

<b>Meeting Name:</b>	Housing, Community Safety and Community Engagement Scrutiny Commission
<b>Date:</b>	25 November 2024
<b>Report title:</b>	Fair Community Housing Services (FCHS) Forensic Review report by RSM UK Risk Assurance Services LLP
<b>Ward(s) or groups affected:</b>	All
<b>Classification:</b>	Open
<b>Reason for lateness (if applicable):</b>	<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 25<sup>th</sup> 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>
<b>From:</b>	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 10<sup>th</sup> 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 21<sup>st</sup> 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 16<sup>th</sup> 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 27<sup>th</sup> 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**

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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

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