



FINANCE AND MANAGEMENT CASE STUDY

Final Test of Professional Competence

03 June 2008

PRE-SEEN MATERIAL AND CASE FILE

Time allowed: 6 hours 10 minutes

Morning session Part 1: 9.45am – 12.15pm
Morning session Part 2: 12.20pm – 1.00pm
Afternoon sessions: 2.00pm – 5.00pm

The first session will end at 12.15 pm at which time Question 1, the quick response question, will be distributed to candidates. At 12.20 p.m. candidates will be given 40 minutes to answer this question, which will be collected at the end of the morning session. The remaining questions are set out overleaf, so that candidates can work on these throughout the examination. All questions must be answered. The weightings for each question are indicated in the parentheses at the end of the question.

Nothing may be taken from the examination room during the lunch interval, nor may anything additional be brought into the afternoon session. It is against examination regulations for candidates to collude during the lunch break nor should there be any contact with academics.

The case study has been prepared on the assumption that candidates will not necessarily have a detailed knowledge of the type of organisation to which it refers. No additional merit will be accorded to those candidates displaying such knowledge.

Candidates should submit all papers produced during the examination, but they should distinguish clearly between formal answers (including appendices) and working papers.





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QUESTIONS

NOTES TO CANDIDATES

- (i) Answers to be prepared as on 03 June 2008 by Pat Rockelus, Principal Accountant (Technical) at Hellespont Housing Society.
- (ii) The questions below are intended to test the candidate's understanding of the situation in the case.

QUESTIONS

- 2. Draft the report for the Board on office accommodation, in accordance with the Director of Central Services' e-mail of 29 May 2008 (Page 24). (35%)
- 3. Draft the report to the Corporate Management Team on housing maintenance issues, as set out in the Chief Accountant's e-mail of 02 June 2008 (Page 26). (28%)
- 4. Draft the briefing note on leasehold service charges for the Director of Operations and Head of Finance, as specified in the Head of Finance's e-mail of 22 May 2008 (Page 19). (18%)

(To assist candidates in answering Question 2, three pro-formas are attached at the end of the case study file. The use of these pro-formas is optional.)



HELLESPONT HOUSING SOCIETY



The Hellespont Housing Society (HHS) was created on 01 January 2008 to serve as a major provider of community housing throughout the Greater Troy Region of the Republic of Lydia.

Community housing services in Lydia

Community housing in Lydia is intended to provide good quality dwellings, which are let to residents on the basis of housing need. Traditionally, local authorities have managed the community housing stock, but the majority of units are now in the hands of Registered Community Landlords (RCL's).

The powers and responsibilities of RCL's are set out in the Community Housing Act, 1997. All RCL's are required to register with the State Housing Commission (SHC); to maintain their dwellings in fully habitable condition; to allocate them to applicants solely on the basis of housing need; and to contribute positively to the maintenance of good community relations within their areas of operation.

The SHC reports to the Ministry of Housing and Community Welfare (MHCW). It has the responsibility to lay down governance and performance standards for RCL's; to monitor their performance through an inspection programme; to intervene in any cases where an RCL's performance has fallen below the minimum acceptable standards; and to undertake benchmarking and best practice studies.

A priority goal for the SHC in recent years has been to secure the delivery by RCL's of the MHCW's "Quality Homes" initiative. This initiative sets out the minimum physical standards applicable to all units of community housing that must be achieved by 2015.

Another role undertaken by the SHC is to manage the allocation of Community Housing Grant (CHG) for development projects. All RCL's can add to their stocks either by new build or by purchase and conversion of suitable existing dwellings. However, their ability to do this on any scale is likely to depend on whether or not they stand to receive an allocation of CHG. Recently, the SHC has decided to award future allocations of CHG only to a limited number of larger RCL's, which have a good record of completing schemes on time and within cost guidelines.

Lydia has adopted a system of unitary local government. In addition to the continuing participation of some local authorities in housing management, all authorities are responsible for preparing housing strategies for their areas; for maintaining a common waiting list of housing applicants; for meeting the immediate needs of homeless people; and for providing financial support for those tenants in all rented housing sectors who are deemed to be unable to afford the prevailing levels of rent.

The Greater Troy Region includes the following local authority areas:

- Ephesus City Council
- Pergamon Council
- Troy City Council
- West Phrygia Council

History of HHS

HHS has absorbed the housing stocks of two predecessor associations, Trojan Horse Housing and the Odyssey Housing Association, and now has a total stock of some 10,700 rented dwellings.

Trojan Horse Housing (THH)

THH was formed in 1998 to own and manage the housing stock that had been built up by Troy City Council (TCC). The Council transferred some 7,300 dwellings to THH, all of which were located within TCC's boundaries. This stock had been constructed over the previous eighty years to widely varying standards and included houses, bungalows, flats and sheltered housing.

At the time of transfer from TCC, there was a major backlog of repairs and improvements for THH to undertake. As part of the transfer arrangements, funding streams were put in place to address this issue.

Since the transfer, the repairs backlog has been entirely eliminated and almost all elements of the stock that are intended for long-term retention have been improved to meet the Quality Homes standard. However, there are still some 800 THH dwellings, which need complete redevelopment. These estates have received necessary maintenance, but only minor cosmetic improvements in view of their limited life span.

THH has been obliged by law to give the tenants who transferred from TCC the opportunity to buy their homes at a discount. As a result, its stock had reduced over the years and currently HHS owns approximately 6,450 dwellings inherited from THH. HHS has now assumed the remaining "right to buy" obligations of THH.

As THH has concentrated on upgrading its existing stock, it has not built up any significant capacity to undertake "new build" housing projects.

Odyssey Housing Association (OHA)

OHA had a longer history, having been formed in 1978. It had built up its stock since then, relying on CHG, government loans, market borrowing and internally generated funds. Currently, HHS owns approximately 4,250 dwellings taken over from OHA. These properties are spread across the Greater Troy Region, but none are situated within the city of Troy itself. OHA developed around 200 new dwellings annually in recent years.

All of OHA's dwellings have been constructed to modern standards and are capable of being made compliant with the "Quality Homes" standard. However, many of the units built over fifteen years ago now need replacement kitchens, bathrooms and heating systems. Provision for such replacements had therefore become a major feature in OHA's budgets in recent years.

Reasons for the merger

The decision to create HHS was reached amicably, with the endorsement of the SHC, with a view to achieving the following benefits, as set out in the business case:

- Greater flexibility to offer lettings across the whole of the Greater Troy Region.
- The opportunity to use the development expertise built up by OHA to address the redevelopment needs of elements of the THH stock.
- Economies of scale through pooling of overhead costs, especially in relation to office accommodation and ICT systems.

- Greater bargaining power in the procurement of goods and services, particularly in relation to maintenance work.
- The ability, as a larger organisation, to arrange borrowing on more favourable terms.
- Greater credibility with the SHC, thereby giving more likelihood of being selected to participate in major housing development initiatives.
- The ability to build up greater expertise in specialist areas of housing management.

Governance

HHS is a company limited by guarantee and an RCL.

It is governed by a Board of twelve non-executive trustees, three of whom are drawn from the tenant body. The remaining nine trustees have been appointed on the basis of their experience in public and community life and/or business management and include trustees with specific expertise in the fields of community development, finance, human resources, ICT, law and property.

The Board selects its chairperson annually. The current chair is Perry Cleese, who had previously served on the THH board since its inception in 1998.

The Board has overall responsibility for ensuring that HHS adheres to the relevant provisions of Lydia company and housing law, the governance and financial stability requirements of the SHC, and recognised accounting standards (which are modelled on those currently in force in the United Kingdom). It considers and determines all of the strategic and policy issues, with advice from the Corporate Management Team (CMT) of senior executives.

Executive Team

The current management structure of HHS is set out in the chart on page (xi) below.

The Chief Executive (*Anne Dromeda*) is the principal adviser to the Board, especially in relation to the strategic direction of HHS. She is responsible, with the support of the Assistant Chief Executive (*Carry Attid*), for overall co-ordination of the Society's business, for corporate governance issues, and for human resources. The Head of Personnel (*Lee Ander*) reports direct to the Chief Executive.

The CMT consists of the Chief Executive and three Directors (of Operations, Development, and Central Services). There is a formal meeting of CMT every fortnight.

The responsibilities of the senior managers are as follows:

Director of Operations (Cleo Patra)

Head of Housing Management (Polly Feemus)

- Allocation of dwellings
- Management of tenancies and tenant communications
- Provision of tenant support services
- Community initiatives

Head of Housing Maintenance (Gordon Knot)

- Maintenance and improvement of dwellings

Director of Development (Phil Octetes)

Head of Planning (Ruby Conn)

Formulating the development programme
Securing development and regeneration sites and planning approvals
Design of proposed developments

Head of Construction (Cy Clopps)

Costing of proposed developments
Securing CHG for proposed developments
Letting and supervision of development contracts

Director of Central Services (Harry Stottle)

Head of Finance (Sharon Sticks)

Accountancy
Financial planning
Rent accounting and collection
Risk management and insurance
Treasury management

Head of Support Services (Archie Meadies)

ICT services
Legal services
Office management and other central services

HHS uses a firm of estates surveyors (Cass, Torr and Pollocks) to provide valuation advice and to act on its behalf in major property negotiations. The internal audit function has also been outsourced, to Argus Audit Associates.

You are Pat Rockelus, newly appointed as Principal Accountant (Technical). You will report direct to Sharon Sticks, Head of Finance, and you will be assisted by Jay Sun, Accounting Technician.

Financial arrangements

HHS has a financial year ending on 31 December, as did the two predecessor associations. Its accounts are prepared in accordance with a Standard of Recognised Practice for RCL's issued by the Lydia Accounting Standards Board, with the agreement of the SHC.

The 2007 final accounts for both THH and OHA have been completed and audited, without any major problems having come to light.

Economic context

Lydia's currency is the Lydian pound (£), which has parity with the pound sterling. Lydia is not a member of the European Union, and does not levy VAT.

As a result of good economic management over many years, Lydia enjoys stable prices, and the annual inflation rate over the next five years is expected to be at or close to zero.

The Bank of Lydia's base rate is currently set at 3% per annum.

Staff representation

HHS has decided to recognise the Lydia Association of Public Service Officers (LAPSO) as the representative negotiating body for its staff. This decision continued the long established practice at THH, where the great majority of staff were LAPSO members. In the case of OHA, a few employees had also joined LAPSO, but most were not members of any trade union.

A Staff Consultative Committee, composed of Board members and LAPSO representatives, meets quarterly to discuss industrial relations issues as they arise. Both sides can place items on the agenda for these meetings and special meetings can be called at short notice in case of urgency.

The Board and CMT are mindful of the need to keep all employees, including those who are not union members, abreast of developments affecting the Society as and when they occur.

Housing maintenance

The housing maintenance budget for **2008** is set out on pages (vii) and (viii) below. This budget had to be prepared in difficult circumstances just prior to the creation of HHS. The maintenance teams responsible for the THH and OHA stocks prepared separate budgets. These were then totalled to provide an HHS budget.

OHA employed external contractors for all of its maintenance work, but THH had a direct works organisation (DWO) in place to undertake its cyclical maintenance, responsive repairs and re-let repairs. The THH element of the budget was prepared on the assumption that the DWO would remain in being throughout 2008.

RCL's are required by law to set up a separate "arm's length" trading company for any DWO that they operate. The value of maintenance work carried out by a DWO on an RCL's own stock is debited to the housing maintenance account and credited to the DWO trading account in accordance with the provisions of the relevant contracts.

During its final year of existence, THH began a search for a suitable private company to enter into a partnering arrangement for cyclical works and responsive and re-let repairs, the aim being to obtain improved service and lower costs. The chosen company would take over THH's direct works team. The procurement arrangements placed heavy emphasis on customer service and quality assurance.

The HHS board was fully supportive of this initiative and completed the tendering process. In consequence, HHS transferred the whole of its DWO to a major building firm, Vulcan Construction, on 01 March 2008.

Vulcan undertook to employ all except five of the staff of the DWO on terms and conditions equivalent overall to those that applied during their HHS employment. Of the five members of staff who did not transfer to Vulcan, two were retained by HHS and redeployed to other duties, and three accepted redundancy terms.

HHS awarded Vulcan an initial three-year contract for the range of work previously carried out by the DWO. The HHS Board also decided that Vulcan would only be awarded any further work following open competition.

A recent SHC report highlighted the widely varying performance levels of the maintenance services provided by different RCL's across Lydia as a whole. It is expected that this issue will figure prominently in future inspections undertaken by the SHC.

Leasehold service charges – flats and maisonettes

Sitting tenants of flats or maisonettes who have purchased their dwellings have done so on a leasehold basis, entering into ninety-nine year leases at peppercorn rents. HHS retains the freehold ownership in all such cases. The purchasers (or their successors) have continuing liability to pay service charges to contribute their share of the costs of upkeep and repair to the common parts of the properties concerned.

The Lydian Parliament enacted the Leasehold Charges Act 2006 to clarify and update the basis on which RCL's are empowered to levy such service charges. The Act came into force on 01 January 2008 and its provisions apply to all service charges levied by RCL's for periods from that date onwards.

Office accommodation

A consequence of forming HHS has been the need to review office accommodation. Neither THH nor OHA had existing office accommodation that was deemed suitable to serve as the long-term headquarters of the new organisation.

Fortunately, HHS was able to acquire the right to take ownership of an office development site at the Homer Valley Business Park on the outskirts of the city of Troy. Preliminary proposals are being drawn up to develop a purpose designed office building at this location, to be called **Hades House**. The new building will provide 3,200m² of floor space, with space for further expansion if required at a later date.

The main difficulty with this project is that permanent access to the site is dependent on construction of the Homer Valley Distributor Road, which is not due to be completed until December 2012. HHS can use another temporary access to the site before then, but this will be permitted for construction purposes only.

Pending completion of Hades House, HHS will have to make the best use it can of the existing office buildings, Argosy House and the Caesar Centre. For the time being, HHS is splitting its headquarters departments between these two sites.

THH was based at **Argosy House** in Troy city centre. Argosy House was built in the nineteen fifties and its layout and standard of facilities fall well short of modern requirements.

The **Caesar Centre**, a satisfactory (though small) modern building, is located in the town of Pergamon, which is eighteen miles distant from the city of Troy. OHA rented this office space from the landlords, Golden Fleece Investments. The lease has been transferred from OHA to HHS, but will come to the end of its term on 31 December 2010. However, it is understood that Golden Fleece are willing to grant HHS a new lease for the period up to 31 December 2012 to coincide with the expected completion date for Hades House.

Argosy House and the Caesar Centre each has sufficient on site car-parking to enable spaces to be allocated to all those members of staff at each site who wish to use them.

A preliminary office accommodation revenue budget for **2009** has recently been drawn up and this is set out on page (ix) below.

There has been considerable debate in Lydia about the future of office-based employment. The Lydian Government's Ministry of Enterprise is currently preparing a "Flexible Working Toolkit" to encourage innovative practice. The Ministry has already issued a preliminary statement, and a copy of this is attached at page (x) below.

(vi)

HELLESPONT HOUSING SOCIETY

Revenue estimates, 2008: Housing maintenance

| | THH stock | | OHA stock | Total |
|----------------------------------|--------------|----------------------|----------------------|---------------|
| | 6,450 | | 4,250 | 10,700 |
| <i>Average no. of dwellings:</i> | | | | |
| Works carried out by: | Direct works | External contractors | External contractors | |
| | £'000 | £'000 | £'000 | £'000 |
| <u>Planned works</u> | | | | |
| Cyclical works | 1,140 | 0 | 540 | 1,680 |
| Reinvestment works | 0 | 2,350 | 2,410 | 4,760 |
| <u>Reactive works</u> | | | | |
| Responsive repairs | 2,010 | 0 | 970 | 2,980 |
| Re-let repairs | 799 | 0 | 340 | 1,139 |
| THH SUB - TOTALS | 3,949 | 2,350 | | |
| TOTAL | 6,299 | | 4,260 | 10,559 |

Revenue estimates, 2008: Housing maintenance costs per dwelling

| | THH stock | OHA stock | Total |
|----------------------------------|----------------|----------------|----------------|
| | 6,450 | 4,250 | 10,700 |
| <i>Average no. of dwellings:</i> | | | |
| | £ per dwelling | £ per dwelling | £ per dwelling |
| <u>Planned works</u> | | | |
| Cyclical works | 177 | 127 | 157 |
| Reinvestment works | 364 | 567 | 445 |
| <u>Reactive works</u> | | | |
| Responsive repairs | 312 | 228 | 279 |
| Re-let repairs | 124 | 80 | 106 |
| TOTAL | 977 | 1,002 | 987 |

The above figures (both tables) are to be read in conjunction with the notes on the following page.

Notes to the 2008 Housing Maintenance estimates:

1. All of above figures exclude the costs associated with the following items, which are chargeable to separate budget heads:
 - Commissioning costs (salaries of maintenance surveyors, etc).
 - The costs of providing aids and adaptations for people with disabilities.
 - Estate works (e.g. repairs to roads and paths not adopted as public highways).
 - Works which are subject to cost recovery via service charges.
2. **Cyclical works** include periodic painting of dwellings and inspection and servicing of heating appliances and other equipment.
3. **Reinvestment works** consist of renewals of bathrooms, kitchens, boilers and heating systems, re-roofing and other planned works.
4. **Responsive repairs** are works carried out to rectify defects reported by tenants or by HHS staff.
5. **Re-let repairs** are jobs undertaken to prepare empty dwellings for re-letting. The extent and costs of these jobs depends on the condition of each dwelling at the time of vacation, and also on its attractiveness to potential tenants. A "hard to let" dwelling may receive additional work with a view to securing an earlier letting and so minimising loss of rent.
6. The following volumes and unit costs were used in drawing up the 2008 budgets for Responsive Repairs and Re-let Repairs:

| | THH stock | OHA stock |
|---------------------------|----------------------|----------------------|
| Responsive repairs | | |
| Number of jobs | 12,800 | 6,600 |
| Average cost per job | £157 | £147 |
| Re-let repairs | | |
| Number of re-lets | 470 | 320 |
| Average cost per re-let | £1,700 | £1,062 |

HELLESPONT HOUSING SOCIETY

Preliminary revenue estimates, 2009: Office accommodation

| | Argosy House | Caesar Centre | Total |
|--|---------------------|----------------------|----------------|
| | m ² | m ² | m ² |
| INTERNAL FLOOR AREA | 2,250 | 1,400 | 3,650 |
| NO. OF EMPLOYEES BASED AT EACH OFFICE | 182 | 95 | 277 |
| | £'000 | £'000 | £'000 |
| <u>EXPENDITURE</u> | | | |
| EMPLOYEES | | | |
| Caretaking | 35 | 0 | 35 |
| PREMISES | | | |
| Cleaning contract | 110 | 58 | 168 |
| Grounds maintenance | 12 | 0 | 12 |
| Insurance | 18 | 0 | 18 |
| Property Tax | 82 | 47 | 129 |
| Rent | 0 | 170 | 170 |
| Repairs and maintenance - annual provision (recurring) | 48 | 2 | 50 |
| Repairs and maintenance - specific items (2009 only) | 52 | 0 | 52 |
| Service charge | 0 | 39 | 39 |
| Telephones | 62 | 25 | 87 |
| Utility charges - heat/light/water | 71 | 33 | 104 |
| | 455 | 374 | 829 |
| DEPRECIATION | | | |
| Buildings | 108 | 0 | 108 |
| Furniture and equipment | 63 | 40 | 103 |
| | 171 | 40 | 211 |
| TOTAL EXPENDITURE | 661 | 414 | 1,075 |
| <u>INCOME</u> | | | |
| Recharges to service departments | 661 | 414 | 1,075 |
| NET EXPENDITURE | 0 | 0 | 0 |
| | | | |



REPUBLIC OF LYDIA MINISTRY OF ENTERPRISE EMPLOYERS' GUIDE TO FLEXIBLE WORKING

Problems and opportunities

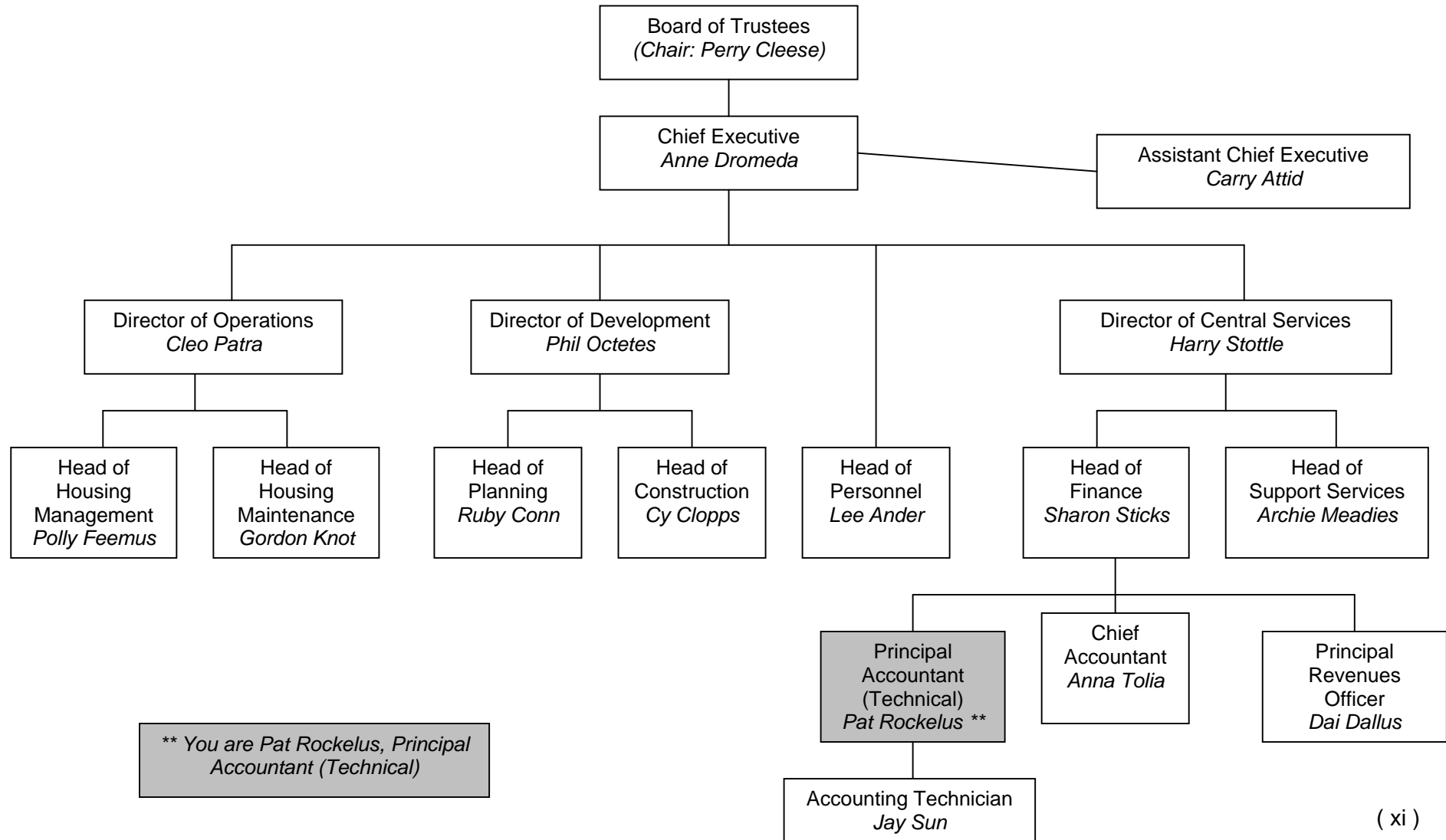
- There are currently more than two million office based workers in Lydia. Accommodating them ties up capital investment of more than £20 billion and incurs annual occupancy costs of £6 billion per annum. Average occupancy per desk is less than 30% of the working day. The average occupancy cost per worker per year is around £3,000, resulting in a cost per hour of approximately £5.00 for each occupied desk.
- Apart from the financial costs to employers, office based staff spend their own time and money travelling, often in stressful conditions, as they struggle to balance the competing demands of home and work. Commuting to work just to use a computer and telephone is expensive and pointless, if the same tasks can be performed at or close to home.
- Flexible working (such as working from home or from a decentralised workplace) allows employers and workers to break free from the straitjacket of traditional work practices. It can often enable a task to be carried out at a time and place, which is most effective for the employer and employee, and better suited to meeting the needs of the customer.
- Mobile staff such as travelling professionals can spend more time with their clients, if they are no longer tied to a head office base. Allowing them to work from home or a local office can result in a productivity increase of 30%, as well as lower business travel costs.

Rising to the challenge

- Employers wanting to take full advantage of flexible working must ensure that they put in place a comprehensive strategy, with full commitment from managers responsible for information services, office facilities and human resources, working to a common agenda of business improvement.
- A successful strategy will be designed: to get the most from technology investments by streamlining processes and reducing paper dependence; to create modern working environments both within and away from the main office; and to prepare, equip and support managers and staff in working flexibly.
- A flexible working strategy will require investment in systems, hardware, communications and training. Residual office buildings may also need to be adapted to create more meeting rooms, library facilities, etc in place of dedicated desk space.
- This scale of investment will require a solid business case to be prepared and sold to senior management, taking into account all potential efficiency gains and other benefits. Staff consultation and the raising of awareness must also receive high priority to ensure that there is the widest possible support for change in all sections of the organisation.
- By developing a culture of flexibility and adaptability, your firm will be able to stay ahead in the marketplace of tomorrow and become a first choice employer for people seeking a progressive working environment.

A full guide to implementing flexible working will be published in the Ministry's "Flexible Working Toolkit", which will be available from 30 June 2008 – to place your order, please visit our website, www.enterprise.gov.lyd/flexibleworkingtoolkit

HELLESPONT HOUSING SOCIETY – STAFFING STRUCTURE



HELLESPONT HOUSING SOCIETY



FILE NO: *PR / Projects / 09/08*

HELD BY: *Finance / PR*

CONTENTS

| Page | Details | Date |
|---------|---|----------|
| 1 - 2 | E-mail from Head of Finance re initial projects. | 06.05.08 |
| 3 - 4 | E-mail from Head of Support Services re office accommodation, together with notes of the Office Accommodation Working Party meeting of 24.04.08. | 07.05.08 |
| 5 - 7 | E-mail from Assistant Chief Executive re forthcoming projects, together with: (i) "Summary of Best Practice in Housing Maintenance" from the State Housing Commission (ii) "Leasehold Charges Act 2006 – Summary of Basic Provisions" from the State Housing Commission | 08.05.08 |
| 8 | E-mail from Director of Operations re leasehold service charges. | 09.05.08 |
| 9 | E-mail from Head of Housing Management re Office Accommodation Working Party. | 12.05.08 |
| 10 | Letter from Sam Toreeny, Administration Officer, re leasehold service charges. | 13.05.08 |
| 11 - 13 | E-mail from Head of Housing Maintenance re responsive and re-let repairs, together with statement of payments and commitments up to 30.04.08. | 15.05.08 |
| 14 - 15 | Letter from Elgin Marbles Partnership, architects, re Hades House development. | 16.05.08 |
| 16 - 17 | Note from Accounting Technician re housing repairs expenditure and leasehold service charges. | 19.05.08 |
| 18 | E-mail from Head of Support Services re information for office accommodation report. | 20.05.08 |
| 19 | E-mail from Head of Finance re leasehold service charges. | 22.05.08 |
| 20 - 21 | Letter from Cass, Torr and Pollocks, chartered surveyors, re office accommodation property transactions. | 23.05.08 |
| 22 | E-mail from Head of Housing Maintenance re planned maintenance expenditure. | 26.05.08 |
| 23 | E-mail from Assistant Chief Executive re staff car parking and travel. | 28.05.08 |
| 24 | E-mail from Director of Central Services re office accommodation report. | 29.05.08 |
| 25 | Letter from Hellespont Tenants' Association to Chief Executive with comments on office accommodation and housing maintenance. | 30.05.08 |
| 26 | E-mail from Chief Accountant re housing maintenance report for Corporate Management Team. | 02.06.08 |

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Sharon Sticks, Head of Finance
To: Pat Rockelus, Principal Accountant (Technical)
Date: 06 May 2008, 08.47
Subject: Initial projects

Welcome to Hellespont! With your arrival, to complete our finance team, we are now in a strong position to address the various financial and management issues facing HHS. Jay Sun, the Accounting Technician in your section, has been with us for four months now and he will be able to give you solid support.

I have discussed with Harry Stottle, our Director of Central Services, the initial assignments that we would like you to deal with by early June. These are set out below:

a) Office accommodation

Our headquarters staff are still split between the Argosy House and Caesar Centre sites. Communications between the two – in terms of both physical and ICT links – are far from satisfactory.

To be frank, I hear constant complaints from staff about the poor quality of the data links and the inability to share information on all systems with colleagues at the Caesar Centre. The fact is that we are still, in many respects, running two separate suites of IT systems.

Physical communication between the two sets of offices is also very difficult at times, particularly when, as so frequently seems to happen, engineering works disrupt the Troylink train service. There is a consequent temptation to avoid setting up meetings that require attendance from staff at both locations, with the risk that important points will go unheard.

This all adds up to a lot of wasted time and effort, and consequent frustration on the part of staff at both locations. It is also contributing to the persistence of an “us and them” mentality between the THH and OHA elements of our staff.

This situation appears only likely to be finally resolved once the Hades House project has been completed.

One of your roles will be to serve as finance representative on the Office Accommodation Working Party (OAWP) and to provide support for this group. There is a substantial piece of work to undertake to evaluate the options available to us to improve office accommodation arrangements in the interim period up to initial occupation of Hades House. You are likely to be asked to prepare a draft report for consideration by the Board.

There will, of course, also be the need to engage fully with staff representatives over these issues. CMT has agreed to issue a special edition of the staff newsletter setting out the office accommodation options and seeking comments before the Board takes a final decision on how to proceed with interim arrangements.

b) Housing maintenance

Because of the severe work pressures we experienced this time last year, it was not possible to prepare the maintenance budgets for HHS in the depth that I would have wished. What we ended up with was, in effect, simply an amalgamation of the separate THH and OHA budgets.

You may already have noted from the information supplied earlier that, on average, just under 2 response based jobs per dwelling have been allowed for in the budget for the ex-THH stock as against around 1.5 jobs per dwelling for the ex-OHA dwellings. Likewise, costs for re-let repairs for an ex-THH dwelling appear to be 60% higher than for an ex-OHA unit. Differentials of this magnitude surely warrant further examination.

The transfer of the direct works operation to Vulcan Construction with effect from 01 March 2008 has further complicated budgetary control in this area. This transfer has many ramifications and I expect that some of them remain to be identified and quantified.

Anna Tolia, our Chief Accountant, has requested assistance in drawing up a revised estimate of housing maintenance expenditure for 2008 and CMT has instructed that this be combined with a report for them indicating how we measure up in our maintenance arrangements by comparison with recognised standards of best practice.

Anna will let you have a more detailed statement of the requirements for this exercise.

c) Leasehold service charges

The Operations Department is responsible for the administration of leasehold service charges. The Director of Operations, Cleo Patra, has advised me that the long serving member of staff who normally carries out this work is currently absent on sick leave because of severe stress. Apparently, they have no-one else with detailed understanding of what is required in this respect.

I know that there are deadlines applicable to the billing process, but I am not sure of the exact details. I should be grateful if you would review the situation, take the necessary steps to calculate the outstanding charges and let Cleo Patra and me know what further action is needed.

I will be available to discuss progress on these items with you as necessary during the coming weeks.

Sharon

Sharon Sticks
Head of Finance

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Archie Meadies, Head of Support Services
To: Pat Rockelus, Principal Accountant (Technical)
Date: 07 May 2008, 10.36
Subject: Office Accommodation

It was good to meet you for the first time yesterday. I am now writing as promised to outline the office accommodation issues that we face. As I mentioned, the current split between two sites eighteen miles apart is proving highly challenging both for management co-ordination and staff morale.

The Hades House project is still at the early planning stage. We have secured rights to the site at Homer Valley Business Park, but the highway access issue will mean (subject to further comments below) that the building will only be complete and ready for occupation by 02 January 2013.

Hellespont's own development team does not have expertise in office projects, so we have instructed a firm of architects, the Elgin Marbles Partnership, to carry out a preliminary study of the development programme and costs for Hades House.

We have also been studying two main options to improve matters for the interim period prior to 2013.

Option 1 is to install additional temporary office buildings on the large car park we have here at Argosy House. This would allow all central staff to be based here and enable us to dispense with the Caesar Centre offices at Pergamon.

Option 2 is for us to obtain an extension to the lease at the Caesar Centre, so that some departments could remain in occupation there until Hades House is complete. Obviously, this option would not provide the benefits of operating at a single site, so we would need to compensate for this as best we can by carrying out a major upgrade of the communication links between the two sites.

A **third option** may also present itself. Troy City Council have indicated informally that they may be prepared to bring forward the construction of the Homer Valley Distributor Road. We do not yet know whether they will come up with a definite proposal. However, if they do, we ought to consider this alongside the other two options, since it could enable us to construct and occupy Hades House at a much earlier date than 2013.

CMT is yet to form a view as to the way forward and the Office Accommodation Working Party (OAWP) has been instructed to prepare a report analysing the available options. The report is due to go forward to the HHS Board on 04 July. Because of my current work pressures, I am unable to draft the report myself and will therefore be looking to you to prepare a first draft for consideration at the next meeting of the OAWP on 11 June. The Director of Central Services will be letting you have detailed guidance on the format of the report.

Attached are the notes of the last OAWP meeting to give you additional background. I will copy through to you all relevant further information as soon as I receive it.

Archie Meadies

Archie Meadies, Head of Support Services

Office Accommodation Working Party, April 24, 2008

1. **Apologies for absence:** Polly Feemus, Head of Housing Management.
2. **Future membership of OAWP:**
The Chair advised that Pat Rockelus, the new Principal Accountant (Technical), would soon be joining OAWP. He envisaged that Pat would prepare the first draft of the major report needed for the Board.
3. **Hades House:**
The Chair reported that the Elgin Marbles Partnership had been asked to complete their review of the costs and programme for Hades House by mid May. Their figures would therefore be available for inclusion in the report.
4. **Interim office provision:**
The Chair asked all members of the working party to provide necessary information to Pat Rockelus for the report. In respect of Option 1, initial quotations for the provision of temporary offices were due to be received by the end of May.

It was noted that the Chief Executive had contacted Troy City Council to see whether there was any possibility of bringing forward construction of the Homer Valley Distributor Road. Their response was awaited.

5. **Staff car parking and travel:**
The Working Party considered the implications arising from Option 1 for staff parking provision. The provision of the temporary offices would take up a large part of the Argosy House car park. There are 155 spaces available for staff parking at present, which is just sufficient to meet needs.

Option 1 would result in a reduction to 95 spaces. This reduced number would be allocated to staff members with physical disabilities first of all, then to essential car users and finally to others who regularly use their vehicles on HHS business. Other members of staff would need to find spaces elsewhere at their own expense or use public transport.

A brief discussion ensued. It was noted that HHS was under no contractual obligation to provide staff parking and, indeed, that it was very exceptional in central Troy for employers to offer free spaces to their staff.

Many employees have grown used to free parking for many years on a "custom and practice" basis, but, on balance, it was felt that staff would need to adjust to the economic realities. The parking problem would be only short term as there would be more than sufficient site area at Hades House to provide parking spaces for all members of staff who would be based there.

It was expected that no compensation would be awarded in respect of extra travel costs incurred by relocated members of staff.

It was noted that some staff had already been relocated from Caesar Centre to Argosy House without significant complaints arising, so it was not felt that the vacation of Caesar Centre under Option 1 would cause any major employee relations problems.

6. **Home / flexible working:**
It was reported that several members of staff had asked why the possibility of home / flexible working was not being actively pursued as an alternative to incurring heavy capital expenditure on office provision.

The Working Party felt that this subject was very wide ranging and really beyond its remit, which was only to see how the requirements laid down by CMT could best be met. It was agreed however to maintain a watching brief in relation to the possibilities for future development of home / flexible working.

7. **Date of next meeting: 11 June 2008**
Archie Meadies, Chair

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Carry Attid, Assistant Chief Executive
To: Pat Rockelus, Principal Accountant, Technical
Date: 08 May 2008, 11.16
Subject: Forthcoming projects

It was good to have the opportunity to meet you yesterday. I am looking forward to working with you on the projects that we discussed and have set out some initial points below. Relevant documents are attached.

Housing maintenance – best practice standards

I have attached an advance summary of best practice just issued by the State Housing Commission (SHC). They are preparing a full statement for use by their inspection teams, which is to be published in August 2008. The Chief Executive wants you to take full account of the current summary in preparing your report for CMT.

I understand from SHC contacts that they have concluded that effective procedures for responsive repairs should produce an average cost per job in the region of around £135, based on standard job definitions. They also consider that, with a well-managed programme, responsive and re-let repairs should together amount to no more than 35% of total maintenance expenditure.

Leasehold service charges

In December last year, the SHC issued a summary (copy also attached) of the main provisions of the Leasehold Charges Act 2006. As you know, this Act is now in force, so the work you are doing for the Operations Department on this topic will need to take full account of these provisions.

Carry Attid

Carry Attid, Assistant Chief Executive



THE STATE HOUSING COMMISSION

SUMMARY OF BEST PRACTICE IN HOUSING MAINTENANCE

1. A long term strategic approach

- 1.1 Establishing maintenance needs on the basis of reliable and up to date stock condition data
- 1.2 Identifying the sustainable housing stock
- 1.3 Setting realistic budgets that reflect needs and available resources

2. Engaging with tenants

- 2.1 Involving tenants in decision making and prioritisation
- 2.2 Involving tenants in performance monitoring

3. Effective planned maintenance

- 3.1 Increasing planned maintenance spending as a proportion of total maintenance budgets
- 3.2 Formulating timely and cost effective cyclical and renewals programmes
- 3.3 Investing in programme and project management to ensure budgets are spent fully and on time

4. Efficient responsive repairs

- 4.1 Reducing the volume of responsive work
- 4.2 Improving the accuracy of diagnosis, so minimising the need for repeat visits and variation orders
- 4.3 Delivering work on a timely basis
- 4.4 Increasing customer focus
- 4.5 Prioritising performance monitoring and quality control

5. Coherent re-let repairs

- 5.1 Adopting a clearly defined "lettable standard", linked to allocation policies and business plans
- 5.2 Inspecting dwellings prior to vacation, followed by a quick and efficient response by contractors to minimise turnaround times

6. Value for money and improved procurement arrangements

- 6.1 Encouraging competition with an output and improvement focus
- 6.2 Placing emphasis on performance management, making full use of the management information available from repairs systems
- 6.3 Developing constructive partnerships with contractors



THE STATE HOUSING COMMISSION
THE LEASEHOLD CHARGES ACT 2006 - SUMMARY OF BASIC PROVISIONS

1. The Act comes into force on 01 January 2008. It applies to all dwellings that have been purchased on leasehold terms from a local authority or RCL ("landlords") and is intended to ensure that leaseholders are charged on a fair and consistent basis.

Annual timetable

2. The Act places a duty on landlords to provide each leaseholder with a detailed initial calculation of the applicable service charge, to be issued no later than three months after the start of each financial year. Leaseholders then have two months to consider the calculation and obtain explanations, and a further month, in which to lodge any appeals with the Leasehold Charges Tribunal (LCT). If no appeal is lodged, the charge calculated by the landlord becomes the substantive charge for that financial year.
3. If a landlord fails to issue its initial service charge calculation within the three-month deadline, an LCT may treat this as an aggravating factor and make an appropriate deduction in reaching a decision on an appeal.
4. If a landlord has still not issued its initial service charge calculation within six months after the start of the financial year, it is debarred from levying a service charge at all for that year. It must then credit any amounts received on account against the service charge for the following year.
5. Landlords must provide leaseholders with a calculation of the actual costs incurred for the property not later than four months after the end of a financial year. The detailed arrangements for year-end procedures will be set out in a later briefing note.

Basis of calculation

6. The service charges recoverable from leaseholders must relate only to the costs of operation, maintenance and/or replacement of the common facilities and features of the property concerned, plus an administration allowance (as described below).
7. Service charges calculated for individual dwellings at a property must be weighted by reference to the size of the dwellings. For this purpose, a one-bedroom dwelling will have a weighting of 1, a two-bedroom dwelling a weighting of 2, and so on.
8. Where a property includes both rented and leasehold dwellings, landlords must also allocate a fair proportion of costs to the rented dwellings (whether or not they are occupied), again weighted according to the size of the dwellings concerned.
9. Where a non-routine repair job at a property is expected to cost more than £5,000, landlords must obtain three quotations from reputable contractors before putting in hand the work concerned. The service charge calculation must allow for the cost of such works (and any related administrative costs) to be spread equally over five financial years, starting with the year when the work is due to commence.
10. As part of their service charge calculations, landlords are entitled to add an allowance for administrative costs. Landlords must provide details of how they have calculated such an allowance, which must not exceed 20% of the relevant direct costs.
11. If landlords need to take recovery action against individual leaseholders, any costs incurred can only be charged against the individuals in default and not against leaseholders generally.

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Cleo Patra, Director of Operations
To: Pat Rockelus, Principal Accountant (Technical)
Date: 09 May 2008, 12.02
Subject: Leasehold service charges – private and confidential

I believe that the Head of Finance has already outlined the problems we have with these service charges. In total they bring in about £300,000 each year, representing a significant source of income. Sam Toreeny, an Administration Officer in my Department, has for many years looked after the THH service charges, which represent by far the larger proportion.

Over the years, Sam has dealt with almost all aspects of this work. He keeps our records of the chargeable dwellings and the identities of the current leaseholders, liaises with staff in the various departments about future spending, prepares and despatches the estimated charge statements, deals with any consequent queries and appeals, and instructs the Revenues Section about the bills that are to be sent out.

When any serious disputes arise, he is very keen to discuss and resolve matters with the leaseholders. He also prefers to chase up personally any cases of non-payment, and makes recommendations to me about any write offs that may be necessary.

Because of his excellent work, Sam was asked, on formation of HHS, to take on additionally the service charges for former OHA dwellings. He readily agreed. At that stage, senior colleagues and I had doubts about his capacity to deal with all of this extra workload, given that the service charges are not his only responsibility. Our intention was to ensure that another member of staff would be trained to work with Sam on the service charges, both to lighten his personal workload and to provide a degree of cover. However, Sam was not very co-operative and described this proposal as “unnecessary interference” in his special area of work. Regrettably, with all of the other pressures that the merger has brought, the need to insist on changes in this respect was not pursued.

During the past few weeks, close colleagues of Sam’s thought he was becoming rather withdrawn. He finally closed down his workstation at around 2.30 pm last Friday and left the office without any explanation. His doctor has now diagnosed him as suffering from severe stress, and he is likely to be away from work for at least two months.

In these circumstances I need to ask for your help to sort out the immediate priority workload in relation to the service charges. I have been able to ascertain that, fortunately, all of the final service charge accounts for 2007 have been dealt with. All of the service charge estimates for 2008 have also been prepared and sent out to leaseholders, with the exception of those for two blocks of flats in Troy. The blocks concerned are Naxos Court and Nike Court. Sam had been working on the estimates for them immediately prior to starting his sick leave.

I went to see Sam at his home yesterday. He was insisting that he had vital information with him, which he would send through to you. I was not very happy about this as, really, he should not be dealing with any work matters at present. On balance, I judged it was better to agree to his request, since he would then be able to rest easy in the knowledge that he had given you the necessary data.

I will talk further to the Head of Finance about this situation and we will then let you have a detailed note of the action we are looking for.

Cleo Patra

Cleo Patra, Director of Operations

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Polly Feemus, Head of Housing Management
To: Archie Meadies, Head of Support Services;
Pat Rockelus, Principal Accountant, Technical
Date: 12 May 2008, 14.19
Subject: Office Accommodation Working Party

I've now had a chance to read the minutes of the last meeting of the OAWP, which have only just reached me. It really does seem, on occasion, that those of us who are based at Pergamon are being left out of the loop.

I'd expected to attend the meeting. However, there was reported to be very severe traffic congestion on the motorway that day (not an unusual occurrence recently!), so I finally decided that it was more sensible for me to remain at my office here in the Caesar Centre.

There was one particular point I had intended to make at OAWP if the proposal to centralise accommodation at Argosy House had gained favour. We need to remember that as well as serving as one of our headquarters buildings, the Caesar Centre also functions as the base for our local management staff and maintenance surveyors here at Pergamon, and as the local service point for personal enquiries by tenants and applicants.

The Chief Executive has endorsed Housing Management's view that the continuing provision of a Pergamon local office is absolutely essential for the future. We must ensure continuity of service, so a new local office needs to be in place as soon as the Caesar Centre is vacated. Out of a total of 95 staff currently located at the Caesar Centre, 12 will need to remain based at a new Pergamon local office.

As you know, we have just re-located our West Phrygia local office. The costs involved there were £68,000 for initial fitting out and equipment, with annual running costs thereafter, including rent, of £35,000 per annum. I understand that commercial property rent levels are similar in Pergamon and West Phrygia, so I would suggest you use the above figures as being the best guide to the likely costs for Pergamon.

The Troy local office is currently based within Argosy House. I've already asked the architects to include an allowance for the Troy local office staff in their space allocations for Hades House. This location will not be ideal for personal callers, as compared with Argosy House, which is adjacent to the main bus station. However, the volume of personal callers is now reducing, as more and more tenants are calling us by phone or using e-mail, so I think it's reasonable to assume that we'll be able to live without a separate local office in central Troy by the time Hades House is complete.

Polly Feemus

Head of Housing Management

27 Corinthian Close, Ionic Heights, Troy TR3 4CJ

Pat Rockelus
Principal Accountant (Technical)
Hellespont Housing Society

13 May 2008

Dear Pat,

I hope that my Director, Cleo Patra, has contacted you by now about the service charge estimates for Naxos Court and Nike Court. I'm under strict instructions from my doctor not to worry about office matters, but, as I have much of the information with me at home, the least I could do was to put you in the picture.

You'll need the summary of property numbers for the two blocks, as follows:

| | <u>Naxos Court</u> | | <u>Nike Court</u> | |
|----------------|--------------------|------------------|-------------------|------------------|
| | <u>Tenanted</u> | <u>Leasehold</u> | <u>Tenanted</u> | <u>Leasehold</u> |
| One-bedroom | 5 | 0 | 0 | 0 |
| Two-bedrooms | 9 | 1 | 6 | 8 |
| Three bedrooms | 14 | 6 | 3 | 9 |
| Four bedrooms | 2 | 0 | 0 | 0 |
| | <u>30</u> | <u>7</u> | <u>9</u> | <u>17</u> |

I've compiled all of the cost estimates for 2008, apart from the repairs and administration figures:

| | <u>Naxos Court</u> | <u>Nike Court</u> |
|----------------------------------|--------------------|-------------------|
| | £ | £ |
| Alarm systems/door entry | 2,980 | 2,980 |
| Caretaking and cleaning | 7,400 | 5,600 |
| Communal light and heat | 2,250 | 1,840 |
| Depreciation - service equipment | 940 | 620 |
| Landscape maintenance | 4,700 | 4,560 |
| Lift maintenance | <u>3,100</u> | <u>5,100</u> |
| | <u>21,370</u> | <u>20,700</u> |

I feel I owe you an explanation as to how things have got into this state. I've always taken pride in the standard of my work. When the HHS merger went through, I thought I'd be able to take on the OHA service charge work with no problem, but it proved to be a lot more complicated than I'd expected. Many of the former colleagues in THH, who I'd always relied on to provide necessary information, had moved on to new jobs making the whole exercise more difficult. Also there was the added complexity arising from the new Leasehold Charges Act, and complications affecting other aspects of my work.

The final straw was a constant stream of letters I started receiving from leaseholders about landscape maintenance, with complaints about declining standards and rampant weed growth. We've been using the same landscape contractor for many years now, and in fact he's become a personal friend of mine, so I just can't understand what's gone wrong.

What with the senior managers in my department being so busy and not really understanding the ins and outs of service charges anyway, I felt that really there was no-one I could turn to for help. That's what finally pushed me over the edge. Good luck with the service charges.

Yours sincerely,

Sam Toreeny

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Gordon Knot, Head of Housing Maintenance
To: Pat Rockelus, Principal Accountant, Technical
Date: 15 May 2008, 17.26
Subject: Housing maintenance expenditure – responsive and re-let repairs

Sharon Sticks has asked me to let you have details of expenditure commitments so far against the 2008 maintenance budget. I have obtained the relevant figures from our housing maintenance systems, as set out in the attached statement, which has been prepared on the following basis:

Completed jobs:

For responsive and re-let repairs, the actual costs have been included for jobs paid for from 01 January 2008 up to 30 April 2008, whether ordered/carried out in the current or previous year.

Jobs ordered but still in progress:

For jobs ordered but not completed by 30 April, costs have been included on the basis of the initial estimate for each job.

For responsive repairs, our clerical staff often find it difficult to identify exactly what work a tenant requires, partly from lack of access to an effective repairs diagnosis tool, and partly because of insufficient training. This factor results in the final costs for individual jobs often varying greatly - up or down - from the initial estimate.

From past experience, I would suggest that, for the responsive repair jobs, you make an addition of 14% to the estimated values to give a realistic indication of final cost for the jobs in this category.

Re-let repairs are subject to individual assessment by our surveyors. The actual costs for this category normally work out on average at around 8% greater than the estimated costs, so again you will need to make an appropriate adjustment.

Allowance for the remainder of the year – number of jobs:

I have not included in my statement any costs for jobs still to be ordered for the remaining months of the year (01 May – 31 December 2008). I would recommend that you derive the likely numbers of jobs to be ordered for each sector of the stock from the assumptions made in the original housing repairs budget, as those assumptions can be expected to remain valid.

Jobs ordered from mid-December 2008 onwards are likely to be completed in January 2009 with the resulting costs being chargeable against the 2009 budget. Therefore, I would suggest you apply a proportion of 7.5/12, rather than 8/12, in working out your projections of the remaining numbers of jobs that will be chargeable in 2008.

Allowance for the remainder of the year – average cost per job:

For responsive repairs, I would recommend using the latest actual average costs for the ex-THH and ex-OHA elements of stock, based on the jobs completed in March and April 2008.

For re-let repairs, we have made some progress in adopting a more consistent approach across the whole of the HHS stock. Therefore, I suggest an average cost of £1,550 for ex-THH dwellings and £1,140 for ex-OHA dwellings.

Housing maintenance systems

The attached figures have been extracted from the two separate repairs systems that we currently have to work with. These are CABIN, inherited from THH and used by them for the past eight years, and PREFAB, which was installed by OHA two years ago.

Trying to operate these two systems side by side is a real handicap for the staff of my section. Neither system has been fully developed so as to enable us to eliminate all of the paper trails in the maintenance process. Staff training is a particular problem, as the two systems are by no means consistent in their various requirements.

Those of my staff who are based in Pergamon are by now generally familiar with both systems, but PREFAB remains a closed book to those who are based in Troy. Staff there are asking me why they should bother to learn how to use PREFAB, when it's only up and running at Argosy House intermittently, because of the poor quality of the communications link.

PREFAB is, in fact, much the better system, providing far better management information and affording the relevant contractors access on a secure basis to enter job completion information.

On appointment, I was promised that the use of PREFAB would be extended to the whole HHS stock from 01 January 2009 and further developed thereafter so as to allow us to move towards delivering an excellent level of service to our tenants. However, our IT staff appear to have other priorities and it now looks as though we may have to keep CABIN in operation for at least a further year beyond that.

Planned maintenance work

I am currently working on the cost figures for planned maintenance works and will forward them to you as soon as possible.

Strategic maintenance plan

Given the resource problems in my section, and the system issues referred to above, we have only been able to make limited progress on preparing a new comprehensive stock condition survey. The result is that we are still having to work on the basis of the previous surveys which are now well past their use-by dates.

This problem is, in turn, delaying the production of a strategic maintenance plan, and I cannot at present provide you with a firm date for completion of such a plan.

Gordon Knot

Gordon Knot
Head of Housing Maintenance

Responsive and re-let repairs – payments and commitments for 2008 financial year up to 30.04.08

| Period in which work undertaken | Basis of figures | THH stock | | | | OHA stock | | | |
|---|------------------|--------------|---------------|-----------------------|-------------------|------------|---------------|-----------------------|-------------------|
| | | Contractor | Cost £'000 | Number of jobs No. | Average cost £ | Contractor | Cost £'000 | Number of jobs No. | Average cost £ |
| RESPONSIVE REPAIRS Jobs completed prior to 01.01.08 | Actual cost | Direct works | 101 | n/a | n/a | External | 56 | n/a | n/a |
| Jobs completed in January and February 08 | Actual cost | Direct works | 355 | 2,276 | 156 | External | 135 | 931 | 145 |
| Jobs completed in March and April 08 | Actual cost | Vulcan | 338 | 2,027 | 167 | External | 161 | 1,096 | 147 |
| Jobs ordered and in progress as at 30.04.08 | HHS estimate | Vulcan | 93 | 614 | 151 | External | 52 | 403 | 129 |
| | | | 887 | 4,917 | | | 404 | 2,430 | |
| RE-LET REPAIRS Jobs completed prior to 01.01.08 | Actual cost | Direct works | 25 | n/a | n/a | External | 19 | n/a | n/a |
| Jobs completed in January and February 08 | Actual cost | Direct works | 142 | 85 | 1,671 | External | 64 | 63 | 1,016 |
| Jobs completed in March and April 08 | Actual cost | Vulcan | 130 | 79 | 1,646 | External | 72 | 58 | 1,241 |
| Jobs ordered and in progress as at 30.04.08 | HHS estimate | Vulcan | 66 | 42 | 1,571 | External | 26 | 23 | 1,130 |
| | | | 363 | 206 | | | 181 | 144 | |

THE ELGIN MARBLES PARTNERSHIP

ARCHITECTS AND PROJECT MANAGERS
27 DORIC SQUARE
TROY TY2 6CT



Mr Archie Meadies
Head of Support Services
Hellespont Housing Society
Argosy House
King Priam Street
Troy TY1 4DG

16 May 2008

Dear Archie

Hades House development

In response to your urgent request, I have set out below our conclusions regarding the estimated capital costs and annual running costs for the Hades House project. These are based on a floor area of 3,200m², which, with an efficient modern layout, should be more than sufficient to house all staff currently based at both Argosy House and the Caesar Centre. The proposals include a local housing office for the Troy area. No problems are anticipated in obtaining the necessary planning approvals for this development.

The building can be designed so that it can be partially rented out if Hellespont's office requirements are reduced at some point in the future, while the site also has plenty of potential for a further building phase, if more space should be required.

The capital costs exclude land purchase and are based on construction starting on site in January 2012, leading to practical completion of the building in December 2012, and allowing for full occupation from 02 January 2013.

| Hades House – projected capital costs | 2011 | 2012 | 2013 | Total |
|--|-------------|-------------|-------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Construction | 0 | 4,180 | 100 | 4,280 |
| Utility connections | 0 | 200 | 0 | 200 |
| Fees | 400 | 300 | 0 | 700 |
| Furniture and equipment | 0 | 200 | 50 | 250 |
| Contingency provision | 0 | 400 | 0 | 400 |
| | 400 | 5,280 | 150 | 5,830 |

As discussed, we have allowed for a high specification building so that future energy, cleaning and maintenance costs can be minimised. On that basis and allowing for the various figures that you have provided, we estimate the annual running costs as follows:

| Hades House – projected annual running costs | £'000 |
|---|--------------|
| Caretaking | 35 |
| Cleaning | 106 |
| Grounds maintenance | 15 |
| Insurance | 26 |
| Property Tax | 185 |
| Repairs and maintenance - annual provision | 30 |
| Telephones | 65 |
| Utility charges – heat / light / water | 60 |
| | 522 |

We will be happy to discuss the above figures with you and your colleagues as required and will forward our full report as soon as possible.

Finally, I would add that we would very much wish to meet your Society's further requirements by guiding this exciting project through to completion, and so I will be delighted to submit our detailed quotation for design and project management services whenever convenient.

Best regards,

Yours sincerely

AI Kibiades

AI Kibiades
Senior Partner

Note for Pat Rockelus, Principal Accountant1. Housing repairs expenditure

As requested, I've checked the financial ledger and housing maintenance systems for information that will be relevant to your revised budget calculation. I must say that the continuing use of two maintenance systems is a serious obstacle to effective financial control, but, following a trip over to Pergamon to seek guidance from the staff of the maintenance section, I was finally able to obtain the information I needed.

As you would expect, both of the predecessor associations made provision as creditors in their annual accounts for work that had been completed but not paid for as at 31 December 2007. I've summarised the relevant items below:

| Creditors' provisions as at 31.12.07 | | |
|---|------------|------------|
| | THH | OHA |
| | £'000 | £'000 |
| Planned works | | |
| Cyclical works | 10* | 24 |
| Reinvestment works | 108 | 176 |
| Reactive works | | |
| Responsive repairs | 89* | 55 |
| Re-let repairs | 34* | 27 |
| Total provision | 241 | 282 |

The above figures include the amounts that were owed to the DWO (indicated by the asterisks, and subject to further comment below). So far as I can see, with trifling exceptions, all of the items for which creditors' provision had been made were paid for by 30 April 2008.

By interrogating the CABIN system, I found that there were quite a few long outstanding invoices in respect of cyclical works repair jobs that had been disputed over the years between the DWO and the Housing Maintenance Section. The invoices in this category have a face value of £43,009. These jobs were all "completed", at least to the DWO's satisfaction, before 31 December 2007. However, no creditors' provision was included for them in the THH accounts, nor were they allowed for in Gordon Knot's e-mail of 15 May 2008.

Gordon accepted that these invoices would now have to be settled as part of the closure process for the DWO accounts, but stated that he would be insisting on a 40% discount to their face value.

I also found that a significant contractual dispute has now been settled. OHA had claimed the sum of £39,600 as liquidated damages in respect of a reinvestment works contract for re-roofing that was completed in 2006 after lengthy delays. The contractor concerned finally offered £29,000 in full settlement. This offer was accepted, and the money received, a few days ago. OHA had taken a cautious view and had not allowed for this sum as a debtor in their accounts.

Finally, you asked about those jobs that were partly completed on 01 March when Vulcan Construction took over from the DWO. I've confirmed that a payment was made by Vulcan to cover the value of the work that had already been carried out on these jobs. This amount has been credited to the DWO revenue account.

Vulcan are therefore charging us in full for all jobs completed since 01 March 2008 and relevant costs were included in Gordon Knot's e-mail of 15 May 2008.

2. Leasehold service charges

I've been able to check the information you received from Sam Toreeny and I'm pleased to be able to report that it's all OK, except for two items.

One of the two bedroom flats at Naxos Court was sold to the sitting tenant in December 2007, so there are now 8 tenanted and 2 leasehold flats at Naxos Court in the two-bedroom category. Also, the cost of lift maintenance for Nike Court should be £3,100, not £5,100 as he has stated.

I've also checked the 2008 service charge maintenance budgets with Gordon Knot, and he's let me have the following costs for the communal repairs for the two blocks:

| Service charge repair costs | Naxos Court | Nike Court |
|--|--------------------|-------------------|
| | £ | £ |
| Routine repairs | 2,800 | 1,900 |
| Non-routine repairs (one job at each location) | 2,180 | 6,000 |
| | 4,980 | 7,900 |

Gordon says that the non-routine work at both blocks should be well within the competence of Vulcan Construction. As we've agreed rates with Vulcan only recently, he's planning to negotiate prices with them, rather than go to the trouble of seeking competitive tenders for these fairly modest amounts.

In relation to the administration allowances, I've run into some problems, as our staff time allocation system has not been set up so as to make cost allocations to specific blocks of dwellings or specific groups of leaseholders. However, by analysing the figures manually, I've come up with the following results:

| Service charge administration allocations | Naxos Court | Nike Court |
|---|--------------------|-------------------|
| | £ | £ |
| Allocations to all dwellings | | |
| Commissioning costs for all elements except repairs | 1,980 | 1,850 |
| Commissioning costs for repairs | 600 | 2,650 |
| Allocations to leaseholders | | |
| Service charge administration and billing | 584 | 1,241 |
| Allocations to leaseholders in default | | |
| Service charge recovery | 550 | 770 |

I've not been able to fathom out how Sam Toreeny worked out his administration allocations for the other blocks, but all of them appear to come within the permitted 20% maximum. Obviously, I haven't tried to contact him about this aspect in current circumstances, but perhaps we ought to check it out more thoroughly.

Jay

Jay Sun, Accounting Technician
19 May 2008

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Archie Meadies, Head of Support Services
To: Pat Rockelus, Principal Accountant, Technical
Date: 20 May 2008, 16.37
Subject: Office Accommodation – information for report

I am writing to let you have further information that will be needed for your draft report:

1. Temporary offices – Argosy House

As you know, I strongly favour proceeding with the temporary office scheme at Argosy House (Option 1) and am on record as taking this view. This would bring everyone together in a single central location. We would soon see the benefits, once the inevitable short-term whingeing about parking and travel issues had subsided.

Initial quotations have now come in from suppliers of temporary buildings, the most favourable one being from Portatroy Enterprises. All of the quotations are based on a minimum four year rental period. Portatroy have emphasised that their units are not mere sheds, but represent quality office provision, including air conditioning and high levels of insulation. They would be happy to arrange visits so that HHS board members, managers and staff representatives can inspect some of their current sites.

To have the temporary offices in place for 01 January 2009, we would need to spend £128,000 before then to re-arrange the car park and provide utility and ICT connections. The annual rent of the units would amount to £120,000pa from 01 January 2009, with other running costs estimated at £140,000pa. These are high figures, but the total annual costs would be much lower than those that we now incur for the Caesar Centre.

Once we have vacated the temporary offices, Portatroy will remove them without charge. As we will be selling the whole Argosy House site for redevelopment at that stage, there will be no need to reinstate the car park.

2. Communications upgrade

If we don't proceed with the temporary offices, improving ICT links between Argosy House and the Caesar Centre will become unavoidable. The capital costs of providing a robust communications link between the two sites is estimated at £125,000 to be spent by 31 December 2008. This link would provide sufficient functionality to support all current and anticipated IT systems over the period up to December 2012 and the costs also allow for the provision of extensive video conferencing facilities.

The annual rental and support charges for the link and associated facilities will amount to £27,000pa from January 2009 onwards.

CMT have already stated that even if the Caesar Centre turned out to be needed for a shorter period from January 2009 (say, for two years only), the communications upgrade must still proceed.

3. Office removal costs

Removal costs are estimated as follows (payable two months after the removal dates):

| | |
|---|---------|
| Caesar Centre to Argosy House, or to Hades House | £25,000 |
| Argosy House to Hades House (current staff only) | £60,000 |
| Argosy House to Hades House (all staff, including those relocated to the temporary offices) | £75,000 |

Archie Meadies

Archie Meadies, Head of Support Services

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Sharon Sticks, Head of Finance
To: Pat Rockelus, Principal Accountant, Technical
Copy to: Cleo Patra, Director of Operations
Date: 22 May 2008, 09.18
Subject: Leasehold service charges

Private and confidential

I've had a further discussion with the Director of Operations about the service charge issues and should be grateful if you would now prepare a briefing note for Ms Patra and me covering the following points:

- a) A calculation of the costs applicable to the service charges at Naxos Court and Nike Court for 2008.
- b) A calculation of the annual service charge for 2008 applicable to each size of leasehold dwelling at Naxos Court and Nike Court.
- c) An evaluation of the soundness of the above calculations, including any implications in respect of the service charge estimates previously completed by Sam Toreeny for other properties.
- d) Your observations in respect of:
 - i) Relevant financial control issues.
 - ii) Relevant staffing issues.
- e) Your conclusions and recommendations in relation to:
 - i) What role, if any, Internal Audit should now be asked to play in resolving the financial control issues.
 - ii) What further action you consider we should now take in relation to Mr Toreeny.

Sharon

Sharon Sticks
Head of Finance



Cass, Torr & Pollocks
Chartered Surveyors
Olympus House
Colosseum Way
Troy TY1 3FG

Pat Rockelus
Principal Accountant (Technical)
Hellespont Housing Society
Argosy House
King Priam Street
Troy TY1 4DG

23 May 2008

Dear Pat

As requested by Archie Meadies, I am writing to you to outline the various property transactions relating to Hellespont's office accommodation options.

a) Land purchase - Hades House, Homer Valley Business Park, Troy

HHS' rights to the Hades House site will be converted into freehold ownership on payment of a lump sum of £1.2 million. This must be paid to the current owners, Midas Estates, three months after the start of construction on site.

b) Argosy House, Troy city centre

Troy City Council needs to acquire the Argosy House site as part of its central area regeneration scheme. It has agreed to complete the purchase of Argosy House six months after the actual date on which HHS moves to Hades House. Payment to HHS will become due at the time of purchase and will amount to £2.65 million, after netting off the relevant fees.

HHS must allow for residual running costs of the Argosy House site for the six-month period after its vacation, which I estimate to amount to £60,000.

The following provisions will be needed for specific repairs, based on the survey I carried out at the end of last year:

| | £'000 |
|------|-------|
| 2009 | 52 |
| 2010 | 26 |
| 2011 | 137 |
| 2012 | 30 |

Argosy House is basically worn out and if HHS decided to retain it in use beyond December 2012, very heavy further expenditure would soon become unavoidable thereafter on structural repairs and mandatory health and safety improvements. In addition, it is probable that Troy City Council would then invoke compulsory purchase procedures rather than see its regeneration aspirations placed on indefinite hold.

c) Caesar Centre

There are three different possibilities:

- a) HHS can allow the current lease to terminate at its normal end date of 31 December 2010, with rent continuing at £170,000pa up to that date.
- b) Golden Fleece Investments have agreed that HHS can vacate as at 31 December 2008, as I believe they are confident of re-letting the property to another party. However, should HHS adopt this course, it will have to pay Golden Fleece an additional early termination payment of £80,000 prior to vacation.
- c) If HHS wishes to stay in occupation at the Caesar Centre up to 31 December 2012, Golden Fleece will be prepared to extend the lease by two years, but the annual rent for 2011 and 2012 will be increased to £215,000pa.

Please note that HHS will need to meet the cost of making good any dilapidations at the Caesar Centre in the year following vacation. On the basis of the survey recently carried out, I would suggest a provision of £40,000 for these works.

Please let me know if you need any further information or assistance in respect of the above matters.

Yours sincerely

Harry Adney

Harry Adney, Director (Commercial Property)

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Gordon Knot, Head of Housing Maintenance
To: Pat Rockelus, Principal Accountant, Technical
Date: 26 May 2008, 17.03
Subject: Housing maintenance expenditure – planned maintenance

As promised, I can now let you have the figures for the planned maintenance categories, derived from the housing maintenance systems, as set out below:

| Payments, 01.01.08 – 30.04.08 | THH stock | OHA stock | Total |
|---------------------------------------|------------------|------------------|--------------|
| | £'000 | £'000 | £'000 |
| Cyclical works - DWO | 176 | - | 176 |
| Cyclical works – external contractors | 203 | 185 | 388 |
| Reinvestment works | 1,416 | 1,514 | 2,930 |
| | 1,795 | 1,699 | 3,494 |

The above figures include payments for work carried out prior to 31.12.07, and payments to the DWO for cyclical works completed up to 29.02.08.

| Expected further payments in 2008 under existing contracts | THH stock | OHA stock | Total |
|---|------------------|------------------|--------------|
| | £'000 | £'000 | £'000 |
| Cyclical works | 615 | 425 | 1,040 |
| Reinvestment works | 395 | 636 | 1,031 |
| | 1,010 | 1,061 | 2,071 |

I have included in the above projection the expected value of all work to be completed up to 31.12.08 under the existing contracts.

| Contracts to be let in remainder of 2008 (expected total values): | THH stock | OHA stock | Total |
|--|------------------|------------------|--------------|
| | £'000 | £'000 | £'000 |
| Cyclical works | | | |
| Gas servicing | 537 | 245 | 782 |
| Proportion to be spent in 2008 | 17% | 17% | |
| Reinvestment works | | | |
| Kitchen and bathroom renewal | 975 | 1,890 | 2,865 |
| Proportion to be spent in 2008 | 12% | 25% | |

The above schemes will represent the first fruits of our effort to introduce a consistent HHS-wide maintenance programme, with common standards of provision for all of our tenants. For the time being, the kitchen and bathroom renewal programme will remain skewed towards the former OHA stock. The greatest needs are concentrated in that part of the stock, as many THH dwellings were re-equipped in the period after transfer from Troy City Council. I would, nevertheless, like to have included some more THH properties in the programme at this stage, but have been precluded from doing so because of limited surveying resources.

Gordon Knot

Gordon Knot, Head of Housing Maintenance

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Carry Attid, Assistant Chief Executive
To: Pat Rockelus, Principal Accountant, Technical
Date: 28 May 2008, 09.03
Subject: Staff car parking and travel

I've just completed a working breakfast with the Head of Support Services and Head of Personnel to review the staffing issues associated with the various office accommodation options. The Head of Personnel will be placing an office accommodation item on the agenda for the meeting of the Staff Consultative Committee (SCC) that is due to be held on 18 June 2008, so we will know more of LAPSO's views at that time.

Surprisingly, perhaps, there's a good deal to be said for retaining the current division between the two existing locations until Hades House is ready for occupation. Members of staff generally should be happy to move to Hades House, given that there will be a fine set of new offices with ample on-site parking.

Our current staff contracts make reference neither to the possibility of office relocation, nor to the provision of parking spaces. However, all future contracts will include specific clauses to make clear that employees may be required to work at any location in the HHS area, and that the provision of parking spaces is not guaranteed at any location.

The Head of Personnel gave us clear advice that existing members of staff who could be required to relocate from the Caesar Centre to Argosy House in 2008 will have no contractual rights to receive compensation for extra travel costs. The same position applies to any member of staff losing access to a parking space. He understands that this position has recently been confirmed by case law involving other organisations.

However, he pointed out that the eight members of staff relocated so far have all been moving to higher paid posts, and had no reason to object. Therefore, their willingness to accept a move does not mean that we will avoid serious complaints if further members of staff are now faced with the prospect of obligatory relocation.

From a practical point of view, the costs of compensating the current Caesar Centre staff for extra travel costs to/from Argosy House would surely be very substantial. If such compensation were to be granted, the members of staff concerned would no doubt expect the current standard mileage rate of 40p per mile to apply, and for compensation to be calculated on the basis of average annual workplace attendance of forty-four weeks.

In relation to parking spaces, the Chief Executive asked me to research the possibilities for securing additional car parking in central Troy, if all staff were moved to Argosy House. This would at least address some of the likely complaints.

I found that one car park site does have 70 spaces available at a total rental of £45,000pa (with no other costs to HHS). This apparently is a typical level of cost for spaces that are (just about) within walking distance of the city centre. This location would at least contribute to maintaining the physical fitness of the employees concerned!

With all staff based here at Argosy House, seven more spaces would need to be allocated for visitor parking. The Chief Executive views adequate visitor parking as an essential part of good customer service and good external relations, and is most insistent on this.

Carry Attid

Carry Attid, Assistant Chief Executive

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Harry Stottle, Director of Central Services
To: Pat Rockelus, Principal Accountant, Technical
Date: 29 May 2008, 11.17
Subject: Office accommodation report

I understand you have now gathered the information you need to prepare the draft report to the Board on the office accommodation options. However, before you proceed, there's one final item you need to be aware of. The Chief Executive and I met our counterparts at Troy City Council yesterday to discuss the programme for Hades House.

After a bit of arm-twisting on our part, the TCC representatives accepted that they could bring forward the date for completion of the Homer Valley Distributor Road from December 2012 to December 2010. This would give us an opportunity to bring forward the entire programme for design and construction of Hades House by two years.

However, TCC will be looking for us to offset the additional financing costs they would incur by making this change. The contribution they require is £375,000, payable in 2009.

Therefore, we now have three clear options for the period up to December 2012:

1. Provide additional temporary offices at Argosy House ready for occupation by 02 January 2009; vacate the Caesar Centre entirely at that date; proceed with the Hades House development as previously planned for occupation on 02 January 2013.
2. Remain in occupation of both Argosy House and the Caesar Centre until 31 December 2012; upgrade communication links between the two buildings; proceed with the Hades House development as previously planned for occupation on 02 January 2013.
3. Remain in occupation of both Argosy House and the Caesar Centre until 31 December 2010 only; upgrade communication links between the two buildings; bring forward the Hades House development by two years for occupation on 02 January 2011.

In order to assist you, I've set out below the format that I believe will be most useful to CMT and the Board:

- a) Brief introduction, background, and description of the three options.
- b) A summary of the annual cash flows (up to and including 2013) for the three options and their Net Present Values. Use a 3% discount rate, treating 2008 as Year 0.
- c) An evaluation of the Net Present Value results, including (for the benefit of board members) an explanation of the relevance of this technique to investment decisions of this kind. In addition, please explain the advantages and disadvantages of each of the options, including an analysis of the main risks that the Board should be aware of in relation to each option.
- d) Any wider issues that you feel the Board should consider before embarking on this major capital investment in offices.
- e) Your conclusions and recommendations as to the way forward.

In drawing up the cash flows, please include the costs of the 70 additional car park spaces already identified by the Assistant Chief Executive, but do not allow for the costs of any further extra parking spaces, nor for any compensation arising from additional home to office travel costs.

Harry Stottle

Director of Central Services



HELLESPONT TENANTS' ASSOCIATION



CHAIRPERSON: MINNIE O'TORR
27 CASSANDRA CLOSE, AEGEAN VIEW ESTATE, TROY TR6 4PZ

Ms Anne Dromeda
Chief Executive
Hellespont Housing Society

30 May 2008

Dear Ms Dromeda

Our management committee has asked me to write to you, following our first general meeting as a merged Association. There were 97 tenants present at the meeting, so the comments expressed represent the views of a very good cross section of Hellespont tenants generally.

Two subjects dominated the meeting. The first was office accommodation. We were very disturbed to be told by one of our committee members that large sums of tenants' rent money are going to be spent to make life cosier for Hellespont office staff. Also, why should free parking spaces be provided for every member of staff, when many of them never need to use their cars on Hellespont business? The top priority ought to be the regeneration of those estates that will never be able to meet the Quality Homes standard. This is far more urgent and important than staff offices. We will certainly have some searching questions for you about this at future liaison meetings.

The other matter was housing repairs. There was considerable anger expressed over the housing repairs situation, and in particular that the former THH and OHA tenants are not being treated equally. We were promised that we'd have sight of a draft maintenance strategy for the combined housing stock by last February, but it still hasn't materialised, and we don't know when, if ever, it's going to turn up. Surely, the State Housing Commission will have something to say about this.

Tenants in the former THH stock are incensed that so many new kitchens and bathrooms have been earmarked for the OHA properties, without any proper consultation. Many of the THH kitchens were replaced over seven years ago. It's very dispiriting for new tenants now moving in to find their kitchens in a tatty state because of the lack of care shown by their predecessors.

The ex-THH tenants also reported considerable problems over delays and missed appointments for routine repairs, which is particularly annoying when people have taken time off work to let the workmen into their homes. We never had problems like this before Vulcan came on the scene.

We would like to invite you to our next Management Committee meeting, so that we can have a proper discussion about these issues.

Yours sincerely
Min O'Torr
Chairperson

*Pat - The Chief Executive will be replying to this letter herself,
but she would like you to take it into account, where appropriate,
in drafting your various reports.*

Sharon Sticks.

HELLESPONT HOUSING SOCIETY - INTERNAL E-MAIL

From: Anna Tolia, Chief Accountant
To: Pat Rockelus, Principal Accountant, Technical
Copy to: Sharon Sticks, Head of Finance
Date: 02 June 2008, 09.25
Subject: Housing maintenance report for Corporate Management Team

As requested by Sharon, I'm e-mailing to set out details of what we would like you to include in the report to the CMT, as follows:

- a) Brief introduction, setting out the purpose of, and background to, the report.
- b) A table showing the revised estimates (in £'000's) for each element of housing maintenance expenditure for 2008. (Please show separately the figures for the ex-THH and ex-OHA elements of the stock as part of this table).
- c) Your assessment of: the soundness of the revised figures; the variances apparent between the original and revised estimates; and a brief evaluation of the implications for future years' maintenance budgets.
- d) Using both the original and revised estimates, tables showing average costs per dwelling for the various categories of repairs, and average costs per job for responsive and re-let repairs. Please show in both cases averages for the combined stock and for the ex-THH and ex-OHA elements, together with a comparison against the national financial benchmarks.
- e) Your comments on the issues arising from the unit cost figures and related information.
- f) Your assessment of performance standards for housing maintenance here at HHS, as compared with national best practice guidance. (Please concentrate on highlighting those areas where it is clear that Hellespont is falling short of national best practice.)
- g) Your recommendations as to the action HHS should take to improve maintenance performance.

For all of the necessary calculations, please continue to use the average numbers of dwellings used in preparing the original estimates (6,450 ex-THH dwellings; 4,250 ex-OHA dwellings; 10,700 dwellings total stock).

Once you have finished your draft report, Sharon would like to go through it with the two of us, and with Gordon Knot, the Head of Maintenance, prior to circulating it to CMT.

Anna Tolia
Chief Accountant

