



Department for  
Communities and  
Local Government

## Triennial Review Report

### Leasehold Advisory Service

February 2016

# **TRIENNIAL REVIEW REPORT : LEASEHOLD ADVISORY SERVICE (LEASE)**

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## **SECTION 1 - INTRODUCTION**

### **AIMS OF THE REVIEW**

1. It is Government policy that a non-departmental public body (NDPB) should only be set up, or remain in existence, where the model can clearly be evidenced as the most appropriate and cost effective way of delivering the function in question.
2. In April 2011, Cabinet Office announced that remaining NDPBs, following the Public Bodies Act (2011), would require a substantive Review once in a three year cycle. Triennial Reviews have two principal aims:
  - to provide a robust challenge of the continuing need for individual NDPBs – both their functions and their form; and
  - where it is agreed that a body remain as an NDPB, to review:
    - its capacity for delivering more effectively and efficiently, including its potential for efficiency savings and its ability to contribute to economic growth; and
    - the control and governance arrangements in place to ensure that the public body and sponsoring department are complying with recognised principles of good corporate governance. This should also include an assessment of the body's performance.
3. All Triennial Reviews are carried out in line with Cabinet Office guidance "Guidance on Reviews of Non Departmental Public Bodies", revised in 2014. <https://www.gov.uk/government/publications/triennial-reviews-guidance-and-schedule>

### **LEASE - BACKGROUND**

4. LEASE was set up in 1994 as a public company limited by guarantee, and became an Executive Non Departmental Public Body (NDPB) in 2005. It was established through a Government initiative, following the introduction of a major piece of leasehold legislation, to help deliver the Government's policy objectives regarding residential leasehold. It is not a statutory body. LEASE is accountable to the Department for Communities and Local Government (DCLG) and the Welsh Government (WG) and funded under s.94 of the Housing Act 1996, supported by a framework agreement.

5. Its main purpose, through a range of channels, is to provide advice and help, for leaseholders, landlords and others in managing their leasehold housing issues and problems across England and Wales. Leasehold legislation is complex and can be difficult for both leaseholders and landlords to navigate effectively. LEASE also carries out a number of other wide-ranging roles, agreed with DCLG and the WG, which are set out in its annual business plan in respect of residential leasehold-related issues.
6. In 2013 DCLG provided additional funding to enable LEASE to provide free initial advice and information to park home residents and site owners in England on their rights and responsibilities.
7. The main activities undertaken by LEASE include:
  - providing a free, front-line independent advice and information service on residential leasehold law, rights and obligations to all leaseholders, landlords and others affected by the leasehold tenure, across all housing sectors in England and Wales (incl. local authority, Housing Association and the private sector);
  - providing a free, front-line independent advice and information service on the law, rights and obligations applying to park homes in England to those affected by the park homes tenure (including park home owners, site owners and local authorities); and
  - providing these services through all effective channels, including the internet, group surgeries in the field, telephone and personal appointments, as well as services to improve professional standards in the sector, including paid for services as part of its more commercial approach to support the free front-line advice services.
8. LEASE is principally funded by grant-in-aid from DCLG and WG and acts independently from Government in providing its services. Following Ministerial agreement, LEASE has adopted a more commercial approach to some parts of its activities, in order to help maintain the free advice service that the leasehold and park homes sector receive. This is an essential and growing part of its activities conducted through a subsidiary company (LEASE Conferences Limited) which is a dedicated vehicle used for its income generating activities.
9. LEASE is led by an independent Chair (a new Chair took up post on January 2015). Its Board consists of six members, reflecting a wide range of expertise and interests, including those in the residential leasehold and property sector, who abide by the Seven Principles of Public Life (the 'Nolan' principles).
10. Further information about LEASE is available on its website: [www.lease-advice.org](http://www.lease-advice.org).

## **SECTION 2 – THE REVIEW: STAGE 1**

### **REVIEW METHODOLOGY**

11. The DCLG Select Committee and Welsh Committee were informed of the Triennial Review on 27 August 2014. A Written Ministerial Statement formally announcing the review was laid in Parliament on 1st September 2014 by The Secretary of State for Communities and Local Government.

12. Evidence to inform the Review was sought from a number of sources:

- i) face to face interviews with key partners, identified through the DCLG policy team and LEASE;
- ii) written feedback from a wider list of external partners;
- iii) a survey of a sample of leaseholders (1,000) through the LEASE mailing list;
- iv) performance and cost data;
- v) market testing to ascertain alternative business models.

13. A full list of external partners from whom views were sought is in Annex A.

### **FINDINGS**

#### Services provided by LEASE

14. There are an estimated 4.1 million residential long leasehold properties in England, which continues to be a growing sector. A significant number of new build properties are flats and apartments, a large number of which are sold on a long leasehold basis.

15. The introduction of Help to Buy and resurgence of the local authority tenants 'Right to Buy' is also increasing the size of the residential leasehold sector, as is the 'Right to Acquire' for housing association tenants, together with residential properties which are sold on a shared ownership and shared equity basis. The voluntary agreement, secured with housing associations, to extend Right to Buy to 1.3 million tenants will also significantly increase the potential numbers of leaseholders. An increase has also been seen in the size of the retirement sector with 60% of the projected increase in households between 2008 and 2033 forecast to be headed by someone over 65.

16. We know that many leaseholders do not have a good understanding of their leases or the law as it is a complex area of legislation. We have heard that the vast majority of those leaseholders who seek advice from LEASE are experiencing difficulties with an existing lease, rather than seeking help when entering into a new arrangement, which

suggests both that there is a need for this advice and also intervention or sign posting much earlier in the purchase process.

17. The Market Study on Residential Property Management Services, published by the Competition & Markets Authority (CMA) on 2<sup>nd</sup> December 2014 concluded:

*'many leaseholders have a poor awareness of their obligations in relation to property management and service charges. We found that leaseholders often do not understand how property management arrangements work before they purchase the property, nor do some of them fully understand their obligations, even where they are given information ahead of purchase.'*

18. It also found that:

*'leaseholders on low incomes were likely to be most impacted by any property management problems..... First-time buyers often have a tight financial situation and may have a poor understanding of the obligations of leasehold and their liability for service charges'.*

19. The statutory framework for leasehold aims to deliver an appropriate balance between providing leaseholders (and park home owners) with the rights and protections they need and recognising the legitimate interests of landlords and site owners. The legislative framework sets out the requirements the sector must follow. This is supported by self regulation through the two approved Codes of Practice (Association of Retirement Housing Managers and Royal Institute of Chartered Surveyors) and the introduction of ARMA-Q in early 2015. ARMA-Q is the new self-regulatory regime for ARMA (Association of Residential and Managing Agents) managing agents. This aims to raise standards and quality of service across the residential leasehold management sector. Legislation has required all residential property managers in England to be registered members of an approved statutory redress system since 1<sup>st</sup> April 2014.

20. This is a highly technical area where case law is significant, resulting in continual adjustments to the existing law. This means that it is extremely difficult for a non-specialist or member of the public to access and understand the information they need easily. This, combined with the potential increase in the sector, is likely to lead to greater demand for advice, information and education in the future.

21. There is no other organisation which currently provides a similar, free service. Whilst there are organisations, including the Citizens Advice Bureau, Shelter, the National Debtline (Money Advice Trust) and Civil Legal Advice, which provide general advice, this is often targeted at specific groups and lacks the capability to deal with complex

leasehold issues. All those we spoke to said that there was no other organisation with the detailed expertise in this area that LEASE possess.

22. In summary, the feedback we had from partners overwhelmingly supported the need for the provision of independent advice, although views were mixed about whether this should be free to all. The fact that it is funded by Government and is an Arms Length Body means that customers trust the advice that LEASE gives and believe it to be impartial and independent.

#### Advice to Government

23. LEASE provides Government with input and information, gained through its front line services, to assist in the development of residential leasehold policy, including:

- secondary legislation to address inconsistencies for collective enfranchisement and lease renewal of flats under the Leasehold Reform Housing and Urban Development Act 1993 (1993 Act);
- guidance for Leaseholders on obtaining information about absent neighbours when seeking to exercise rights of collective enfranchisement under the 1993 Act;
- an avenue for referral and advice for people with issues or concerns, reducing pressure on DCLG policy staff (and Ministers) as well as the volume of correspondence and potential complaints direct to the Department.

#### Reach

24. In 2013/14 LEASE served 709,196 customers through its internet service, held over 60 group surgeries across England and Wales, dealt with 41,528 individual case enquiries and an estimated 1,000 professionals, (though the latter pay for most services). In 2014/15 the number of unique visitors to its website was 702,184 – a reduction of 1 percentage point.

25. The overall number of non on-line enquiries also reduced in 14/15 to 38,052 from 41,528 in the previous year (down 8 percentage points). The underlying data shows a change in the balance of the type of enquiries with an increase in e-mail/letter enquiries and a corresponding decrease in telephone calls and personal appointments.

26. 1.56% of leasehold enquiries were from people living in Wales in 13/14.

27. The table below provides a breakdown of the enquiries by channel.

<b>Channels of enquiry</b>	<b>2013/14</b>		<b>2014/15</b>	
	<b>Number of enquiries</b>	<b>%</b>	<b>Number of enquiries</b>	<b>%</b>
Website (number of visitors)	709,196	95	702,184	95
Telephone	29,923		25,498	
Email	1,597		4,201	
Online enquiry form	8,740		7,149	
Letter	452		515	
FTT Surgeries	309		342	
Outreach surgeries	197		157	
Office visits	308		192	
<b>Total</b>	<b>750,722</b>		<b>740,238</b>	
<b>Website self-service enquires</b>	700,456		695,035	
<b>% of self-service enquiries</b>	<b>93%</b>		<b>94%</b>	

28. The above shows that the vast majority of enquiries received by LEASE are self-service through the website. The high volume of users who are able to get the information they need through the website shows that this is a very valuable resource. However, the feedback from partners also tells us that there is significant room to improve the online offering and make the website easier to navigate. LEASE tells us that further development of the website has been hindered by the lack of skilled resource.

29. LEASE has since submitted, and had approved, a business case to DCLG to upgrade its website to make it simpler and easier for its customers to access online information as well enabling LEASE to provide more interactive learning programmes and increase their offer to professionals using their services. This is due to go live in March 2016.

#### Breakdown of Enquiry Types

30. Listed below is a detailed breakdown of enquiry types received by LEASE in 13/14 (this information is not available for 14/15).

31. LEASE received 41,528 formal enquiries in 2013-14. The average time spent dealing with an enquiry was 14 minutes (based on data provided by LEASE). The top five types of enquiry received by LEASE were:

Service Charges	12,990
Lease Extension	6,351
Application to Tribunal	5,496
Freehold Purchase	5,064
Repair	4,262

32. The type of leaseholder for the above enquiries was:

Private Sector	22,911 (67.06%)
Housing Association Leaseholder	1,941 (5.68%)
Local Authority Leaseholder	2,876 (8.42%)
Other	6,435 (18.84%)

#### Customer Satisfaction

33. The percentage of customers who say that they 'agree or completely agree' that they accomplished everything they wanted with their enquiry are given below in respect of the top five enquiry types:

Service Charges	37%
Lease Extension	49%
Application to Tribunal	36%
Freehold Purchase	38%
Repair	35%

34. Customer satisfaction levels for the main enquiry types appear to be very low considering that this is a free service. However, this may be because LEASE's role is to provide independent, front line advice and it does not provide advocacy or guidance on the application of the law, which may be what customers are looking for. Customers may also not get the answer they wanted which also might affect satisfaction levels.

35. The levels of satisfaction are considerably higher for those customers who would 'agree or completely agree' that they would recommend LEASE to a friend, which suggests that these respondents include self-service website customers.

Service Charges	88%
Lease Extension	89%
Application to Tribunal	88%
Freehold Purchase	87%
Repair	84%

36. LEASE, because of its status as a government funded body, is only able to provide advice on leasehold law but cannot give views on its application or offer advocacy to its customers. Some stakeholders feel that this limits the value of the offer and stops short of providing the full service leaseholders require.

## Impact

37. It was difficult to establish clearly the impact of the service LEASE provides. The organisation's key performance indicators primarily focus on process and although there is data on the number of customers and individual case studies which show that leaseholders have been pleased with the service they received, there is little empirical evidence to demonstrate impact.

38. LEASE has provided a number of case studies. The following quotes are typical of the feedback on the service received:

Ms D said the adviser was "*extremely helpful and knowledgeable and provided me with step by step advice and signposted me to online resources and other professional legal advice that I would need. An excellent service and all free!*"

Mr H said LEASE's service was "*extremely useful and valuable to an "ordinary" leaseholder who does not understand the complications of lease matters. Don't know where else I could have gone for the advice short of expensive solicitor's fees for a relatively simple matter*".

Ms B said, '*Thank you for all your assistance. The information that LEASE gave to me was easy to understand, concise and totally relevant. I was able to use this and quickly resolve an issue which had been going on for ages*'.

39. This need for the function is supported by the recent CMA Market Study which states:

*During the course of this market study the feedback received from all parts of the sector, including leaseholders, about LEASE services has been very positive. The quality of advice and the information provided, and its independence, are generally well regarded. The provision of information and advice about the leasehold system of property ownership underpins many of our recommendations. The CMA considers that, for this market to work well, it is essential that LEASE continues to provide advice on request.*

40. There is also anecdotal evidence to suggest that the function adds value in that it both reduces the number of cases which go to the First Tier Tribunal (FTT) and improves the quality of those which are referred, although it is impossible to quantify this. LEASE provides an advice clinic at the FTT twice a week.

## Cost of Operation

41. In 2013/14 LEASE had a total turnover of £1.4m, with staff costs accounting for the bulk of expenditure (£931k). LEASE is principally funded by a DCLG grant (approx. £1m for 2013/14, reducing to £936k for 2014/15). LEASE also receives a grant of £20k per annum from the Welsh Government for the provision of advice in Wales. In 2013/14 and 2014/15 this included an additional £50k to fund an adviser to undertake a specific, time limited piece of work.
42. In 2014/15, the turnover increased to £1.5m. Whilst the overall DCLG grant reduced, LEASE received additional one off funding from the department for business cases for specific pieces of work, including improvements to the website. The income from training and conferences also rose by £100,000.
43. In line with central Government Departments, LEASE has seen reductions in its core funding in recent years, which is likely to continue. Its small size and the continuing reducing level of public funding mean that LEASE may become unsustainable unless they are able to become self-funding to some extent, particularly as there is limited scope for delivering greater efficiencies, for example in terms of sharing back office services.
44. Because of the reducing amount of Government funding available, and to ensure the continued provision of its free advice and information services to leaseholders, LEASE has been developing a more commercial approach to some of its services – focused mainly on the professionals in the sector. In 2013/14, LEASE generated revenue of £290,703 through its trading arm LEASE Conference Limited. This income was raised through the Annual Conference, the development of a fee paying directory and classroom and in-house training and webinar services. In 2014/15, this had risen to £398,024.
45. One partner felt particularly strongly that LEASE's commercial activities sit uneasily alongside providing free, independent advice, in particular the fee paying directory. The fee paying directory is a list of practitioners who pay a fee for inclusion in the list. They confirm their areas of competence in residential leasehold and agree to the terms and conditions, but are not vetted or approved by LEASE. Inclusion on the list does not constitute a recommendation by LEASE yet, for some partners, inclusion on LEASE's website implies that they have some form of Government approval.

46. There was also mixed feedback on the quality of the conferences. Whilst some partners found them valuable, some felt that these could be better focussed and that they had poor quality speakers.
47. Both LEASE and its external partners agree that there is scope for the services LEASE provides to be marketed more widely so that more leaseholders are able to benefit from these. LEASE say that a lack of commercial and marketing skills in the organisation, combined with centrally imposed restrictions on advertising and marketing activities, has meant that they have not been able to develop or promote their services as much as they would have wished, which, in turn, has limited their ability to raise more revenue. Alongside this, LEASE has highlighted a risk of generating a demand for their services which they do not have the capacity to meet.
48. In 2015, LEASE had approval from DCLG for additional funding to recruit an interim marketing manager but was unsuccessful in its recruitment. It has now employed the services of a marketing contractor and work is underway to develop marketing and implementation plans to help drive the generation of more income. The implementation plan is expected to be in place for the start of 2016/17 financial year.
49. There were mixed views on whether the service provided by LEASE should continue to be free for all. Some respondents were open to charging for advice, particularly for landlords and practitioners, although acknowledged there would be difficulties in establishing a system which was both proportionate and safeguarded vulnerable groups. 67% of LEASE's customers were from the Private Sector in 2013/14, which indicates that it would be worthwhile to investigate further whether charging some users for advice would be feasible.
50. There were a number of suggestions from stakeholders of additional activities which could provide a revenue stream. These included:

- the provision of a mediation or dispute resolution system. LEASE had previously provided a mediation service which had been discontinued in early 2011 due to the cost of providing it;
- summaries of Tribunal cases (this is being progressed);
- helping people prepare for Tribunals or completing forms for those selling Park Homes.

## Staffing

51. The day to day management of LEASE is carried out by the Chief Executive, with a staff complement of 25 (which included one time limited post in Wales which ended in December 2014), mainly consisting of legally qualified advisers, supported by a small administrative team. At the end of October 2014 (see table below), it employed 21.8 Full Time Equivalents (FTEs). 3.2 Legal Adviser posts remained unfilled.

Chief Executive	1
PA to Chief Executive	0.7
Senior Legal Adviser	3
Legal Adviser	11.5
Park Homes Adviser	2
Head of Office Services	1
Information Systems Manager	1
Administrators	1.6

52. Paragraph 27 shows that the vast majority of enquires are self-service through LEASE's website. LEASE tells us that the resource for this function is undertaken by the Information Systems Manager with some part time input from the Head of Office Services and a senior legal adviser. This is therefore a very cost effective way of providing advice with less than 10% of the organisation's staffing resource serving well over 90% of customers.
53. We also undertook a capacity assessment looking at the remaining 7% of enquiries to understand how Senior Legal Advisers' and Legal Advisers' time was spent. This was based on the number of enquiries received in 2013/14, the average time spent on each enquiry and the time spent attending advice surgeries on the basis of data provided by LEASE which included the time spent on core activities, including visits, surgeries and training.
54. From this it appears that there is surplus capacity at Senior Legal and Legal Adviser level, which may be as high as 6.46 FTEs. Not all of these posts are currently filled. There is scope to undertake further work to understand how the time of the Advisers is deployed, whether systems could be more efficient and whether there is benefit in a more multi-disciplinary team which would enable a different distribution of tasks. Alternative models which include call off contracts for particular expertise, rather than employees, could also be considered.

## Working with partners

55. There were mixed views from partners about the strength of their relationships with LEASE and on how well they had built these relationships. Whilst most of the key external partners felt that they had a good working relationship with LEASE and a strong, mutually beneficial relationship with the Chief Executive and its staff, some commented that they would have welcomed more open dialogue to give them the opportunity to contribute their views on the services provided and to influence the future direction of the organisation.
56. In the latter part of 2014, LEASE launched a pilot where it is working with the Association of Leasehold Enfranchisement Practitioners (ALEP) to provide a free call back service to provide advice on Tuesday and Thursday evenings. So far take up of this service has been low. The reasons for this are not entirely clear – it may be because ALEP only provides advice in respect of enfranchisement issues (rather than the full range of leasehold issues), because people are unaware of the service or (wrongly) believe that it is not free of charge. They may also prefer to get their advice directly from LEASE staff as there is a perception that ALEP is using the service as a way of increasing (paid for) business.
57. LEASE is also working more widely in partnership. Examples include:

- collaborating with the Tenant Participation Advisory Service in the creation of a good practice guide on leaseholder engagement;
- assisting the Royal Institution of Chartered Surveyors and the Association of Retirement Housing Managers with the revisions of their Codes of Practice ahead of submission to DCLG;
- taking forward the recommendations of the CMA Market Study and developing a single advice sheet for potential leaseholders at the pre purchase stage to help them make informed decisions.

## **CONCLUSION OF STAGE 1 OF THE REVIEW**

58. The services provided by LEASE are the only way that leaseholders and park home owners can obtain specialist free independent legal advice and, if it were abolished, it would be detrimental to those who cannot afford to appoint a Solicitor. The volume of leaseholders is continuing to grow and the demand for this service is likely to grow accordingly, including those on lower income levels through Right to Buy. Park homes owners are more likely to be elderly or more vulnerable and unable to afford to pay for

advice. In light of this and the evidence above, the Review concludes that there is a need for a service which provides a source of free advice on the law to leaseholders and park home owners.

59. It does not follow that this advice should be free to other groups, including the private sector, housing associations and local authorities. These groups currently benefit from the free service offered by LEASE and the Review concludes that it is not appropriate that this should be funded by government.

## FUTURE OPTIONS FOR DELIVERY

60. The Cabinet Office 'Triennial Review: Guidance on Reviews of Non-Departmental Public Bodies' requires that - once satisfied of the on-going need for the function provided by the organisation – the Review looks at the appropriateness of the delivery model against a number of options.

61. In considering the most effective and efficient delivery model for the future services, the review has discounted a number of options:

- i) **ABOLISH** – for the reasons given in paragraph 58 above, there is a clear need for the service to be provided. Should the service be abolished, leaseholders and park home owners would need to seek (and pay for) advice through private legal firms. This may be seen as being at odds with the policy of expanding home ownership, particularly as many first time buyers are leaseholders (although no similar provision exists for freeholders).
- ii) **BRING IN HOUSE** - the Triennial Review guidance also states that a body should only exist at arm's length from government as an NDPB if it meets one or more of three tests:
  - i) it performs a technical function which needs external expertise to be delivered – for example a function that could not be delivered in a department by civil servants, and where it would not be appropriate to recruit staff with the necessary skills to the department to undertake the function;
  - ii) its activities need to be, and be seen to be, delivered with absolute political impartiality – for example where political involvement, or perceived involvement, could adversely affect commercial considerations, growth, or the financial markets, or could lead to criticism of partiality;

- iii) or it needs to act independently of Ministers to establish facts and/or figures with integrity – for example in the compilation of National Statistics.

In light of the findings from this Review, LEASE would meet the first test in that it performs a technical function which needs external expertise to be delivered – in this case a detailed and comprehensive understanding of the law as it relates to leasehold and park homes tenure.

However, it would not be appropriate for the Government Legal Department to undertake this function as its role is to provide legal advice to Government departments not to members of the public. If there were a case to change its remit – which this Review does not recommend – to include provision of the legal advice which LEASE currently delivers, this would mean that other LEASE services, valued by customers, e.g. provision of the web offer and training and capability building for the sector, would no longer be delivered. LEASE also meets the second test and, for these reasons, this option has been discounted.

### **iii) COMMERCIAL MODEL**

The evidence gathering phase of this Review did not identify any commercial organisations which would have the capacity, willingness or ability to deliver the function. To test this further, a Market Enquiry was undertaken as part of the options review process. No expressions of interest were received so this option has been discounted as it is difficult to see how it could be pursued without investing significant time and cost.

Furthermore, any transfer of service would trigger TUPE regulations which could be unattractive to an alternative employer in view of the size and cost of the workforce. Recent experience with the planning portal has also shown that this could be a potentially lengthy process and could only be achieved on the basis of successful market testing which has not been established in this case.

The Review also looked at the potential for establishing a mutual. The distinguishing characteristic of a mutual is that the organisation is owned by, and run for, the benefit of its members, who are actively and directly involved in the business – whether its employees, suppliers, or the community or consumers it serves, rather than being owned and controlled by outside investors. The Review found little appetite in LEASE for further consideration of this option.

#### **iv) MERGER WITH ANOTHER BODY**

This has been explored previously during the 2010 review of Public Bodies when the Department undertook some work with LEASE to identify and assess potential merger partners. A wide range of organisations were considered against a number of agreed criteria, which included the retention of a recognisable LEASE ‘brand’ within the merged body.

As a result of this exercise, two organisations emerged which were seen as possible partners: Shelter and The Land Registry. A third option was for LEASE to become a free-standing social enterprise. In 2011, after consideration of the options, Ministers agreed that LEASE would remain as a stand alone NDPB but that it would seek to become more commercial and raise funds through accredited training and seminars to compensate for its decreasing public funding profile.

The Review also looked at the respective roles of the First Tier Tribunal (Property Chamber) which handles applications, appeals and references relating to disputes over property and land and LEASE. The Tribunal refers those making applications, respondents and potential applicants to LEASE for advice, resulting in some potential cases not coming to the Tribunal and those which do being better structured and based in a clearer understanding of the law.

However, as LEASE provides independent advice ahead of disputes being heard by the Tribunal, the roles need to be kept distinct and separate to avoid any potential conflicts of interest and a merger between the two organisations has therefore been discounted.

In conclusion that there is limited potential in the merger option, although the Money Advice Service, which provides a range of free advice and is funded through a levy collected by the Financial Conduct Authority from the financial services firms it regulates, may merit further consideration if other options are not realised.

62. Having discounted these options, the Review concludes that there are two main options which merit further consideration.

- v) **CONTINUED DELIVERY BY AN NDBP - LEASE continues as an NDBP but with a revised business model which sees the organisation becoming self-funding by March 2020**

In January 2016, LEASE provided a proposal 'The Future', at Annex B, as part of this Review. The proposal is based on the service significantly increasing its commercial revenue over the next five years so that it will no longer require DCLG funding (apart from Park Homes) by March 2020.

Since 2010/11, LEASE has grown its independent income from about £75,000 to almost £400,000 in 2014/15. This is an increase in absolute terms of £325,000 or 433 %, although it still only accounts for only 26% of the total cost of running LEASE. The proposal increase this to nearly 100% over the next five years is highly ambitious.

To achieve this LEASE is proposing a range of new services including advice by subscription, a mediation service, early neutral evaluation, providing tribunal summaries, e-learning modules and on-line forms. In addition to increasing revenue, these services will be beneficial in improving the overall service delivery within the sector.

In its proposal LEASE has set out its rationale and underpinning assumptions to demonstrate how it will meet its target for income generation. It re-enforces the growing importance of the residential leasehold sector within wider Government policy and states that feedback from professional organisations including RICS and ARMA shows clear potential demand for a subscription based service.

It also makes assumptions about the potential revenue that could be generated through the provision of training and conferences and an online advertising platform. LEASE acknowledges that the success of this will rely on the development and implementation of new marketing strategies and their ability to recruit a marketing manager with the appropriate skills. It is therefore difficult to judge whether the forecasts are achievable.

The future target operating model shows a reduction in staffing costs of £193,000 (20%) over the five year period. This will be delivered through a change in the delivery model, moving from fewer lawyers and senior personnel undertaking tasks at all levels to lower paid administrative staff carrying out the front line duties. LEASE is currently undertaking a skills audit to inform this.

In assessing the viability of the proposal, we tested LEASE's approach to its commercial work to date and how this had informed its future strategy, in particular their evidence base for particular income options and anticipated demand and the mitigating actions it would put in place to manage income volatility and competition from other organisations. We also asked for more information on how it would flex its resources to enable it to respond to the commercialisation agenda and whether it had taken into account the impact that charging may have on customer behaviour. We also considered the potential tension of balancing increasing commercialisation with LEASE's reputation for independence.

It is clear that LEASE has some exciting and ambitious plans for its future and that it is committed to making these a reality. There are, however, two key risks. Firstly, it remains difficult to test robustly the assumptions of the future level of demand for paid services on the basis of the evidence provided and, secondly, successful revenue generating will rely heavily on having the right marketing skills and expertise.

**vi) BRING IN HOUSE - Revise LEASE's service offering to be self-service only through the website**

The data in paragraph 27 clearly shows that the vast majority of LEASE's customers self-serve. Consequently, an improved self-service model would not only improve the service provided but would also generate significant savings as this could be delivered by a maximum of three FTEs. There would be a small number of customers who would be unable to obtain face to face advice, which brings a reputational risk and may result in increased representation to DCLG. It would also require the residual function to be brought in house.

## **RECOMMENDATION**

63. On balance, and taking into account the value of the service both to leaseholders, park home owners and to DCLG, the Review recommends option v) **CONTINUED DELIVERY BY AN NDBP - LEASE continues as an NDBP but with a revised business model which sees the organisation becoming self-funding by March 2020**
64. However the Review also recommends that that this should be on the basis of LEASE providing a detailed business plan, to be reviewed quarterly by the department. In addition to this, there should be a formal review point after eighteen months (September/October 2017) to assess whether the financial projections are being

realised and whether the business model needs to be adjusted, including consideration of a web based only approach.

## **SECTION 3 – THE REVIEW : STAGE 2 SECURING FUTURE EFFICIENCIES**

65. Nearly all of LEASE's costs (£982k in 2014/15) are payroll. This means in terms of maximising non-pay savings – particularly on rationalising estate costs and contracts, there is little real opportunity for savings.

### Estates

66. LEASE is already in premises forming part of the government estate and is awaiting a final Memorandum of Terms of Occupations (MOTO). Since its move to Fleetbank House in 2014, cost estimates have risen and LEASE is seeking to negotiate a reduced increase and to freeze inflationary annual rental increases. However, the rent increase is part of the head lease and the lease holder (the department for Business Innovation and Skills) will be looking to pass on their costs to the occupiers. Business rates and facilities charges would be part of the same negotiations.

### Corporate Services

67. LEASE already outsource their payroll and government accounting requirements at a cost of approximately £1,500 per month, including bookkeeping and monthly management accounts. The Human Resource function is already outsourced and, given the scale and costs of these functions there is very limited scope for further joining up of services. LEASE has already been subject to scrutiny through the Spending Review process and any further efficiencies will require a radical change to the delivery model.

### Structure

68. As part of its proposal for its future model, LEASE is proposing a change in organisational structure and team roles. This will involve a move from an approach which is primarily reliant on frontline advice services being provided by phone and face to face by qualified legal advisers to a model which drives customers to online platforms, web chat and social media with marketing assuming greater importance. The staffing profiles and forecasts reflect this and the model shows a 20% reduction in staffing costs and a 15% reduction in the overall cost of delivering services over the five year period until March 2020.

## Digital by Default

69. LEASE's future model is predicated on a move away from the resource intensive, expensive provision of legal advice by phone and in person to one which is based on maximising the use of web based service both to improve the customer offer and to increase revenue. This includes the provision of First Tier Tribunal and Leasehold Valuation Tribunal decisions through the website, E-learning for practitioners and customers, on line forms and online advertising platforms.

## Governance

70. Governance is the responsibility of the Board which comprises six non-Executive Directors including the Chair. The Chief Executive acts as the Accounting Officer. LEASE is accountable to DCLG for the use of resources and performance. The relationship is set out in a Management Statement and Financial Memorandum which operate as framework documents and quarterly meetings are held between LEASE and DCLG to review performance, risks and the use of financial and other resources.

71. The current Chair was appointed by the Secretary for State for DCLG through an open competition, for a five year term of office in January 2015. The other members of the Board were appointed also through open competition, each for a three year term. The Board has two sub committees:

- An Audit and Risk Assurance Committee which reviews the completeness, reliability and integrity of the assurance framework and advises the Accounting Officer and the Board;
- A Remuneration Committee which determine pay and related matters, reviews performance appraisal frameworks and assists in the recruitment of senior staff.

## **ANNEX A**

### **List of Key Partners**

Jessie Hamshar/Katy Willison/Sally Randall	Department for Communities and Local Government
Deep Sagar	Leasehold Advisory Service
Anthony Essien	Leasehold Advisory Service
Alyn Williams and Gareth Baglow	Welsh Government
Brian Doick	National Association of Park Home Residents
Judge Siobhan McGrath	Ministry of Justice President of the First-tier Tribunal
Sir Peter Bottomley MP Martin Boyd	Leasehold Knowledge Partnership
Michelle Banks	Association of Residential Managing Agents
Alex Greenslade	Association of Leasehold Enfranchisement Practitioners
Paul Silk	Association of Retirement Housing Managers
Roger Southam	Chainbow and Chair of the Leasehold Advisory Service from January 2015
Bob Smytherman	Federation of Private Residents' Associations
	Mid Wales Housing Authority
Julie Britherton	Cartrefi Conwy
Chris Jones	Care & Repair Cymru
Richard Waft	The Leasehold Excellence Network
Nazma Abdul-Karim	Watford Community Housing Trust
Justin Bates	Arden Chambers
Steve Schollar	Paradigm Housing Association
Tammy Jones	Cartrefi Cymunedol Gwynedd
Rob Morrell	City and County of Swansea Council
Anne Loveland	

**ANNEX B**



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