

Housing, Community Safety and Community Engagement Scrutiny Commission

Monday 25 November 2024

7.00 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1
2QH

Supplementary Agenda No.2

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Contact

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Date: 21 November 2024

Meeting Name:	Housing, Community Safety and Community Engagement Scrutiny Commission
Date:	25 November 2024
Report title:	Fair Community Housing Services (FCHS) Forensic Review report by RSM UK Risk Assurance Services LLP
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	<p>Yes</p> <p>The report is late because the RSM UK Risk Assurance Services LLP forensic review report into matters touching and concerning the use of the cyclical external redecoration allowance by FCHS, a Tenant Management Organisation (TMO), was cleared for release to on 20 November 2024. This left very limited time for officers to prepare the Scrutiny report for the meeting on the 25th of November 2024.</p> <p>As Housing, Community Safety and Community Engagement Scrutiny Commission is considering “The Draft Resident Involvement Strategy, Support for Tenants’ and Residents Associations (TRAs) and Tenant Management Organisations (TMOs)” on Monday the 25 November 2024, it is deemed necessary that the outcome of the forensic audit of FCHS is submitted to the Scrutiny Commission for discussion.</p>
From:	Hakeem Osinaike, Strategic Director of Housing

RECOMMENDATION(S)

1. That the Scrutiny Commission note the outcome of the forensic review into Fair Community Housing Services (FCHS) (see appendix 1).

BACKGROUND INFORMATION

2. The Housing Act 1985 (s27AB) makes provision for the council as a landlord to enter into management agreements with Tenant Management Organisations (TMOs).
3. FCHS entered into a management agreement (MA) with the council on the 10th of February 2004 to carry out certain housing management functions which included external decorations for 557 properties.
4. FCHS was allocated a total sum of £1,859,486 for external decorations

between 2008/09 and 2021/22 by the council but no external decorations were carried out by FCHS.

5. The council instructed (BDO), an external firm of auditors, on the 21st of April 2023 to conduct a thorough review of the FCHS accounts as part of the council's response to the objection to the account's investigation by Grant Thornton.
6. BDO issued their final report on the 16th of January 2024 with several recommendations, one of which was to conduct a forensic audit of the spend of FCHS, to understand the shortfall in the external decorations reserve which was meant to be ringfenced and verify where the monies were spend.
7. The Council appointed RSM in August 2024 to undertake an objective review of the spend made by FCHS between 2008 and 2022 when the council paid FCHS an allowance of £1,859,486 for cyclical external redecorations. RSM has now published its report which is embedded in appendix 1.
8. The lateness of the report is because the RSM UK Risk Assurance Services LLP forensic review report into matters touching and concerning the use of the cyclical external redecoration allowance by FCHS, a Tenant Management Organisation (TMO), was cleared for release to on 20 November 2024.
9. As Housing, Community Safety and Community Engagement Scrutiny Commission is considering "The Draft Resident Involvement Strategy, Support for Tenants' and Residents Associations (TRAs) and Tenant Management Organisations (TMOs)" on Monday the 25 November 2024, it is deemed necessary that outcome of the forensic audit of FCHS is submitted to the Scrutiny Commission for discussion.

KEY ISSUES FOR CONSIDERATION

10. The RSM UK report has confirmed that FCHS received £1,859,486 in funding for cyclical external redecorations from the council between 2008 and 2022.
11. As at the financial year ending 2021/22, there was £1,022,992 in the external redecorations reserve of FCHS. This equates to a shortfall of £836,494 between the funding received from the council and the actual balance held in the reserve account.
12. The RSM UK report has established that FCHS did not spend its cyclical external decorations on the allowable areas of spend as set out chapter 2 paragraph 4.1 of the Modular Management Agreement (MMA).
13. The report has established that part of the cyclical redecorations allowance was spent on other estate management, administration, and housing management expenses.
14. RSM UK was not able to identify any incidence of fraud from the review of the evidence provided.

Policy framework implications

15. The Council plan and the housing strategy have a commitment to empower residents to make local decisions on landlord services and TMOs give power to residents to design and deliver local landlord services and to hold landlord services to account.
16. The council as a landlord is committed to the growth and development of Tenant Management Organisations (TMOs). There is very clear and demonstrable evidence of the benefits TMOs in delivering good landlord services in the local neighbourhoods.
17. However, more work needs to be done to ensure TMOs fulfil their obligations in the Modular Management Agreements (MMAs). The council needs to develop a more accountable framework for monitoring compliance with the MMAs and addressing the governance weaknesses in TMOs.
18. The Housing Act 1985 (s27AB) makes provision for the Council as a landlord to enter into management agreements with TMOs. TMOs are governed by the requirements of the Right to Manage Regulations 2012 and contractual arrangements with the council under their management agreements. There are currently 16 TMOs managing 4104 council homes of which 1413 council homeowners and 2691 are council tenants (see paragraph 59).
19. TMOs play a pivotal role in delivering good landlord services and the aggregate of the tenant satisfaction measures collected illustrates the added value that TMOs bring to improving satisfaction levels with landlord services in TMO managed council homes. TMO tenants recorded much higher satisfaction levels in the latest tenant satisfaction measures (TSMs) when compared to tenants for whom the council provides direct landlord services.

Community, equalities (including socio-economic) and health impacts

Community impact statement

20. TMOs continue to record very high levels of resident satisfaction with the local landlord services. TMOs further conduct community meetings and workshops which give more opportunities for residents to ask questions, scrutinise the service and benchmark with other TMOs in other wards.
21. The TMO offices are based within proximity of the council homes they manage which helps with access to services and a more customized landlord service delivery in the wards TMOs serve.

Equalities (including socio-economic) impact statement

22. The March 2021 census revealed multiple levels of deprivation in the Borough and TMOs help to address the indices of social and economic deprivation by equipping residents with saleable skills to manage local services for local communities.

23. Well-run and governed TMOs demonstrate the commitment of the council to empower residents to run local landlord services and hold the council as a landlord to account for the design and delivery of local services.
24. TMOs offer more flexible and inclusive ways of involving residents in the design and delivery of landlord services. This includes empowerment and capacity-building opportunities, so residents are equipped to deliver local services to transform their neighbourhoods.

Health impact statement

25. TMO services are locally based, and the social and community cohesion activities help to promote the health and well-being of residents. The summer funday activities and the Christmas events help to prevent loneliness and promote the mental well-being of residents.

Climate change implications

26. There are no adverse climate change implications as TMO offices are locally accessible, and no car or bus journeys are required to access the local TMO offices.

Resource implications

27. The plans set out to improve the financial governance of TMOs have the potential to ensure that TMO allowances are correctly used for the purposes intended. This includes the development of a bespoke contract monitoring tool to effectively support and monitor the governance and operational management of TMOs.

Financial issues

28. There are currently 16 TMOs managing 4104 Council homes. The allocated management and maintenance allowances for the delegated landlord services provided by 15 none self-financing TMOs in 2024/25 is £3,140,129. Leathermarket JMB is self-financing.

Budget issues

29. It is important that the management accounts for TMOs are scrutinised to ensure they deliver value for money services and the allocated funds are used for the purposes set out in the management agreements. The HRA is in a precarious position, and it is critical that the delegated allowances paid to TMOs are used to fulfill their statutory and contractual obligations and a robust monitoring mechanism is put in place to hold TMOs to account.

Staffing issues

30. TMOs provide landlord services for the communities they serve. It is critical that the staff they employ have the requisite qualifications and experience to deliver the delegated landlord services. The TMO Governance and Monitoring

team has a monitoring process in place to ensure TMOs adopt a fair recruitment process and observe the employment rights of all employees.

Human Resource (HR) issues

31. The TMO are given delegated allowances to employ their own HR advisors and the TMO Governance and Monitoring team monitor all TMOs to ensure they have adequate HR support.

Consultation

32. The TMO Governance and Monitoring team have carried out comprehensive consultation with all the shareholders of FCHS, attended FCHS Board meetings as well as general and annual general meetings. The final meeting was on the 27th of June 2024 when the shareholders of FCHS voted to end the management agreement with the council and gave three months' notice. The Council resumed the provision of direct landlord services in the area of benefit of FCHS on the 1 of November 2024.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

33. Not applicable

Assistant Chief Executive, Governance and Assurance

34. Not applicable

Strategic Director, Resources

Ref: H&M 24/076)

35. The Strategic Director, Resources notes the content of the report and endorses the need to strengthen financial oversight and scrutiny of TMO's to address shortcomings identified through recent audit reviews.

Other officers

36. Not applicable

BACKGROUND DOCUMENTS

37. Not applicable

APPENDICES

No.	Title
Appendix 1	Fair Community Housing Services (FCHS) Forensic Review report by RSM UK Risk Assurance Services LLP

AUDIT TRAIL

Lead Officer	Hakeem Osinaike, Strategic Director of Housing	
Report Author	Nat. Stevens, Resident Involvement Manager	
Version	Final	
Dated	21 November 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive, Governance and Assurance	Yes	No
Strategic Director, Finance	Yes	Yes
List other officers here		
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		21 November 2024



LONDON BOROUGH OF SOUTHWARK

FAIR COMMUNITY HOUSING SERVICES – FORENSIC REVIEW

STATUS: Final

Date of issue: 5 November 2024

This report is solely for the use of the person to whom it is addressed.

To the fullest extent permitted by law, RSK UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.



EXECUTIVE SUMMARY

1.1 Background

Fair Community Housing Services (FCHS) is one of the Tenant Management Organisations (TMO's) which is funded by London Borough of Southwark (the Council) to run local housing management functions and services. FCHS is responsible for seven estates in the North of the Borough.

FCHS is a Friendly Society registered under the provisions of the Industrial and Provident Societies Act 1965, the aims and objectives of the company are for the benefit of the community. The governing documents of FCHS are the Modular Management Agreement (MMA). The MMA is monitored by the Resident Services Department within the Housing Directorate.

Between 2008 and 1 November 2022 FCHS received £1.8m in respect of external decorations from the Council, which as per the MMA was ringfenced for this purpose. In 2021/22 the Council took the decision to take back responsibility for external decorations, and as part of this, clawback any unused monies.

A formal objection to the council's accounts was raised in September 2022 relating to the use of ringfenced funds for external decorations by FCHS, alleging they had instead been used to pay for overheads or other works etc.

This led to an internal audit review being conducted by the Council into this matter. This review identified limited evidence in relation to claimed spend in relation to external decorations, leaving monies unaccounted for. The FCHS 22/23 accounts, as of 31 March 2023, did not have sufficient assets to repay the £1.8m, making FCHS technically insolvent.

1.2 Purpose of this report

One of the internal audit recommendations was to conduct a forensic audit of FCHS's spend to understand the shortfall in the External Decorations Reserve fund and verify where these monies had been spent. Subsequently, the Council has requested RSM to undertake an objective review of the spend made by FCHS in the relevant period they were paid by the Council for external repairs between 2008 and 2022.

As part of this review, we have obtained and analysed the audited statements of accounts from 2009-2023. Where possible, we have obtained corroborating evidence for spend and sought explanations for the shortfalls between monies received, monies spent, and reserves.

Based on this review, we present the following factual findings to the Council.

1.3 Findings

1.3.1 External Decorations reconciliation

During the period 2008 to 2022, FCHS received £1,859,486 in funding for external decorations from the Council. As at the year ended 2021/22 there was £1,022,992 in the external decorations reserve. As a result, there was a **£836,494** shortfall between the funding received and the monies held.

Based on our investigation, we have constructed the following reconciliation:

Table 1: Table showing reconciliation of shortfall in external decorations reserve and where monies were spent

Expenditure	Amount £	Reference
Shortfall in external decoration reserve	836,494	2.1
Expenditure on Better Homes and Door Entry Projects	324,466	3.1
Expenditure on consultancy fees in relation to Better Homes and Door Entry Projects	33,231	3.1
Funds held in surplus reserves	37,356	2.2
Funds held in other reserves	138,122	2.3
External decorations allowance spent on business-as-usual activities, including staff salaries	303,319	3.2, 3.3. & 3.4
Total explained variance	£836,494	

From the initial shortfall of £836,494 in the external decorations reserve, there is **£303,319** of monies which cannot be directly accounted for in relation to the amounts paid by the Council to FCHS in relation to external decorations. The explanation given by FCHS for where these monies were spent, was that it was on business-as-usual activities, including repairs, maintenance, salaries and other expenses.

1.3.2 External Decoration Reserve

The external decorations reserve at the year-end of 31st March 2021/22 was £1,022,992, which is **£836,494** less than what was provided by the Council over the total time period of 2008 to 2022.

During this period, the Council paid monies to FCHS totalling £1,859,486 relating to external decorations. This is in addition to the £8,208,016 management allowance paid by the Council to FCHS over the same period.

From 2009/10 FCHS had a designated external decorations reserve, in which to hold monies earmarked for external decorations reserves. In 2011/12 this reserve matched the funding that had been received by FCHS for external decorations from the Council. Please see Figure 1 for the full breakdown showing the difference between funding and reserves.

Starting in 2012/13, the amounts added to the external decoration reserve were less than the monies received for external decorations from the Council.



In the three years 2016/17, 2017/18 and 2018/19 no monies were added to the external decorations reserve.

From 2019/20 to 2021/22 monies of £332,517 were transferred to the external decorations reserve, however this was not sufficient to make up for the shortfalls in prior years.

1.3.3 Project Expenditure

In 2012/13 **£300,000** was transferred out of the external decorations reserve, to be used by FCHS to deliver the Better Homes project (£243,371) and Door Entry works (£81,095).

We have corroborated this spend to invoices, remittance advice and completion of work certificates provided by the project managers employed by FCHS, Keegans.

We also verified £33,231 of associated project management costs for Keegans relating to these two projects. Combined this spend on projects totals **£357,697**.

We enquired with FCHS if there was any other work to which they would attribute spend on external decorations, but they stated that any remaining monies were spent on business-as-usual activities, predominantly salaries, repairs and maintenance.

The reason given for the inconsistent use of the external decorations reserve was a lack of understanding that this money was ring-fenced, and that decisions over how much to transfer to reserves was based on the in-year surplus or loss, with final approval being made at the Board.

We understand from Board minutes that the yearly financial statements were presented and approved over this time period, including movements in reserves.

If the **£357,697** of spend on the Better Homes and Doors Entry projects are considered, this leaves **£478,797** of monies unaccounted for in relation to the shortfall in funds for external decorations.

1.3.4 Surplus and other reserves

Our review and reconciliation of reserves identified that FCHS had attributed **£211,550** of monies to other reserves in this period of 2008 to 2022, including the contingency reserve (a back-up reserve of money totalling 3 months of expenditure for use in the case of unforeseen circumstances to keep FCHS running), a re-organisation reserve and a reserve for general improvements.

Of this £212k, **£73,428** has been released and/or spent. This leaves **£138,122** of potentially recoverable amounts in the contingency reserve as at 2022/23. The surplus reserve as at 2022/23 was **£37,356**. This provides a total of **£175,478** of potential assets.

From the original **£836,494** missing from the external decoration reserve we have identified **£357,697** that were spent on the Better Homes Project and Door Entry works, and **£175,478** held in other reserve accounts.

This leaves **£303,319** of monies unaccounted for, that according to FCHS, have been spent in the delivery of business-as-usual activity, that being the delivery of responsive repairs and



maintenance, cleaning and grounds maintenance, fire safety, heating systems and maintenance, and communal lighting. In addition, there are administration and housing management expenses incurred by FCHS to facilitate the delivery of these services.

1.3.5 Expenditure

We investigated the surplus and deficits made each year in the relevant period to identify where losses were incurred. In most periods FCHS operated at a surplus (10 out of 15 years), and in the majority of years had sufficient surplus above the value of the external decorations allowance (6) or was very close to it (2).

Investigation of the remaining years with significant deficit positions revealed high sensitivity to changes in salaries cost, particularly in the period 2016/17, 2017/18 and 2018/19.

The largest expenditure for FCHS year on year typically related to wages and salaries, however the cost varied significantly from a minimum of £205k in 2012/13 and 2013/14, up to over £300k in the years 2017/18, 2018/19 and 2019/20. These were years where FCHS had a profit or loss less than the external decorations allowance.

The average cost per person, as per payroll records, also increased in this period, from approximately £25k in 2013/14, 2014/15 and 2015/16, up to £35k in 2016/17 and 2017/18 to a peak of £41k per person in 2018/19.

This average staff salary has since reduced to an average of £33k in the 3-year period following, 2019/20, 2020/21 and 2021/22. The average headcount has also reduced from a peak of 8, down to 3 employees on the payroll at the end of 2022/23.

We were not able to obtain evidence from this time period of 2016-2019 that detailed the rationale and process undertaken for the recruitment of staff.

However, after appointment of a new estates manager in late 2019, an investigation into resourcing was undertaken, leading to a restructure taking place. Staff costs and salaries have decreased from a peak of **£351k** in 2018/19 and **£356k** in 2019/20, down to an average of **£260k** per annum since 2020/21.



1.4 Conclusion

The reasons given for the shortfall between the external decorations allowance paid by the Council, and the reserves held by FCHS is a lack of understanding that the monies were ring-fenced. This led to an inflated reliance on the allowances provided by the Council, leading to external decorations monies being spent on other activities. This explanation has been corroborated within FCHS Board minutes.

During the period 2016 to 2019 no monies were transferred to the external decorations reserve; transfers began in 2019/20, however it was not sufficient to make up the shortfalls from prior years.

In this same period of 2016 to 2019, there was a large increase in staff costs due to increasing headcount. From 2020 onwards FCHS implemented a staffing review and restructure, leading to a reduced headcount and reduced average cost per staff member.

From our review of the evidence provided we have not been able to identify any incidences of fraud.

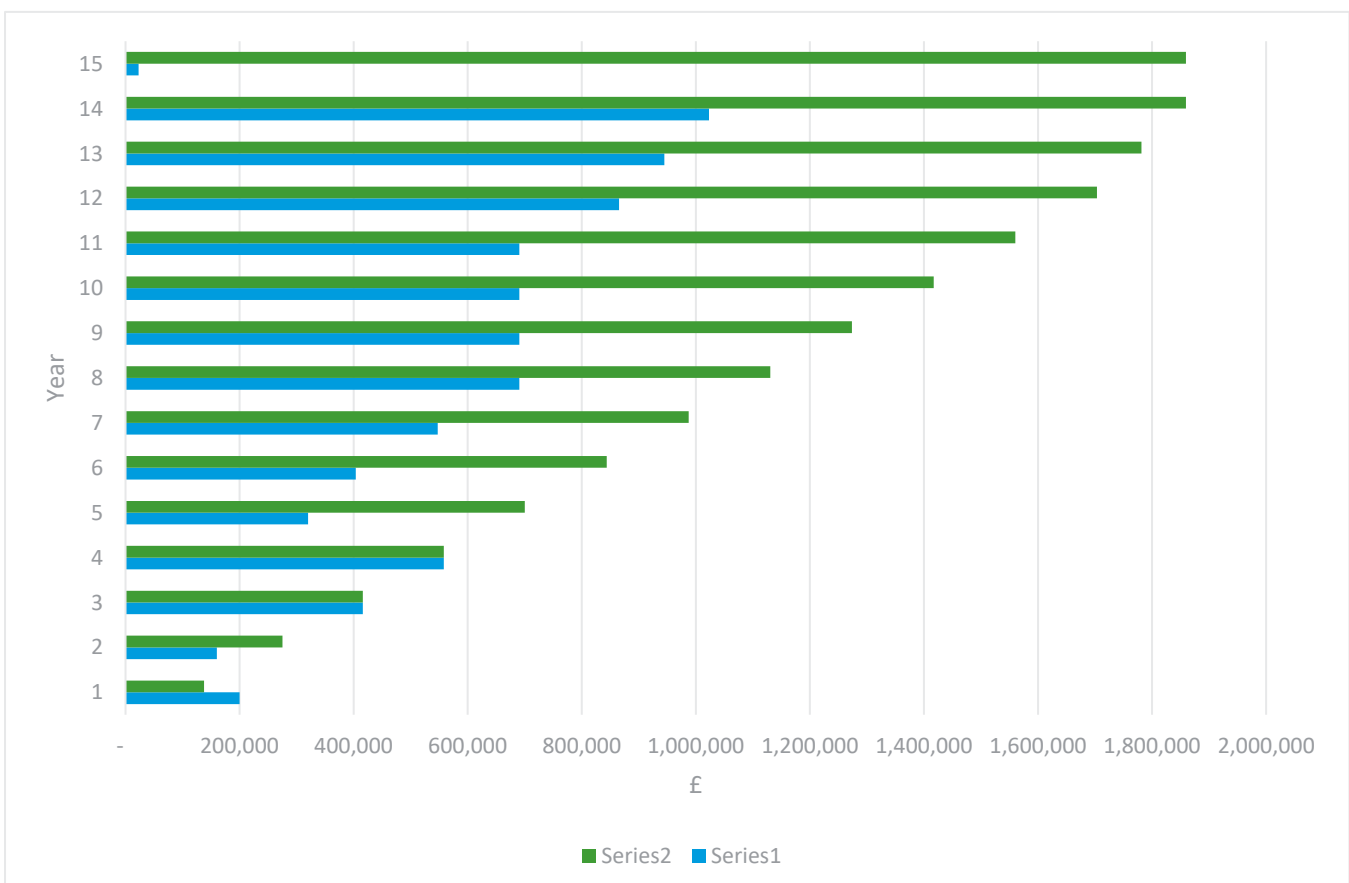
RESERVES

2.1 External decorations

Over the period 2008/09 to 2021/22 the Council made payments totalling **£1,859,486** to FCHS in relation to external decorations. As these funds were meant to be ring-fenced and used only on external decorations, all monies were expected to be held in reserve and spent on external decorations projects, in line with the MMA reserve funds terms and conditions.

As stated by FCHS, no such external decorations took place, and the ring-fenced nature of the monies was not understood. As a result, the external decorations reserve was used inconsistently over this period, and as at 2021/22 there was a variance between monies paid by the Council and monies held within the reserve of **£836,494**.

Fig 1: Graph showing the expected and actual external decorations reserve from 2008/09 to 2022/23 as per audited financial statements



This graph demonstrates the expected monies in reserves vs the actual amounts held in reserves in relation to external decorations.

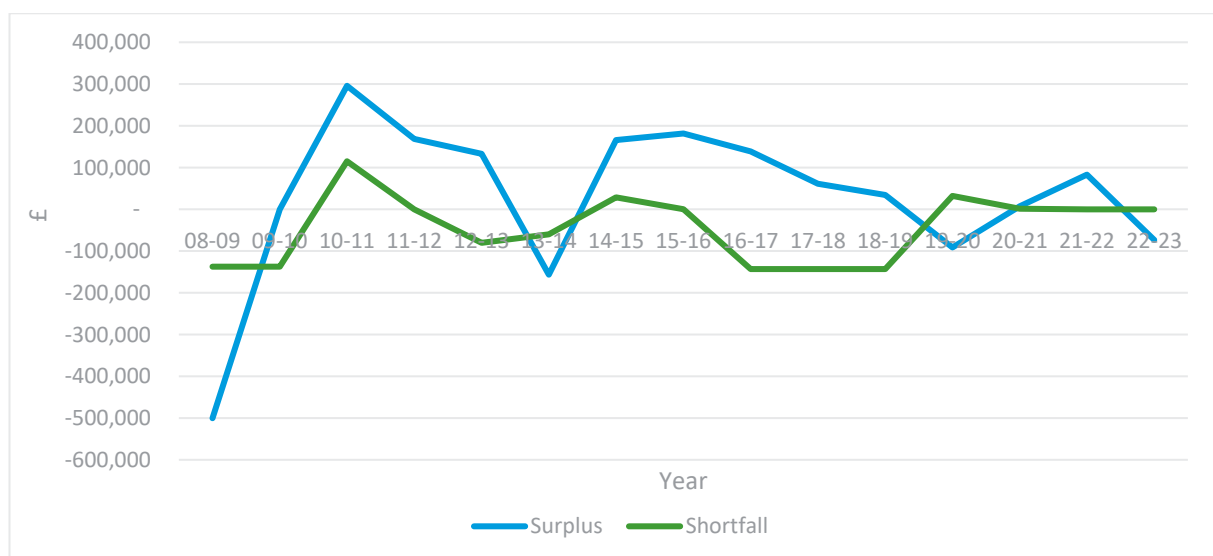
Key Observations include:

- In 2011/12 the external decorations reserve matched the payments that had been made by the Council to date.
- In 2012/13 and 2013/14 the reserve started to diverge, due to the £300k of monies extracted in relation to the Better Homes and Door Entry projects. Transfers were made into the external decorations reserve in this period, but they did not match the full allowance paid by the Council.
- During the three-year period of 2016/17, 2017/18 and 2018/19 no transfers were made into the external decorations reserve, accounting for £429,480 of the shortfall in the external decorations reserve.
- Transfers into the external decorations reserve resumed in 2019/20 with a £175k transfer, however these amounts were not sufficient to cover the prior periods.
- In 2022/23 £1m was removed to meet the expected liability clawback by the Council for unspent monies relating to the external decorations reserve.
- When these withdrawals are taken into account, this leaves **£536,494** of monies that never entered the external decorations reserve.

2.2 Surplus

We were informed by FCHS that the reason the external decoration reserve did not match the full amount of payments was that transfers to that reserve depended on the in-year surplus or deficit, and decisions made by the Board regarding reserves transfers. We therefore mapped the in-year surplus or deficit to the shortfall in transfers made to external decorations reserve.

Fig 2: Graph showing the in-year surplus or deficit and the shortfall in the transfer to external reserves based on the in-year external decorations allowance, 2008/09 to 2022/23, as per audited financial statements



Key observations include:



- In 2010/11 reserves were restated and there was a £256k transfer to external decorations to match the payments that had been made by the Council to date in regard to external decorations. In 2011/12 the full payment was transferred into the right reserve.
- In 2012/13, there was a £80,180 shortfall in the amount transferred to the external decoration reserve, despite having sufficient surplus in the £133k in-year profit. As a result, the balancing amount was included within the surplus reserves instead.
- In 2013/14, there was another shortfall of £60,077 in the transfer amount. In this year, there was an in-year loss of £157k due to expenditure for the better homes and door entry system projects.
- In 2014/15 the full amount was transferred. An additional £28,731 was used for the door entry project, but this was not coded out of the external decorations reserve.
- In 2015/16 the full amount was transferred.
- In the 3 years 2016/17, 2017/18 and 2018/19 no amount was transferred to external decorations. The combined profit surplus for this period was £233,627.
- Out of a total of £429,480 in external decorations payments in this 3-year period, offset by the £233,627 combined surplus in the period, this leaves a shortfall of £195,853, particularly attributed to 2017/18 and 2018/19. These years had high salary costs (£335k and £351k respectively), far higher than the previous 5-year average of £221k. This was due to an increase in payroll headcount from 4 to 8 in this period.
- In 2019/20, FCHS overpaid into the external decorations reserve, but only by £31,840, leaving a £164,013 shortfall from the previous 3-year period remaining. This year had a loss of £92k.
- In 2020/21 nearly the full amount was paid in, and in 2021/22 the full amount was paid.

Overall, the treatment of transfers to external reserves over the period appears inconsistent in relation to the in-year surplus or loss achieved, as some years the full amount was transferred, despite an in-year loss (2019/20) or at least partially (2013/14). In other cases, no transfers were made, regardless of the surplus amount (2016/17, 2017/18, 2018/19).

As at year end 2022/23, the surplus reserve amount was only £37,356. The in-year surplus or deficit for 2023/24 is yet to be determined.

2.3 Other reserves

In addition to the external decorations reserve and the surplus reserve FCHS had several other reserves over this time period.

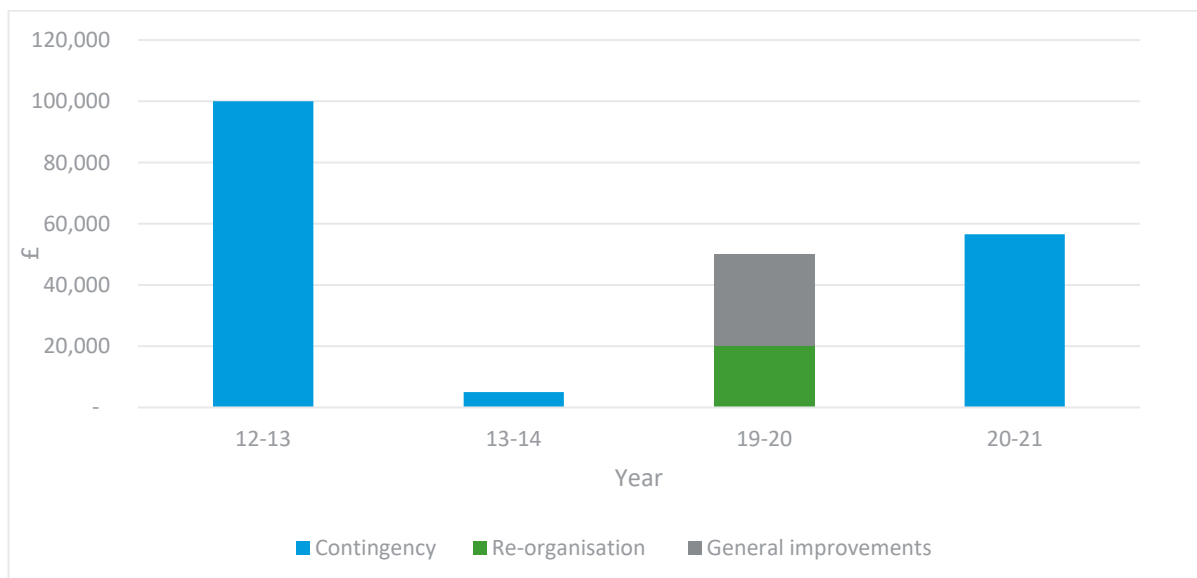
These include a contingency reserve, holding up to 3 months of expenditure in the case of unforeseen circumstances. This was decided and agreed upon at the Management Committee and is in line with reserves provisions as per the MMA (Clause 8.1).

As at year end 2022/23 this contingency reserve held monies of £138,122. Over the time period of this review, £161,550 was transferred into the contingency reserve, out of surplus. This included years where the transfer to external decorations was less than what was paid in external decorations allowance (£100k in 2012/13, £5,000 in 2013/14 and £56,550 in 2020/21).

In 2019/20 FCHS set aside £20,000 into a re-organisation reserve, in relation to expected HR costs. This amount was fully utilised by 2022/23 and is reflected in the restructure that took place in this period.

In 2019/20 £30,000 was also set aside for General Improvements. We were informed this related to a communal alarms system upgrade that never took place. This amount was fully transferred out of reserves by 2020/21.

Fig 3: Graph showing the transfers into other reserves from the surplus reserve over the period 2008/09 to 2022/23, as per financial statements



FCHS also holds £20,000 in an extension reserve, in relation to an extension grant that was received a number of years ago to extend the organisation's main office, and up until the latest set of financial statements, was still stated to be intended to be used for that purpose. This reserve has been held since at least 2008/09.



In total, £211,550 was transferred from surplus into these other reserves during the period 2008/09 to 2022/23. As at year end 2022/23, only £138,122 remained in these combined reserves.

This leaves £175,478 within reserves (including surplus) as at year end 2022/23, while £73,428 of these reserves have been released and spent over this time period.



EXPENDITURE

3.1 Better Homes and Door Entry

In 2012/13 and 2013/14 FCHS spent a declared total of £243,371 on the Better Homes project, and £81,095 on the door entry project, totalling £324,466. Of this £300k was removed from the external decorations reserve in 2012/13. In 2013/14, £28,731 was spent in relation to the door entry project, however this was not drawn from the external decorations reserve.

We have obtained invoices, remittance advice and works sign-off for these works by the project manager Keegans.

Board minutes from the time (4th June 2013) show the Board making a voluntary decision to spend revenue funds on internal works in relation to the Better Homes project, relating to improvements to kitchens, bathrooms and toilets.

In addition, the door entry project related to carrying out works at certain properties to align door entry to be consistent with equipment used by Southwark Council.

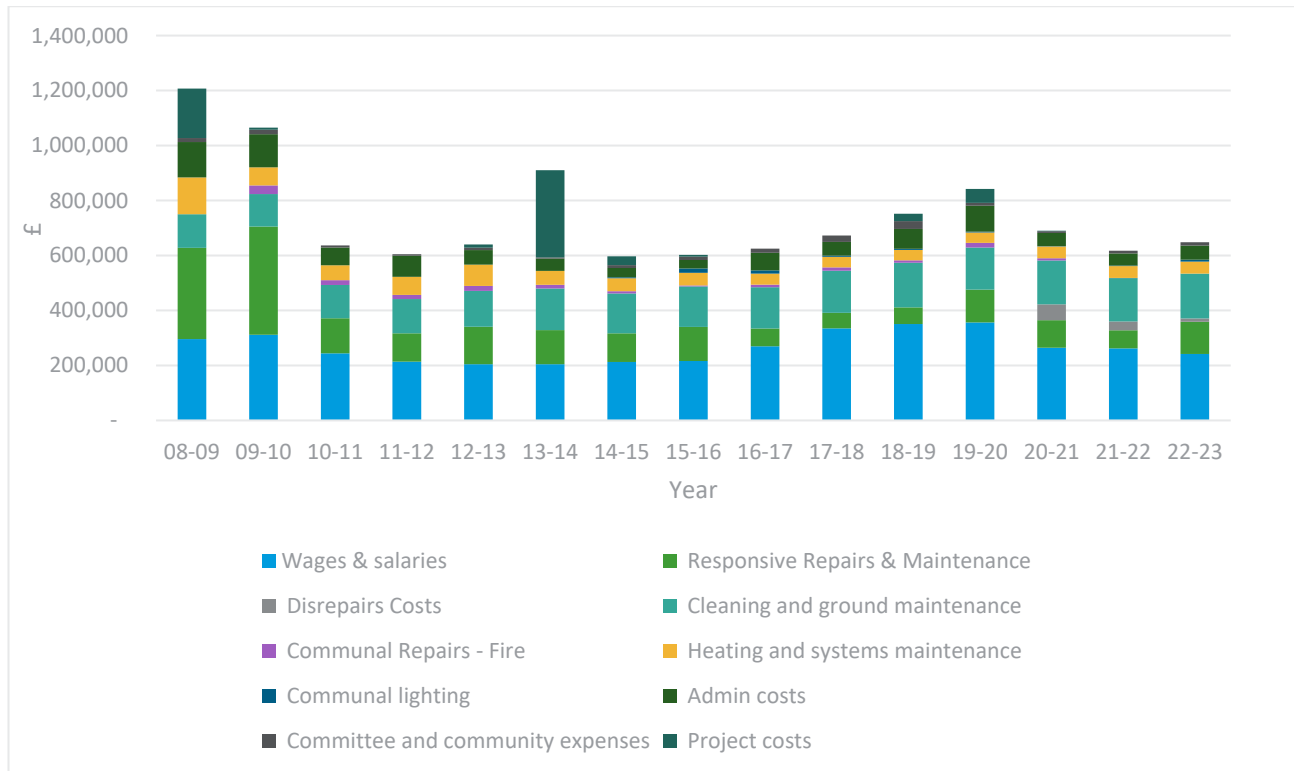
Keegans, a RICS registered consultancy firm, carried out pre-work surveys, and project management assurance work for both projects. The consultancy costs relating to this (£33,231) were not included in the project amounts above.

3.2 Wages and Salaries

3.2.1 Review of staff costs

The largest expenditure for FCHS year on year typically related to wages and salaries, however the cost varied significantly from a minimum of £205k in 2012/13 and 2013/14, up to over **£300k** in the years 2017/18, 2018/19 and 2019/20. These were years where FCHS had a profit or loss less than the external decorations allowance.

Fig 4: Chart showing breakdown of expenditure for period 2008/09 to 2022/23 as per financial statements



Following this, the largest expense was cleaning and ground maintenance, followed by responsive repairs, heating and systems maintenance, and then combined administration expenses.

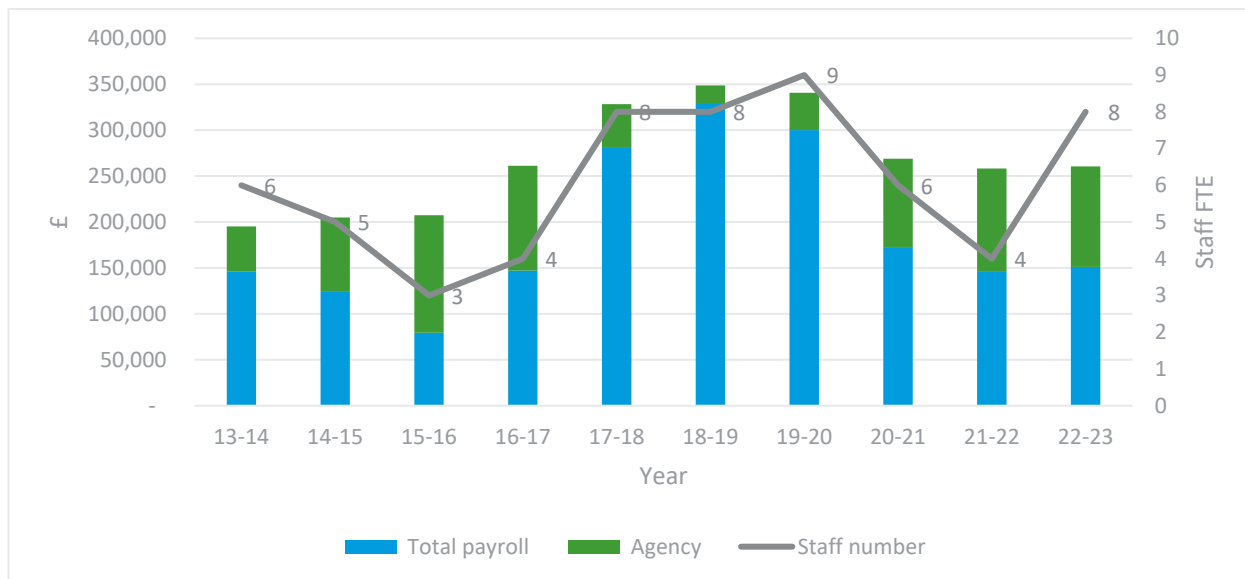
Of these expenses, cleaning and ground maintenance has increased marginally over time from approximately £120k up to £160k. Heating and systems maintenance has also remained fairly stable at between £40k and £50k over the whole period, with only a small spike up to £77k in 2012/13. We note that these expenses are all paid for via Southwark Council.

Responsive repairs and maintenance are variable costs, ranging from approximately £60k in the three-year period 2016/17, 2017/18 and 2018/19, up to typically approximately £120k in other years.

In addition to the Better Homes and Door Entry projects, we queried other project expenditure, such as £40,460 on St John's estate playground, or £10,120 on Dream Garden, or £27,143 on Devon mansions holes project, however we were informed these did not relate to any qualifying expenses in relation to external decorations.

A further breakdown of staff costs shows a significant proportion are paid via agency staff, in addition to payroll.

Fig 5: Chart showing the breakdown of salaries and wages between payroll and agency costs, and payroll headcount, for the period 2013/14 to 2022/23, as per payroll records (payroll) and financial statements (agency costs)



Key observations include:

- Wages and salaries costs peaked in **2018/19 (£351k) and 2019/20 (£356k)**, alongside headcount. Following 2019/20, headcount reduced and appears to be partially offset by an increase in agency staff usage.
- In 2017/18 five employees were recruited with a combined annual salary cost of £144k. Of these, two employees had been long-time agency staff. One of these FTE's had an annual payroll salary half of what had been paid annually in agency costs (£22k vs £51k pro-rated), so some savings from recruiting these individuals could have been realised.
- In addition to these two agency staff recruitments, three new employees were also recruited, bringing the headcount total to 8. As they joined part-way through the year (most over the summer), the full impact of this recruitment cost was not felt until 2018/19.
- The average cost per person, as per payroll records, indicate an increase from approximately £25k in 2013/14, 2014/15 and 2015/16, up to £35k in 2016/17 and 2017/18 to a peak of £41k per person in 2018/19. A benchmarking analysis was undertaken in 2020, which identified that employees were paid more than equivalents, and informed a restructure exercise.
- This average staff salary has since reduced to an average of £33k in the 3-year period following, 2019/20, 2020/21 and 2021/22.



- The headcount of 8 in 2022/23 is reflective of staff turnover, including maternity leave coverage, rather than a permanent increase in staff count. During this year, five employees left, and five were recruited. At the end of the year, 3 employees remained on payroll.
- Over the period of 2013/14 to 2022/23 (for which we have records) within Fig 5, a total of £2,673,760 of spend was made on wages and salaries. Of this, we were able to agree £1.9m back to payroll records. The remaining £800k relates to agency costs.

3.2.2 Review of recruitment and HR management processes

Based on our review of the HR sub-committee minutes provided to us from January 2020 to June 2022, it appears that there were weaknesses in the controls and management of recruitment and staff management during the period 2016 to 2019. For example:

- Salaries and salary increases were approved with little challenge or scrutiny, e.g. no external benchmarking.
- There was a lack of transparency to the Board over the hiring of both agency and non-agency staff.
- A lack of clarity over what process, if any, was followed in the recruitment of staff, including former agency staff.
- A lack of policy and procedures in relation to HR, recruitment, payments and salary adjustments.

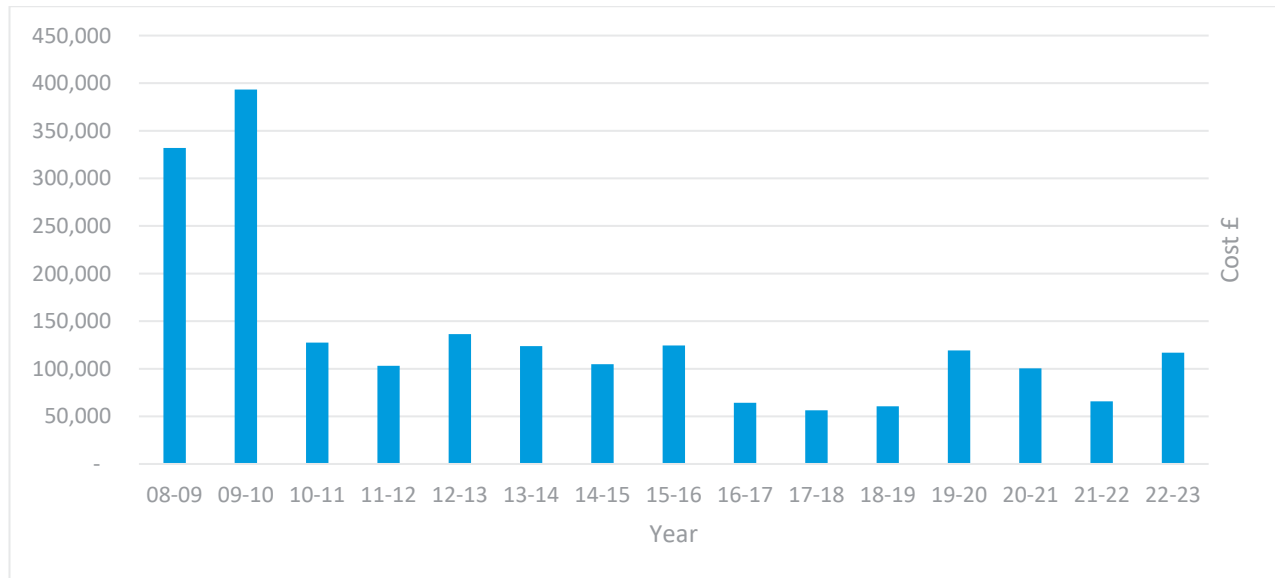
We cannot fully conclude the rationale to the recruitment of staff during this period of 2016 to 2019 as the detail of decisions for this period is not available within the evidence so far provided. These weaknesses in control were identified once a new Estate Manager was appointed in late 2019 and conducted a restructure investigation. From our review of minutes, we are aware actions were taken to address these issues and formed part of a restructure initiation process.

Since this period, average salary costs have reduced from a peak of £356k in 2019/20 down to £262k in 2022/23.

3.3 Repairs and Maintenance

When reviewing the expenditure and in-year surplus or deficit over the period 2008/09 to 2022/23, responsive repairs and maintenance remained a significant cost. However, compared to other expenditure, such as cleaning or heating, responsive repairs and maintenance fluctuated far more significantly during this period, and therefore had a greater impact on performance against budget.

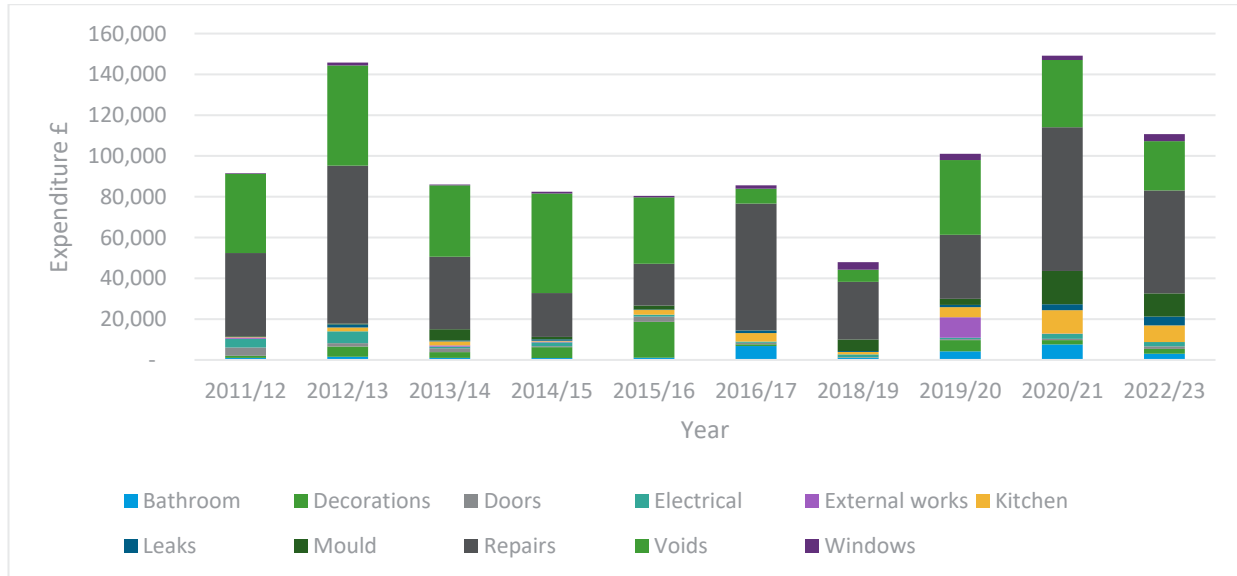
Fig 6: Cost of responsive repairs and maintenance period 2008/09 to 2022/23, as per financial statements



Responsive repairs and maintenance were very high in 2008/09 and 2009/10. Due to the period of time that has elapsed since, we are not certain of the basis of this. However, for the remainder of the period, from 2010/11 onwards, responsive repairs and maintenance have remained between £56,451 (2017/18) and £136,374 (2012/13) with an average of £100k per annum.

An investigation of the repairs and maintenance nominal code reveals a breakdown of spend as below in Fig 7.

Fig 7: Breakdown of spend within repairs and maintenance nominal code as per SAGE, 2011/12 to 2022/23



Key observations include:

- We have excluded 2008/09 to 2010/11 from the breakdown above as during this time period, as the descriptions within the code did not distinguish between any different types of repairs.
- Repairs is the single largest type of activity with an average cost of £44k; however, we note that for many of the items coded to repairs and maintenance, the only description is the site of the works, not the nature, therefore our analysis of spend by type is limited.
- The second highest type of expenditure is on voids, at an average of £31k per annum.
- The lowest spend on responsive repairs and maintenance overall was in 2016/17, 2017/18 and 2018/19, at approximately 50% of other years. We note that this is the period in which headcount increased, indicating possibly an off set-in repairs and maintenance spending to payroll. However, in 2019/20 salary costs peaked, while responsive repairs and maintenance costs increased back up from £61k to £119k.
- Within the repairs and maintenance nominal code we found a total of £49,692 of expenditure relating to decoration work; this was all internal, and typically arising from leaks, asbestos removal or other damage, requiring re-decoration to bring homes back to standard.
- We identified £12,011 over the period relating to repairing external areas, however none appear to relate to external decorations.



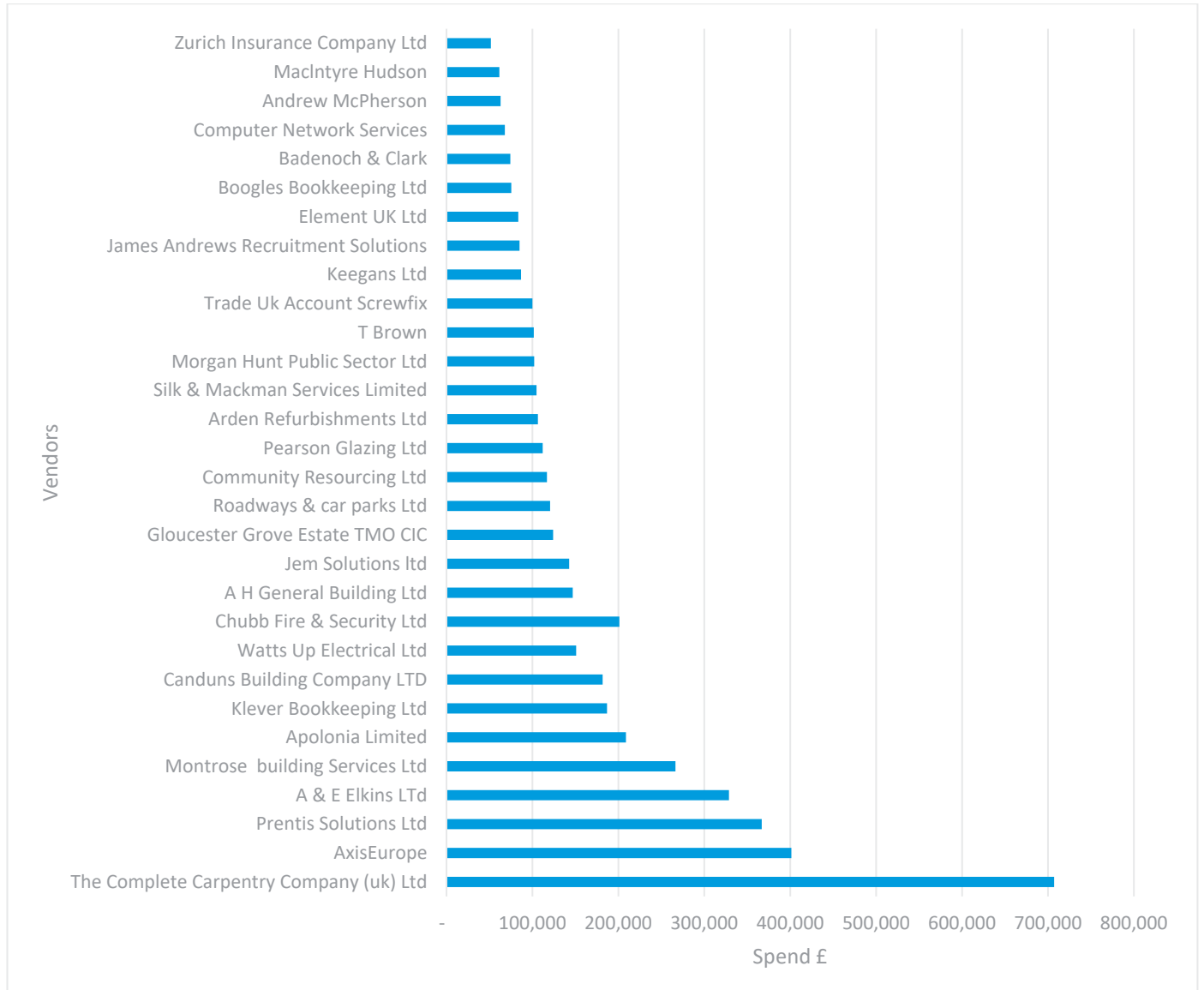
Overall, we did not identify any spend within repairs and maintenance relating to external or internal decorations projects. Spend on projects such as Better Homes or Door Entry were recorded entirely separate from business-as-usual activities.

3.4 Spend by vendor

To further investigate where monies were spent, we also obtained the breakdown of spend by vendor for the period 1st April 2008 to 13th August 2024. Over this period, £8.3m was spent with Southwark Council, in relation to estate cleaning, grounds maintenance, heating and disrepair costs.

From the remaining vendors we listed the top 30 vendors by spend during this period below. All costs are inclusive of VAT.

Fig 8: Breakdown of top 30 vendors at FCHS for the period 1st April 2008 to 13th August 2024



Of these top 30 vendors, £2.4m related to repairs and maintenance contractors, £1.3m in relation to agency costs, £506k in relation to projects, £150k in consultancy costs, and £203k in administrative costs.

The largest spend was with the Complete Carpentry company, with £707,231 of spend. All of this spend was incurred during the period May 2008 to February 2011 and is reflected in the high repairs and maintenance costs as per Figure 6. This does not appear to have impacted on the external decorations reserve, as in 2012 the reserve matched the payments made by the Council up until that date.



The 2nd largest vendor was Axis Europe who completed the Better Homes project. This was the only work undertaken by this vendor at FCHS over the period. The same was the case for Silk & Mackman Services Limited, who undertook the Door Entry project.

The 3rd largest vendor was Prentis Solutions, an agency staff company, who has provided services to FCHS since 2011, with total costs of £306k.

In addition, we submitted the full list of 179 vendors for the period to the Southwark anti-fraud team, who conducted an exercise to check via Companies House for businesses that have registered using an FCHS postcode, which did not identify any material matches.

We note that this does not remove the potential that residents or FCHS staff are not linked to the vendors list, only that the companies are not registered within the FCHS estates.

DISCLAIMER

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Management actions raised for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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