



# Audit Briefing

## Belle Vue Square Service Charge

### Background

The Shared Audit Service was asked to attend the offices of the Managing Agents for Belle Vue Square (BVS) by the Chief Executive of Craven District Council, in order to complete an open book review of their invoices as permitted by the contract terms.

This review aims to provide assurance to both Members and the Corporate Leadership Team that the service charges incurred by the authority are genuine and are in accordance with the lease.

The work was carried out on the 8<sup>th</sup> and 9<sup>th</sup> September by Kim Betts, Audit Services Manager, and Tom McIntosh, Auditor at the Leeds offices of Ryden (formally Hill Woolhouse).

### Introduction

The lease between Craven District Council, Belle Vue Mills Limited and Belle Vue Mills Management Company Limited relates only to the following areas at Broughton Road, Skipton:

- Part Ground Floor North Wing
- First and Second Floors North Wing
- Second Floor West Wing

On an annual basis the Managing Agents (Ryden) submit their Service Charge Statement for the previous year. This outlines the expenditure incurred by them at the property and is split into three sections:

- Schedule A – Building
- Schedule B – Estate Charge
- Schedule C – Belle Vue Square

Under each Schedule is a list of categories where costs are allocated (for example, ground/winter maintenance and window cleaning), which includes the amount paid out in Management Fees. At the bottom of each Schedule is the total amount paid together with the relevant % that equates to Craven DC's share of these costs.

In order for us to be able to verify that the costs quoted in the Service Charge Statement were true, Richard Barker, Associate at Ryden presented us with the latest annual Service Charge Reconciliation Report for 1<sup>st</sup> December 2013 to 30<sup>th</sup> November 2014 which contained the following information:

- Copies of supporting invoices for all lines of expenditure
- Detailed ledger prints for BVS

- Copies of service charge statements supplied to all occupants of BVS confirming expenditure incurred and the relevant proportion owed by each occupant
- Copies of charges or credit notes due at the end of the year as a result of a difference between what has been paid and the expenditure incurred
- Auditor report from Hansons, Chartered Accountants which confirmed that Hill Woolhouse's accounting records were fairly stated. This latter report noted that an audit of the Service Charge Reconciliation Report was not required under International Standards of Auditing under the terms of the lease of BVS.

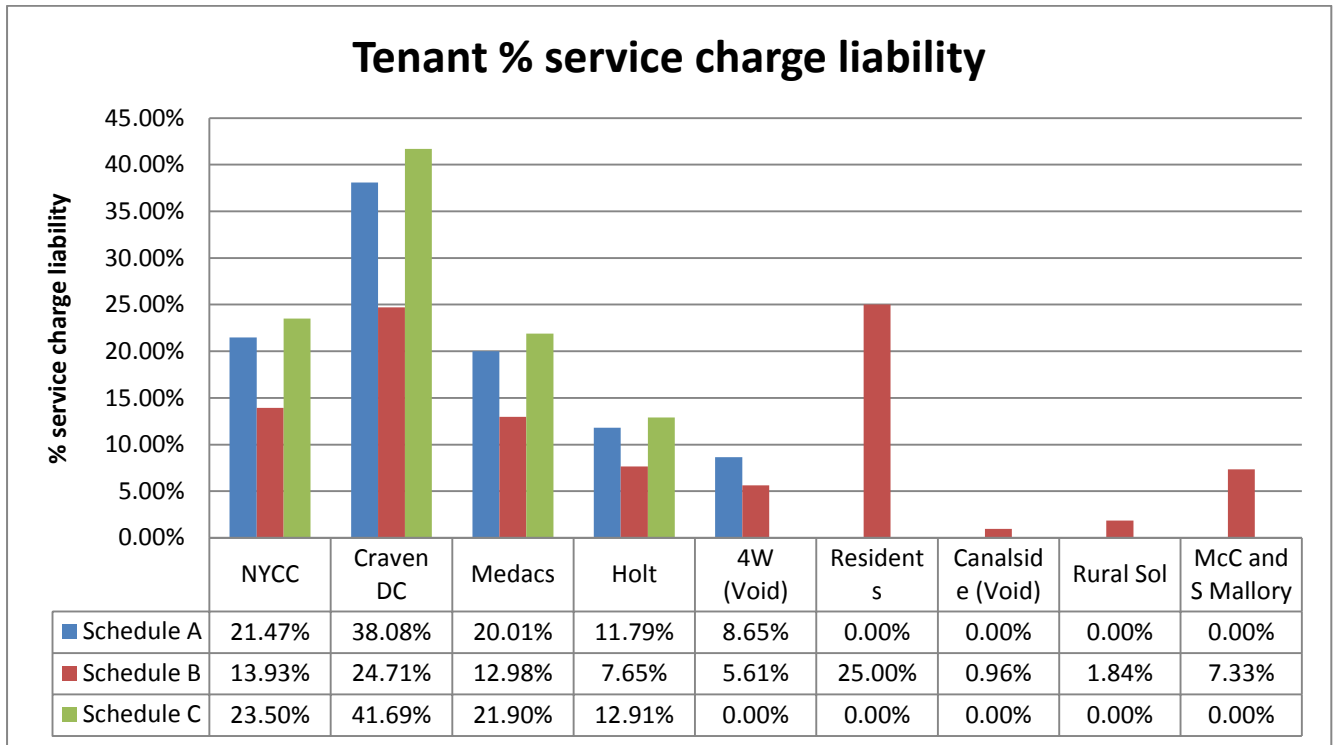
#### **Work undertaken by the Audit Services**

Audit Services has undertaken the following work:

- Documented the entire invoice file using Excel making a note of:
  - a) Invoice numbers & dates;
  - b) Supplier names
  - c) Descriptions of goods/services provided
  - d) Cost.
  - e) Where labour and/or mileage was claimed and was easily identifiable, a separate note was made of these together with any additional notes and comments where necessary.
- Reperformed the calculations to allocate the costs across each of the occupants of BVS to ensure they agree with the Service Charge Statements.

**Audit Services Findings**

*Occupants' liabilities for charges:*



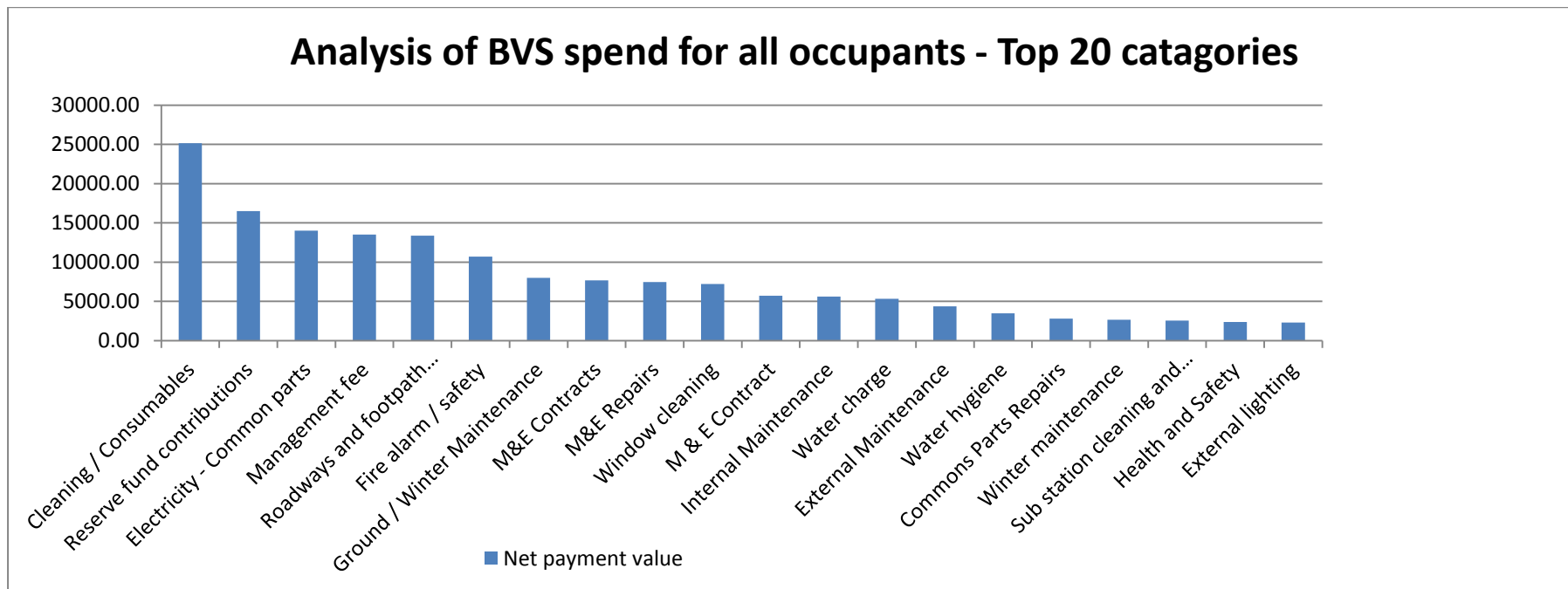
Craven pays the largest proportion of the BVS management fee as illustrated by the chart above. This is due to Craven occupying the largest floor area within the building, compared to all tenants.

The lease states that these proportions are determined by the landlord and if there is a dispute, the Surveyor has the final say.

*Summary of expenditure:*

Expenditure was straightforward to reconcile. Invoices were clearly marked to show which category the expenditure related to. This helped Audit Services to agree the expenditure totals to each category of the service charge schedule.

The following charts provide a summary of the expenditure incurred by all occupants of Belle Vue Square, to which the relevant percentages illustrated above will apply:



Review of the top expenditure item showed that the cost of cleaning and consumables appears high, compared to all other expenditure. The breakdown of this expenditure showed cleaning cost £15,642 and consumables cost £9,217. Consumables include refuse sacks, toilet rolls and hand towels.

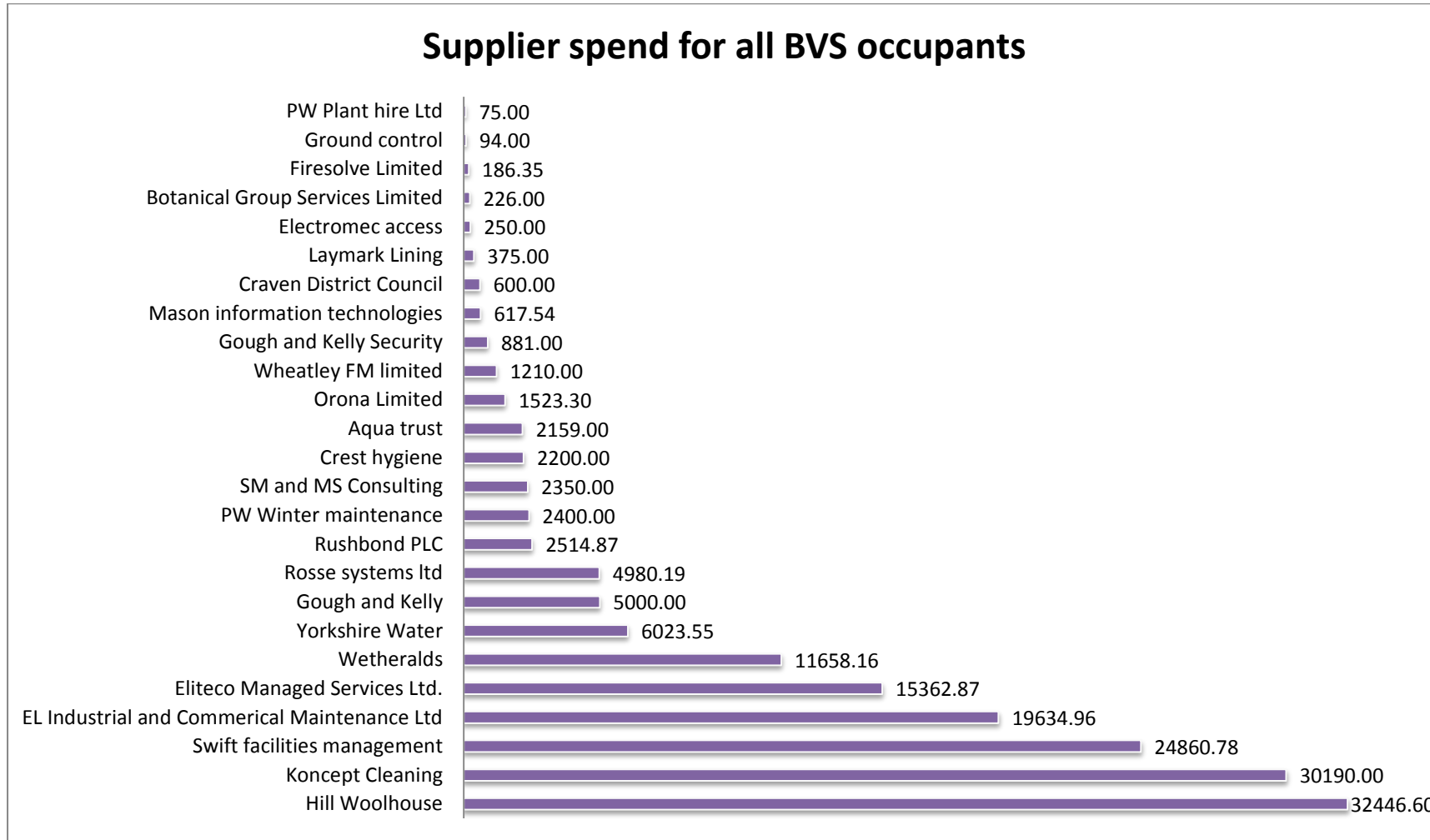
Analysis on the number of items purchased found that:

|  | <b>Mini jumbo toilet rolls at<br/>£20.50 per box</b> | <b>Hand towels @<br/>£29.64 per box</b> | <b>Hand towels @<br/>£35.80 per box</b> |
|--|--|---|---|
| No of boxes purchased  | 181  | 155                                     | 25                                      |
| No of items per box  | 12   | 3,000                                   | 3,000                                   |
| No of boxes x number of items =<br>Number purchased in 2013/14 | 2,172  | 465,000                                 | 75,000                                  |

On average, 15 boxes of hand towels and toilet rolls are purchased each month. This works out at 45,000 hand towels and 180 toilet rolls per month.

Cleaning and consumables expenditure was discussed with the Project and Asset Manager, who agreed that the level of expenditure is high, however, there may be little opportunity to bring these costs down. As there are several tenants in the building, it would be difficult to educate all users to use hand dryers instead of paper towels. Whilst CDC can encourage staff to use the hand dryers provided, it is down to personal preference on what people will use.

Enquiries should be made with Ryden to ascertain if the level of stock purchased, is normal for a building the size of Belle Vue Square.



The above chart illustrates expenditure by supplier. This chart is useful, to understand which contractors have been carrying out work on behalf of the tenants.

Whilst documenting each invoice, Audit Services wish to highlight payments, which may require further discussions with the Managing Agent (Ryden):

1. An invoice was paid to the Botanical Group Service Limited for £226.00, for the supply of one 7 foot luxury fully lit Christmas tree, decorated in aqua. This item was discussed with Asset and Project Manager who confirmed that Ryden contacted Property Services at CDC, asking tenants if they are happy for Ryden to purchase a Christmas tree for Belle Vue Square. CDC response was yes, as long as it was not too expensive. However, it is not clear where the tree is stored and who is responsible for putting the tree up and decorating this each year.
2. Invoices received from Rosse Systems confirm that access cards are purchased for stock. The Asset and Project Manager confirmed that access cards are purchased from North Yorkshire County Council (NYCC), as they purchase cards which comply with the access system and are cheaper.
3. Invoices for reprogramming access cards, no matter who requested the works, is charged to all tenants through the service charge. The Asset and Project Manager stated that each tenant should be invoiced separately for card reprogramming.
4. Audit Services noted that there were examples where works were aborted due to insufficient knowledge of the building, contractors carrying out duties which they were not planned to complete and call outs made when no obvious issue identified. The Asset and Project Manager said that Ryden are expected to be on site when contractors conduct inspections and works, but this is not happening. Having Ryden on site would ensure that contractors deal with one person rather than take up the time of tenants, Ryden have knowledge of the building and understand the locations of stock cocks/electric consumer units etc. and Ryden can confirm that the works have resolved the issues identified and to the standard expected.
5. The lift telephone invoice is received monthly. Each invoice clearly stated that if the invoice is not paid by direct debit, a £4.50 admin charge will be applied. CDC should ask Ryden why they do not pay this by direct debit so all tenants could save £54 per year. Also, it was noted between the 2013/14 and the 2011/12 service charge, the lift telephone expenditure was almost double (£325 in 11/12 and £617 in 13/14). Ryden should explain why the cost has increased.
6. EL Industrial and Commercial Maintenance Ltd carry out a weekly test of the fire alarm (@ £68.88 per hour) and invoices suggest that the communal fire doors are checked at the same time (@£24.96 per hour). It is not clear why these checks are charged at the different rates.
7. Konzept cleaning – review of the invoices received from this company found that a Director listed on the invoice was the same as one of the Partners at Ryden (the Managing Agent). Subsequent invoices from January 2014 had no mention of the Directors name and the company VAT number was removed, to state VAT pending. Audit Services could not confirm if the Partner at Ryden is linked or a relative of the owner of Konzept Cleaning; however for clarity, CDC should obtain assurance from Ryden to ascertain if there is a relationship and this leads onto another question on how do Ryden select companies to carry out works to ensure that the selection process is clear and transparent, whilst maintaining value for money.
8. Craven District Council raised an invoice for £600 for a 'grant for the Tour De France signage and display' to Rushbond (the building owners). In discussion with the Asset and Project Manager, the £600 invoice from CDC was raised by the Arts Development Officer to Rushbond, for a contribution to an art installation for the Tour de France. At no time during her dealing with Rushbond, was the Arts Development Officer told that this would be passed onto the Landlord (Ryden) for reimbursement through the Service Charge. The result of this is that Craven themselves have been charged £164.28 for this art installation as part of their proportion of the service charge. Had the Arts Development Officer been aware of

this, she would not have pursued the contribution from Rushbond. The Asset and Project Manager confirmed that this charge should have been paid by Rushbond, the building owners, not Ryden.

9. The access control database is remotely backed up on a monthly basis by Gough and Kelly. This service costs £65 per month. There is potential to review the number of back ups, which could realise cash savings for all tenants.
10. Cleaning and consumable stock levels and purchases appear high (£25k for the period reviewed). Ryden should be contacted to confirm if this level of expenditure is normal for a building the size of Belle Vue Square.



## Summary of issues to be discussed with the Managing Agents (Ryden)

1. Where is the Christmas tree stored and who is responsible for putting up and decorating the tree?
2. Building access cards should not be recharged through the service charge. Craven District Council purchase these from North Yorkshire County Council.
3. Access card re-programming should be invoiced direct to the tenant and not through the service charge.
4. Ryden should attend Belle Vue Square when contractors are on site for all inspections and works.
5. The lift telephone invoice states that a £4.50 admin charge is applied as the invoices are not paid by direct debit. Can a direct debit be set up to pay the lift telephone. Additionally, the lift telephone charge in 2011/12 was £325, but in 2013/14 this increased to £617. Can you explain why this charge has increased?
6. EL Industrial and Commercial Maintenance Ltd charge £68.88 per hour for a weekly fire alarm test, plus the same company charges £24.96 per hour for checking the communal fire doors. Can Ryden confirm the reason why different rates are charged and are these two checks completed at the same visit?
7. The Director of Konzept Cleaning and a Director at Ryden share the same surname. Can Ryden confirm if there is any relationship between these two people plus, what is the process in place to select contractors to carry out works at Belle Vue Square?
8. Craven District Council invoiced Rushbond for signs/art installation for the Tour De France. Why was this included in the service charge, for all tenants to pay and not paid by Rushbond only?
9. The access control database is backed up remotely, every month. The charge to tenants is £65 per month (£780 a year). Could the frequency of this back be completed, say every quarter, so that a backup is available and costs are reduced?
10. Cleaning and consumables expenditure appears to be high. Is this level expenditure and stock levels, normal for a building the size of Belle Vue Square?

### **Shared Audit Service Conclusion**

Ryden (formally *Hill Woolhouse*):

The Shared Audit Service have confidence from the evidence gathered relating to 2013/14 service charge, the systems in operation at Hill Woolhouse are able to correctly identify refunds/credits due.

#### *Expenditure:*

All of the expenditure noted in the service charge statements agreed to the invoices from external third party contractors and Ryden (Hill Woolhouse) management fees. This expenditure has been correctly categorised and is in line with the terms of the lease.

The Shared Audit Service has concluded that 100% of the annual expenditure has been billed to occupants of the Belle Vue site. Where areas are unoccupied the landlord has been billed the appropriate amounts due.

The Shared Audit Service could not verify whether all the expenditure incurred was necessary, whether the works were completed as invoiced. Queries identified above, should be discussed with Ryden to ensure that appropriate action is taken to clarify the points raised.

We have therefore included our detailed breakdown of the expenditure at Appendix A to this report so that Members and senior staff can review and challenge where it is deemed necessary.