

A REQUEST TO THE RCC TO EXAMINE SERVICE CHARGES

*Note for Tim Macer, Chairman, Barbican Residents Consultation Committee
From Jane Northcote, Cromwell Tower, Barbican Estate*

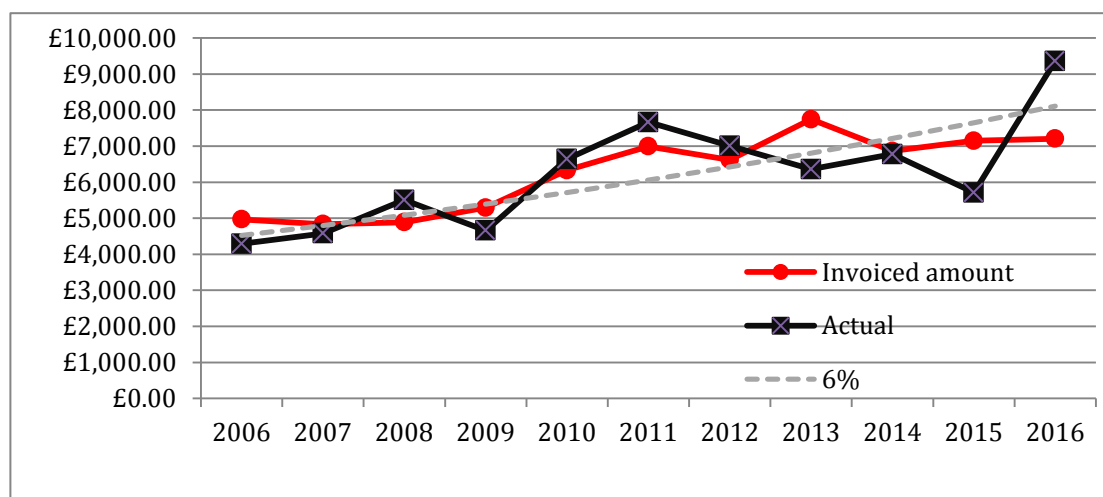
As long-leaseholders of a flat in Cromwell Tower, we have seen Service Charges increase over the years. We plan to stay here for the long term so we are concerned about these above-inflation increases, and wonder if the RCC is able to investigate.

There are three points for enquiry:

1. Rate of increase of Service Charge
2. Business processes to manage and reduce the Service Charge
3. Forecast and prediction of Service Charges

1. Rate of increaseⁱ

The graph below shows the Service Charges we have paid for our Tower flat over a ten-year period. These are *total* Service Charges, including both “annual recurring” and “major items”. The red line shows the amount that left our bank account in that year as invoiced by the City. These invoices are based on estimates, and include a balancing charge from the previous year. This figure is only known after year-end, so the amount for 2016 shown is the estimate. Both lines show a marked upward trend.



Since inflation was at between zero and 3% during the period in question, we would like to know what other factors are at play here. Why are our costs rising faster than inflation? Why are they not going down, as efficiency improvements are made?

2. Business processes to manage and reduce the Service Charge

In a meeting in November 2015, David Padfield, Interim Assistant Director for Property Services at the BEO, told me that there is currently no business process in the BEO to find ways to reduce the Service Charge while maintaining or improving customer service. They have not been asked to do this, so they don't do it. Individual departments variously have efficiency targets. But no-one looks at the aggregate cost passed on to leaseholders. He said they would do so if asked by the BRC. We would like them to be asked.

In common with other commercial businesses, it must be possible for the BEO to reduce costs while improving service. This is typically achieved by, for example:

economies of scale, use of technology, streamlining inefficient processes, doing things once “right first-time”, doing things more quickly and so removing chase-up calls, efficient management of contractors, reduction of management overhead.

3. Forecast and prediction

We currently receive a five-year forecast for “Major Items” from the BEO.

We receive no five-year forecast for “Annually Recurring costs”. We suggest it would be a good idea for the BEO to do a five year forecast of both components of Service Charge. This would have two benefits.

Firstly it would ensure everything is covered. For example in Cromwell we suddenly discover that lift lobby carpets need replacing. This is a significant cost. It does not appear on the “Major Items” forecast. Nor is it covered by the “Annually recurring” costs. So it is a surprise, both for the BEO who have to manage it, and for the residents who have to pay for it. We suspect that there are other items in this category, such as re-lining water tanks, refurbishing lift damage by contractors, and repainting public areas.

Secondly it would impose a discipline on the BEO to contain and manage costs. At the moment, they simply incur costs and pass them on. They make a comparison between what they estimated 12 months ago, and what was incurred. The commentary we receive each September explains the difference. However what matters to us is not why the actuals in the past year are different from the recent estimate, although that is of interest. We are more interested in the future: do we expect lobby porter costs to increase year-on-year by upwards of 20%, which is the difference between last year’s actuals and this year’s estimate? Is this a trend, or an isolated occurrence? What other items will hit the service charge? (carpets, lifts, redecoration, concrete). House Officers, contractors and other staff timesheet their hours and allocate costs to our Service Charge ‘cost-centre’ without, it seems, the concept of a “budget” or constraint on the time they can bill. Obviously costs go up and down and some, such as heating costs, are hard to predict. But many costs are well within the control of the BEO. It is a normal and helpful, if imperfect, management discipline to make five-year cost predictions and to report against them.

I assume that other cost-centres have budgets and limits, and are managed downwards as part of public sector efficiency drives. The cost-centre labelled “recharge to long-leaseholders” is not so constrained. Hence the need to ask for some vigilance, management and monitoring.

ⁱ Sources of data for these graphs: We file quarterly invoices for Service Charge. I went through 10-years’ worth of quarterly invoices to get this data. I may have made a mistake. Ideally I would like to reconcile our invoices with data provided by the BEO. Anne Mason has helpfully provided a 10-year dataset. At time of writing, I have not yet been able to analyse this data and compare it to our invoices.