Staff

Caretakers are some of the most visible THH staff and the quality of their work is a large driver of overall resident satisfaction; there is the opportunity to enhance their role even further away from that of an estate cleaner. Tower Hamlets is a particularly challenging borough to deliver caretaking services in yet resident satisfaction has remained fairly constant over the last few years as highlighted below:

% of residents rating the communal cleaning as Excellent/Good/Fair

2014/15 - 84%

2015/16 – 82%

2016/17 – 83%

2017/18 to date – 85%

In the most recently available Housemark benchmarking figures (2014/15) THH ranked first when compared with 12 other London ALMOs for satisfaction. In addition, for 2017/18 resident satisfaction with caretaking staff stands at 92%.

We have 152 caretakers and this is a key resource available to us to further strengthen our work on two critically important agendas: fire safety and preventing and responding to ASB. Caretakers already play a key role in the safety of our blocks as part of their daily duties e.g. checking for and removing items of bulky waste and other hazards, but we need them to do more work in this regard and for this to be recorded.

Additional duties such as regular, recorded inspections to check residents' fire escapes are secure and free of obstruction; periodic checking, recording and reporting of fire related repairs to ensure the integrity of our blocks such as communal fire doors and door closers; periodic checking and recording of void spaces in blocks (e.g. old drying rooms, intake cupboards) are clear from stored items, rough sleepers, drugs paraphernalia etc., all need to be formally added to their role to this effect.

In addition while their duties have remained the same for many years, the role has changed in terms of having to deal with increased instances of ASB e.g. more needles and other drugs paraphernalia that need clearing. Caretakers will also work more closely with our ASB team gathering more detailed information in the form of photographic evidence (where safe to do) of rough sleepers and helping out with weapons and drugs sweeps of our communal areas.

On both of these areas of work we intend to introduce the use of mobile technology to enable simple and effective recording of inspections/evidence. This will be designed so that staff simply need to click or delete on required information. It is likely that these key additional tasks will result in the JD being evaluated as a sc. 4 (they are currently sc. 3).

Caretakers are some of the lowest paid staff in the organisation but as highlighted do important work in terms of ensuring the first impression of our residents, stakeholders and members of the public is a great one. They are the eyes and ears of our company and play an essential role not just in keeping our blocks and estates clean and tidy, but also in terms of feeding intelligence into THH. These changes will confirm that the role of a THH caretaker is significantly wider than a cleaner with a mop and bucket.

Benchmarking of caretaking salary costs in the borough shows the following:

Swan £23,000 per annum
Old Ford £21,000 p.a.
THCH £24,000
Gateway £19,000

This is compared to THH's salary range for Sc3 £19,947 to £20,985.

The total estimated cost of this review of the budget is £598k with a proportion of this being recoverable from increased service charges. This may be a part year cost in 2018/19 depending on the consultation process and implementation date.

2. Other changes

2.1 The need for a procurement function was discussed and agreed earlier in the year. We are now of the view that the existing consultant support to the team needs to be sustained for 2018/19 until the new framework contracts are up

and running. That will require funding of some £563k in 2018/19 including costs relating to Brewster and Malting. This will reduce to £350k in future years.

- 2.2 The treatment of capital fees has been discussed and agreement has been made that these will be charged to the capital programme in future years. All capital fees are therefore removed from the management fee for 2018/19. This will reduce the management fee by £2,668k.
- 2.3 The principle of making adjustments for the late setting of Council SLAs has previously been agreed. An increase of £282k in the Procurement and ICT SLAs has been set by the Council. It is likely that the Procurement SLA charge will reduce in 2019/20 once the new frameworks have been procured and are up and running.
- 2.4 The establishment of a commercial manager post has been agreed with colleagues in the Council. This will be funded via a spend to save recharge to the repairs budget in 2017/18. The cost estimated at £66k could be added to the management fee in 2018/19 with an estimated £132k reduction in the delegated repairs budget.
- 2.5 The costs of leasehold enforcement has also been discussed previously and it has been noted that a significant element of these costs will be met by the costs charged to the individual leaseholders. However this income will be LBTH income and the expenditure will be incurred by THH at a total cost of £185k.
- 2.6 The implementation of the General Data Protection Regulations in May 2018 will create a significant additional burden of compliance. We consider that this will require two temporary roles to be established throughout 2018/19 to undertake the data cleansing and establish systems and procedures to ensure compliance in the longer term. We estimate this cost to be £100k.
- 2.7 In Neighbourhood Services the Special Initiatives Officer working on the parking TMO project is to be charged to a Council budget. However this has not yet been processed. This is expected to be processed in 2018/19 so it is unlikely that the additional cost of £75k to take this project forward will be required.
- 2.8 To ensure the transformation programme delivers to its potential we are proposing to increase the training and development budget and upgrade some HR processes around absence management and recording. This is likely to cost in the order of £100k.
- 2.9 We have established a graduate trainee programme from one off resources in 2017/18 to facilitate succession planning and to bring new people into the organisation. This has proved successful, so we wish to continue the scheme in the future at a total estimated cost of £152k.

2.10 We will endeavour to cover the costs of redundancy and severance payments arising from the transformation project from our reserves and the identification of one off virements. However should this not prove possible we would like the opportunity to discuss these should they arise.

Summary of changes to the Management fee and overall impact on the HRA

PROPOSED INCREASE IN MANAGEMENT FEE 2018/19			Base Budget		One Off		Notes	Potential	Income
	£000	£000	£000	£000	£000	£000		Base	One Off
	£000	£000	£000	£000	£000	£000		£000	£000
Fire & Other Safety									
Fire Safety & Other Compliance Team	351		351		0			172	0
Housing Services Fire Safety & Compliance Team	300		0		300		likely to be needed for full year £300k	0	147
Utilising Estate based staff mid year increase	348		598		-250		funded from tenant and leasehold service charges say 95%, part year	568	-238
		999		949		50			
Other Changes and budget pressures									
Procurement function	563		350		213		Could be charged against the RCCO	0	0
SLA increases	282		191		91			94	45
Commercial manager post	66		66				spend to save on repairs in delegated	132	0
Leasehold enforcement	185		185				recovered from charges to leaseholders	185	0
GDPR compliance	100				100			0	49
Graduate Training	152		152					74	0
Organisational development & HR management systems	100				100			0	49
		1,448		944		504			
		2,447		1,893		554	Potential income	1,225	52
Net Savings in THH		-746		-746					
Net Increase in Management Fee		1,701		1,147		554			
Less Potential Income		-1,277		-1,225		-52			
Less savings on repairs contract re-let		-123		-123		-123			
Net cost to HRA		301		-201		502			
Leasehold recovery rate assumed	49%								