



CAMBERWELL FIELDS – SERVICE CHARGE REVIEW

Report on Findings- July 2024

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Contents

<u>Introduction to Author and Overview</u>	<u>3</u>
<u>The Camberwell Fields Estate</u>	<u>4</u>
<u>Scope of Review</u>	<u>5</u>
<u>Contextual Information- The Service Charge Environment</u>	<u>6</u>
<u>Overview of Findings – All Three Years</u>	<u>7</u>
<u>2021-2022: Detailed findings from published accounts</u>	<u>8</u>
<u>2022-23: Early Insight (Prior to Certification)</u>	<u>13</u>
<u>2023-24: The Improved Approach</u>	<u>15</u>
<u>Glossary of Terms</u>	<u>16</u>

Format of Document

This document is intended to be developed over several months as service charge accounts become available for review. When it is possible to do so, the review of all years within scope will sit within this document for ease of reference. Published accounts will be issued in the standard format.

A glossary of terms has been provided at the end of this document to explain key terminology used when discussing service charge accounts.



Introduction to Author and Overview

I am a member of the Notting Hill Genesis (NHG) senior management team, directly employed as Head of Placemaking Strategy & New Homes, responsible for the mobilisation of new developments and overseeing the Customer Care (defects & aftercare) function. I have no direct involvement in the day to day running of the Camberwell Fields Estate but do have extensive experience operating large estates, creating & managing service charges, and resolving service charge disputes. I was approached to undertake this review in an objective manner to support NHHO colleagues and residents of the Camberwell Fields Estate in addressing long-standing concerns.

This review of service charge accounts was instructed following resident concerns regarding the appropriate management of service charge accounts by the Landlord, Notting Hill Home Ownership (NHHO) NHHO is a subsidiary of NHG. Residents reported that frequent errors, unclear communication, and misleading formatting resulted in a loss of confidence in the Landlord. The purpose of this review is to identify errors, clarify formatting and communicate the salient points from the accounts to resolve all outstanding queries.

To undertake this review, I was provided with access to the full sets of accounts (both certified and uncertified) for the relevant years, in addition to all available supporting evidence. I also interviewed multiple staff members involved in the management of the estate and conducted a walk-through of the Estate on 2nd July 2024 to better understand its physical layout and condition.



The Camberwell Fields Estate

The Estate, located in Southwark, contains a total of 279 homes split across 11 blocks/terraces. The layout is complex, with some cores sharing access to a podium garden, under which there is secure parking for vehicles.

In December 2023 NHHO changed the management model on the estate to introduce an Estate Operations Manager (EOM). The EOM role is dedicated solely to the management and maintenance of this estate and was introduced to provide a more proactive approach to management and more responsive communication with residents. One of the first major projects for the EOM is to support residents in understanding historic service charge accounts and building confidence in the ability of NHHO to manage future accounts well.



Scope of Review

This review focuses on three sets of service charge accounts based on their differing 'status'. Table 1 shows the three selected accounts to be reviewed. Using these three sets allow us to determine any structural issues, any historic issues that have already been corrected and any opportunities to embed feedback and learning into unpublished accounts.

Accounting Period	Status
2021-2022	Published Accounts- This is a certified set of accounts which were published in January 2024. These accounts cannot be changed.
2022-2023	Delayed Accounts- These accounts have been delayed through the issue of a 'Section 20b' notice. These accounts can be changed if errors are identified
2023-2024	Current Accounts- These accounts are currently being assessed as the team work to embed lessons learnt from this review into the 23-24 accounts.

Table 1 The Selected Accounts

The decision has been made not to look back beyond the 2021-22 accounting period because this is resource intensive and is likely to offer little additional insight. The purpose of this review is to look forward at what can be learnt for the publication of the 2023-24 final accounts and what needs to change for 2024-25 budget setting. Where accounting errors are identified which have a financial impact on residents, these will be highlighted.

Each set of accounts under review will be accompanied by a table of recommendations. This will promote good practice, summarise next steps and give NHHO Operational staff a clear understanding of what is expected from them.



Contextual Information-

The Service Charge Environment

Service Charge costs across the United Kingdom have been rising significantly in recent years, with The Property Institute (TPI) recently reporting that in 2024 the average service charge cost was £3,634 per lease. It notes that there are three primary drivers for rapidly increasing charges:

- 1) **Inflation**- Labour costs now increasing more rapidly than materials, resulting in higher costs for services such as cleaning and gardening. Energy cost inflation has also been a key driver.
- 2) **Buildings Insurance**- An increased focus on building safety has seen insurers recategorise buildings into a higher risk category. The result has been UK-wide average cost increases of 92% for high rise builders, and 68% across smaller buildings since 2019. Many insurers have left the residential market altogether, resulting in less competition for insurers, and less choice for Landlords.
- 3) **The new building safety regulatory regime**- The Building Safety Act has imposed many new requirements on Landlords for the ongoing management and maintenance of buildings (particularly those over 18 metres tall). This includes the creation of site-specific building safety cases and the annual inspection of all fire doors. In 2024 the TPI estimated the average cost for compliance was £177 per lease.

With rapidly increasing service charges, largely driven by fixed costs for intangible services the Landlord must provide (e.g., Buildings insurance or fire door inspections), it is understandable that the residents of Camberwell Fields are seeking greater clarity on where their money is being spent and what they are getting in return.



Overview of Findings

– All Three Years

Accuracy of Costs

During the review, the general standard of accounting accuracy was high, but this was consistently undermined by inaccurate presentation. There were thematic issues with miscoding with schedules which, whilst this has no financial impact on residents, makes the accounts more difficult to understand. More seriously, albeit isolated incidents, a very small number of costs were identified that should not have been applied to the service charge because they either related to a private dwelling or to a different estate. Those cases are highlighted in the relevant year, but the frequency of error is very low (substantially less than 1% of transactions) and the value of those is also very low.

Presentation

Presentation and formatting of accounts was generally found to require substantial improvement. Whilst the published accounts do provide information on the different schedules across the estate, the way the information is provided to residents makes it difficult to compare years, and often difficult to understand the costs incurred. I am reassured to see that some improvements have already been made (e.g., The service charge booklets issued for the 2024-25 estimates). However, there were basic grammatical and phrasing error throughout each year reviewed. These have no financial impact on residents but require immediate rectification to improve transparency.

Clarity on expenditure

The information provided to residents on areas of substantial expenditure (e.g., repairs and energy/ electricity and on reserve funds) is inadequate. The result is that residents cannot know where their money has been spent without undertaking a detailed review of invoices, and therefore cannot robustly hold NHHO to account. This information does form part of the service charge accounts presented to NHHO staff but is not included in the information provided to residents. This is simple for NHHO to remedy and immediate steps should be taken.

2021-2022: Detailed Findings from Published Accounts

Overview:

This review consisted of circa 1700 lines of expenditure totalling more than £527,000. The overall accuracy of the accounting information is good, but presentation and formatting require significant improvement. A very small number of errors were identified in the accounts, and these have been highlighted.

These accounts have been certified by auditors and published to residents. This allows a full and in-depth review to be undertaken:

- The final account showed an overspend of £39,119 (+8% against budget)
- Budgets were set against 14 schedules. 8 of those schedules were underspent, whilst 6 of them were overspent. Money was coded against 1 schedule for which no estimate was set.

Account Presentation

The accounts were published with presentational issues which make it difficult to assess who is contributing to each schedule, or the true cost of maintaining specific equipment.

- Schedule A refers to '216 units' whereas 279 homes contribute to that schedule. This error was reproduced from previous years.
- Budget lines are used inconsistently. For example, since 2016 the 'Plant Room Maintenance' line has not been carrying the budget or actual cost of most plant room maintenance. Instead, that has been coded to the misleadingly named 'HIU, Radiator, Programmer, pipework full repair contract' line. In 2021-22 most of the expenditure for plant room maintenance was coded correctly, but this resulted in a large overspend because the budget for this work was on the wrong line.

Expenditure & Explanation of Overspends

Where a single schedule was overspent by more than 10%, an explanation is provided in Table 2 below.

Schedule Name	Reason for actual expenditure exceeding estimate by +10%
Schedule D Block 2 (Hambling Court) Overspent by 12% (£7,040)	Costs which should have been budgeted but were not: Pest control (£1,600) Overspends which should have been foreseen were Cleaning (£2,100), Window Cleaning (£800) and TV System Maintenance (£2,000) Unforeseeable cost increases because of market conditions or new obligations: Insurance (£900), Fire Safety Works (£4,100)
Schedule D, Block 8 (Palfrey Court) No budget.	This schedule contained no budget but £7,116 of spend due to a coding error. The expenditure should have been applied to the '74 Edmund' schedule which was underspent significantly. The two schedules have the same contributing properties, so the miscode has no material impact on residents, but makes the accounts difficult to read.
Schedule E Block 6b (leigh Court Lift) Overspent by 24% (£356)	Schedule only contains lift costs. Lift contract cost was marginally higher than estimated (+£60) and one lift call out charge not covered by the contract (£294.40) make up the overspend balance
Schedule F CHP for flats Overspent by 81% (£32,000)	Mis-budgeting, mis-coding and unplanned costs spanning many years: <ul style="list-style-type: none"> - Budget line for 'HIU maintenance...' is carrying cost of plant room since 2017 and mis-representing the actual cost of maintaining the plant room. - Plant maintenance overspent by £63,000 due to the budget for this work being applied to the HIU line. Contract costs were known (£58,000pa) but budget was set at £14,000. - HIU maintenance line underspent by £30,000 as in previous years plant maintenance costs were coded here. - If we combined the two lines (plant maintenance & HIU, average spend over previous three years was £95,000k.

Schedule Name	Reason for actual expenditure exceeding estimate by +10%
	<p>A combined budget of £82,000 for 2021-22 year was not realistic.</p> <ul style="list-style-type: none"> - A one-off repair (unbudgeted) to the boiler flue cost £2,600. - Plant room electricity was under-budgeted by £1800 (10%) due to energy price rises. - Several costs have been applied to the wrong line in this schedule. Whilst it has no material impact on residents, it makes it difficult to compare year on year expenditure. - The ' HIU maintenance...' budget line should be renamed as it is misleading. NHHO cannot recover expenditure on private radiators or programmers. I found no evidence that they have tried to.
<p>Schedule 5 Podium & Parking Overspent by £9,500 (377%)</p>	<p>Driven largely by poor budgeting on foreseeable costs and one-off costs:</p> <ul style="list-style-type: none"> - No budget for gate maintenance, but £8,100 spent. - Car park maintenance overspent by 1.5k due to unforeseen costs and some miscoding (gate repair applied here at £788) - One-off costs for unplanned works to access control (£1,100) a security guard (£800) and a fire risk assessment (£700)

Table 2 Explanation of Overspend

In all cases, the miscoding referenced above has no financial impact on residents. This is because miscoding is happening within a schedule. However, miscoding results in over-complex accounts which are difficult to compare year-on-year, and that do not clearly tell the story of expenditure during the accounting period.

In addition to the accounts which were overspent by +10%, this review also identified some budget lines which were overspent across all schedules (See Table 3):

Budget Line	Reason for overspending
Fire Systems Maintenance	This line was under-budgeted throughout. A generic and nominal sum (£250) was applied to all schedules. There are known contract costs for the maintenance of the first systems, and the cost of these contracts is substantially higher than £250 per schedule.
Cleaning	In most cases, the cleaning budget appears to have been copied over from the previous financial year (and rounded up/down). However, the cleaning contract has an annual inflationary mechanism within, and the result is a shortfall between estimated and actual costs.

Table 3 Explanation of Persistent Overspend on Budget Line

Service Charge Account Anomalies

During the review, two anomalies were identified for which an explanation is provided in Table 4.

Anomaly	Reason
Schedule B (podium & parking) had a budget but there was no expenditure	Expenditure was coded to 'Schedule 5 (podium and parking)' instead. These schedules have been used interchangeably since 2015-16.
The accounts contain large credits which are not visible to residents	The result of accruals from the previous accounting year. A credit arises when NHHO accrued(charged) for a cost in the previous financial year, but an invoice was not received. The credit reverses the debit.
Costs absorbed by NHHO (not charged to residents)	The accounts show that NHHO chose not to recover at least £13,299 of costs. This includes costs which it appears to have been entitled to recover under the terms of the lease (such as security works and pest control).

Table 4 Explanation of Anomalies

Irrecoverable Costs

During the certification process, the service charge accounts are scrutinised in detail by NHHO staff prior to being presented to auditors. During that review



process any costs which are mis-coded from other estates are transferred, and any costs which NHHO do not have a right to charge under the terms of the lease (or transfer agreement for Freeholders) are removed. However, during my review I identified a small number of charges which should not have been recovered. These can be seen in Table 5.

Irrecoverable Sum	Why
£103.20	Cost for MVHR works inside a specific leasehold property. Not recoverable through service charge.
£448.80 8 lines at £56.10 each)	Cleaning costs relating to another site coded in error.
£552 (Total)	

Table 5 Assessment of Irrecoverable Sums

Recommendations Following Review of 2021-22

Account Presentation: A project should be undertaken to substantially improve the presentation of future account. This should include, but is not limited to:

- Correcting erroneous headings.
- Creating clearer schedule names, and ensure no duplicate schedules are used.
- Reducing the number of budget lines used by consolidating similar lines and stopping the use of generic nominal sums.
- Provide reserve fund information for each schedule.
- Providing explanatory notes for all future budget & expenditure lines.
- Provide a repairs summary to residents so they can more plainly see where and why one-off costs were incurred.

Accounting: Transparency of budgets and final accounts should be improved by:

- Improving the accuracy of coding
- Rationalising schedules to prevent duplicates.
- Factoring contract costs into service charge estimates
- Reducing the number of accruals by proactively pursuing contractors for invoices

Irrecoverable Costs:

- Reimburse £552, by way of a credit in the next available set of accounts. Sums should be credited to the schedule against which they were charged to ensure the reimbursement is made to the residents impacted by the error.



2022-23: Early Insight (Prior to Certification)

The 2022-23 accounts were submitted to auditors in April 2024, but were withdrawn following the request for this review. That is to ensure that NHHO can embed the recommendations from this report and publish a set of accounts which are easier to understand and are transparent. As a result, it is anticipated that these accounts will now be published in early 2025. As these accounts have not been certified, they are subject to change, so full details cannot yet be provided. However, insights from my initial assessment are provided below.

Account Presentation

The accounts as initially submitted to auditors contained many of the presentation issues raised on Page 4 of this report. These will be addressed prior to resubmission to auditors by following the recommendations outlined on page 12 of this report.

Expenditure & Explanation of Overspends

- The accounts are showing a total expenditure of £536,109, which is an overspend of £80,000 (+17.5%) when compared to the budget.
- The budgeted sum (£456,027) was unrealistic. It was less than the previous budget (£488,578) and set at a level which was substantially lower than the actual expenditure for any of the previous three financial years.
- The actual expenditure for 2022-23 is just 1.5% higher than the actual expenditure for the previous financial year.

Over-expenditure against the erroneous budget arose in a few key areas:

- Electricity costs are significantly higher than budgeted.
- General repairs are higher than budgeted for many schedules.
- Plant room maintenance costs are double the budgeted sum.

Under-expenditure occurred in these key areas:

- Cleaning costs are significantly lower than budgeted on some schedules.
- TV System Maintenance costs were much lower than budgeted in most schedules.



Irrecoverable costs

Through its review process, NHHO remove irrecoverable costs from the accounts. If any further costs are identified during certification, these are also removed.

Recommendations Following initial Review of 2022-23

Account Presentation: Follow recommendations outlined on page 8 where possible.

Accounting: Follow recommendations outlined on page 8 where possible

Resident Communication: Organise meeting with Residents Association prior to publication of accounts to explain the headlines and use their feedback to help develop detailed and meaningful communication to all residents.

Next Steps for 2022-23 Accounts:

These accounts have been withdrawn from audit and will need to undergo a full internal review prior to certification. It is likely that they will not be available until after the 2023-24 accounts, which are expected to be published in early 2025.



2023-24: The Improved Approach

These accounts are currently under review in line with NHHO process. As they contain many of the same inconsistencies as previous years, following this review, they will be delayed. The relevant legal notice will be issued in due course. We now anticipate that they will be certified by auditors in late 2024 and published in early 2025. This delay is essential to ensure that NHHO issue a clear and accurate set of accounts that residents can have confidence in. Where practical, the recommendations from previous years will be embedded in these accounts. As these accounts have not been certified, they are subject to change, so full details cannot yet be provided. However, insights from my initial assessment are provided below.

Account Presentation

The accounts as initially prepared contained many of the presentation issues raised on Page 4 of this report. However, the EOM has been working to address these prior to submission to auditors. Whilst NHHO cannot now change the way the budget was prepared (e.g., Many budget lines with generic nominal sums) the accounts presented to residents will be significantly more transparent and reader- friendly than those issued before.

Expenditure & Explanation of Overspends

It is not yet possible to provide this analysis. The accounts are still under review, and therefore any figures stated are provisional and subject to change.

Glossary of Terms

Accrual- An accrual is the process of accounting for goods/services received, but for which an invoice has not been submitted by the contractor and/or paid by NHHO. If the invoice is never received (i.e., if NHHO are never charged) the sum is credited in the next accounting period.

Budget line- The specific budget allowance made for a service within a specific schedule. For example, each block has its own 'cleaning' budget line to ensure that the cost of cleaning that block is only paid by residents of the block. Budget lines are grouped into 'Schedules' which determines who pays for them.

Coding- The management process of allocating a cost to a specific budget line and/or schedule. For example, invoices from the cleaning contractor will be 'coded' to the 'cleaning' budget line in the relevant schedule.

Irrecoverable Costs- Costs which NHHO do not have the right to recover from residents through a service charge. The lease determined what NHHO can recover.

Schedule- This is a grouping of budget lines relevant to a specific part of a building. For example, the 'Hambling Court' schedule contains all the budget lines and costs associated with managing and maintain Hambling Court. Only residents in Hambling Court contribute to this schedule.





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