

Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	6 September 2016
Classification:	For General Release
Title:	Tenant Management Organisations – Internal Audit Reviews
Wards Affected:	All
Financial Summary:	Westminster Council provided an allowance of £1.6m to TMOs in 2016/17.
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1. Executive Summary

- 1.1 This report contains details of the work undertaken by the Internal Audit Service in respect of Tenant Management Organisations (TMOs) for the period 2014/15 to date and includes the outcomes of follow up reviews where the effectiveness of implementing the audit recommendations is assessed.

2. Recommendation

- 2.1 That the Committee note the contents of this report.

3. Background, including Policy Context

- 3.1 CityWest Homes (CWH) currently manages approximately 21,000 homes for the Council, with some aspects of housing management delegated to 10 Tenant Management Organisations (TMOs) or Co-operatives.
- 3.2 Residents of a block or estate can review their options for taking over services through a Government funded tenant empowerment programme. Before a TMO can consider taking over the management responsibilities they must have at least 25 properties occupied by secure council tenants within the area they would like to manage. A TMO cannot start to run the services until the resident group (collectively and individually) has been judged to be competent by an independent agency. A secret ballot is also required where the majority of the residents and

secure tenants need to agree the formation of the TMO. The existing rights of the tenant or leaseholder of the Council are protected. The only change is that the TMO will carry out certain landlord responsibilities which varies in each TMO. TMOs are set up as legal bodies, with the protection of limited liability for members. They are run by an elected management committee made up of tenants and leaseholders, all of whom are volunteers. The management committee represents residents and sets priorities. TMOs have their own local office and employ their own staff to provide professional housing services.

- 3.3 The relationship between the Council and the TMO, including the services that the TMO will manage and those to be retained by the Council, is set out in a modular management agreement (MMA). The MMA must be approved by the Secretary of State. Once a TMO is up and running it will be supported and monitored by CWH to ensure that the services it provides to tenants and leaseholders are of a high standard.
- 3.4 The TMO will receive an allowance (grant) from the Council based on what it would have cost the Council to provide the service. TMOs are usually able to carry out repairs more quickly than the Council. They are also able to make savings on their allowance by spending efficiently and making best use of the resources available to them locally.
- 3.5 The TMOs are either registered as a Limited Company or as a Cooperative and Community Benefit Society (2014 Act).
- 3.6 During 2014/15, the then Executive Director of Growth, Planning & Housing requested internal audit to undertake an advisory review of the governance arrangements in place at Millbank Estate Management Office (MEMO). This review identified a number of concerns which were contained in a report issued in September 2014 with a follow up audit review undertaken in August 2015 (see paragraph 4.1).
- 3.7 In order to ensure the success of a TMO, CWH provide assistance to the TMOs including:
 - Arranging training for committee members and staff;
 - Utilising specialist workers to provide advice and support;
 - Informing TMOs of their current performance, and
 - Organising forums for TMO managers and committee members.
- 3.8 During 2015/16 an audit of the Management of TMOs' was undertaken with a report issued in August 2015 which was followed up in April 2016 (see paragraph 4.2).
- 3.9 The internal audit plan for 2016/17 included reviews for two TMOs which were undertaken in June 2016 with final reports issued in August 2016 (see paragraph 4.3). Internal audit has subsequently been requested by the Director of Housing to undertake full reviews of all of the TMOs and these are now being programmed into the internal audit plan and will be undertaken between October 2016 and February 2017 (see paragraph 4.3.5).

4. Summary of Internal Audit Work

4.1 Millbank Estate Management Office

4.1.1 During 2014/15, concerns were raised about the operation of one of the Council's TMOs, Millbank Estate Management Organisation (MEMO). An advisory review of MEMO was undertaken by Internal Audit and a number of weaknesses identified which were impacting on the effectiveness of the Board and in turn the estate office. As a result of these, ten high, fifteen medium and three low priority recommendations were made to improve the governance arrangements in place.

4.1.2 The audit review noted that whilst Board Members were familiar with the term 'governance', what this means on a practical level and how this impacts on the effectiveness of the Board was not clear to everyone consulted as part of this review. In addition, a number of independent reviews of MEMO had been undertaken in the previous few years and the Board needed to allow itself the opportunity to consider these and take the necessary action to ensure that the agreed recommendations were implemented. The audit recommended that to achieve greater focus, an action plan should be produced, incorporating all of the recommendations, which should be presented to the Board for approval. The action plan should then be reviewed and updated at every Board meeting until the recommendations/actions were fully implemented. The Board agreed to work with the Council to comply with their Management Agreement and the Rules of MEMO.

4.1.3 A follow up audit review was undertaken in August 2015 which identified that 71% of the recommendations had been implemented and the full implementation of the remaining recommendations was in progress:

	High	Medium	Low	Total
Number of Recommendations Made:	10	15	3	28
Number Implemented:	6 (60%)	12 (80%)	2 (67%)	20 (71%)
Number Partially Implemented/In Progress:	4 (40%)	3 (20%)	1 (33%)	8 (29%)

4.1.4 Since the audit, CityWest Homes (CWH) have been working closely with MEMO to ensure that the recommendations are fully implemented. A recent review by CWH identified that of the eight recommendations not fully implemented at the time of the Internal Audit follow up review, four have now been fully implemented with the remaining four recommendations expected to be implemented by October 2016.

4.1.5 A Five Year Review of MEMO is planned for February 2017 (see paragraph 4.3).

4.2 Management of TMOs

4.2.1 Following the review of MEMO, an audit was identified for inclusion in the 2015/16 internal audit plan to review the level of oversight provided by CWH of TMOs and the mechanisms in place for ensuring that both CWH and the Council were aware of any concerns in respect of a TMO and the appropriate action to take.

4.2.2 A limited assurance report was issued in August 2015 which contained one high, seven medium and four low priority recommendations to address the weaknesses identified including:

- The lack of a clear process for the escalation of issues relating to TMOs;
- Gaps in the data provided to the Council by CWH in their monthly dashboard reports;
- Not all financial accounts were submitted by TMOs in a timely manner on a quarterly and annual basis;
- Data and comments on the service provided by CWH to the TMOs were not collated in a timely manner;
- No independent monitoring of customer feedback on the service provided by CWH was undertaken by the Council;
- The meetings between the TMO Manager (CWH) and the HRA Contracts Manager (WCC) were informal with no agenda, minutes, reports or action trackers produced.

4.2.3 A follow up audit review was undertaken in April 2016 which identified that 42% of the recommendations had been implemented and the full implementation of the remaining recommendations was in progress:

	High	Medium	Low	Total
Number of Recommendations Made:	1	7	4	12
Number Implemented:	0 (0%)	3 (43%)	2 (50%)	5 (42%)
Number Partially Implemented/In Progress:	1 (100%)	4 (57%)	2 (50%)	7 (58%)

4.2.4 The recommendations that were not fully implemented at the time of the follow up audit are expected to be implemented by the end of September 2016.

4.2.5 Whilst it is acknowledged that there are risks associated with resident controlled organisations, CityWest Homes are looking to reduce the potential impact of these risks by:

- Improving the monitoring regime;
- Improving governance, accountability and performance of the TMOs;
- Improving relationships between CityWest Homes and the TMOs and reinforcing the contractual obligations contained within the Management Agreements.

4.2.6 Since the audit was completed, regular meetings now take place between the CWH TMO Manager and the Council's HRA Contract and Performance Manager. This forum is used by the CWH TMO Manager to update the Council on any new or emerging issues in relation to tenant management. Council staff take responsibility for the service of any formal action under the terms of the Agreement e.g. improvement notices and breach notices as these are not delegated to CWH.

4.3 Audit Plan 2016/17

4.3.1 The initial audit plan for 2016/17, included resources to undertake audit reviews at two TMOs. The TMOs to be audited (Tavistock Co-op and Torridon Co-op) were identified by the CWH TMO Manager and agreed with the Council's HRA Strategy Manager.

4.3.2 The initial findings from these audit reviews were reported to the Director of Housing and Regeneration in June 2016. A number of control weaknesses were identified at both TMOs and in Internal Audit's opinion only limited assurance could be given that the controls in place at the time of the audit were suitably designed, consistently applied and effective in their application by the TMO. Recommendations for improvement were made in the areas of:

	Number of Recommendations Made					
	Tavistock Co-op			Torridon Co-op		
	High	Medium	Low	High	Medium	Low
Governance	0	4	1	1	4	0
Policy & Procedures	0	2	1	1	2	0
Financial Management	3	6	0	2	2	0
Tenancy Management	1	2	0	0	3	0
Performance Management Reviewing Standards	1	1	1	2	1	0
Total	5	15	3	6	12	0

- 4.3.3 The findings from each of the audit reviews have been combined with housing management monitoring information provided by CityWest Homes and a formal 'Five Year Review' Report was issued to each of the TMOs by the Executive Director for Growth, Planning and Housing in July 2016.
- 4.3.4 As required by their Management Agreement, each of the TMOs has two months to consider the contents of their 'Five Year Review' and both TMOs are expected to report back to the Director of Housing and Regeneration by the end of September 2016, on their acceptance or disagreement with the recommendations made and the proposed implementation timeframes. The TMO Manager and the Resident Engagement & Opportunities Manager from CWH are due to attend the next Committee meetings at both Tavistock Co-op and Torridon Co-op to discuss the contents of the 'Five Year Review'.
- 4.3.5 The Director of Housing and Regeneration has requested that audit reviews are undertaken in conjunction with CWH as part of a programme of 'five yearly reviews' of all of the remaining TMOs (up to 8 reviews*) during the current financial year and resources have been made available to undertake these. Provisional dates for the reviews have been discussed with CityWest Homes and the Council and they are expected to take place between October 2016 and February 2017.

*the exact number of TMOs will be confirmed as two may be merging.

4.4 Other TMO Related Work 2016/17

- 4.4.1 During 2014/15, an investigation was carried out by the fraud team at Scottish Towers TMO. This identified serious financial mismanagement and governance irregularities. This resulted in the Council taking action under the MMA and ending its agreement with Scottish Towers TMO. Housing management is now carried out by Pinnacle as part of CWH's contract with them.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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BACKGROUND PAPERS
Internal Audit Reports
Internal Audit Plan 2016/17