



Report on Compensation Payments

by

THG Scrutiny Group Members from Lancashire and
Pendleton Together

Scrutiny took place December 2016 – April 2017

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1. Introduction

1.1 This Compensation Scrutiny Project was commissioned by the Scrutiny Coordination Group (SCG) to address concerns over the issues highlighted in a recent internal audit report that looked at Complaints.

1.2 The scrutiny project proposal was received from the Business Assurance Manager, John Loads. The audit report highlighted concerns around compensation payments, in that, of the cases looked at; there was little or no evidence of investigation. The report stated “The Group should ensure accessible evidence is retained, demonstrating the reason for, and the authority for awarding compensation.”

1.3 Disproportionate compensation payments could have a negative financial impact on the organisation. Effective control of compensation payments will lead to greater efficiencies and savings, yet still ensure tenants receive fair treatment for poor service or loss.

1.4 This project will focus on Discretionary Compensation payments and will not look at Obligatory compensation payments.

2. Executive Summary

2.1 The agreed key objectives for this scrutiny were to ensure that:

- *Customers are aware of the reasons why and how we pay Discretionary compensation*
- *The guidance to staff is clear around types and definitions*
- *Staff are clear on when and to what value, payments can be made*
- *Controls are in place to record, authorise and monitor payments and to ensure they are both justified and proportionate*
- *Compensation claims outcomes are effectively relayed to customers and their expectations managed*
- *Areas for improvement following compensation claims can be identified*

2.2 And in conclusion will: Assess the current situation in relation to discretionary compensation payments, to consider the types of compensation being paid and to understand if the guidance around these is clear. To identify control mechanisms, authority levels, and ensures that THA is not exposed to financial risk.

2.3 The evidence gathered has allowed us to identify key strengths and areas of concern that are set out in more detail within this report.

2.4 Key strengths identified:

- Number of payments made (92) has reduced from the previous year.
- Staff have a good understanding of what is and isn't discretionary compensation.
- A good partner home contents insurance offer is available for all customers.
- New Compensation policy in place (but the language needs strengthening and making clearer).

2.5 Areas of concern:

- Average compensation payment (£183) is up by £30 on previous year (which is a Lower Quartile performance).
- Lack of QL recording for vast majority of cases, making monitoring and reporting very difficult.
- Ad-hoc methods of establishing an audit trail i.e. not recording outcome of investigation, inspections, reason for and authorising payments etc.
- Some payments made are incorrectly classed/labelled as 'compensation'.
- Lack of awareness of the new policy and staff not making reference to it when making a claim.
- No compensation procedures in place to support the policy.

2.6 We believe that our recommendations will help THG to address the fundamental concerns raised in the Internal Audit report. Ensuring that THG have a clearer picture of where & why compensation is paid and that payments are consistent and proportionate across the Group and can improve services from the lessons learnt.

3. Background

3.1 An Internal Audit report by Mazars was published in March 2016 on Complaints. Within the report, issues were raised around compensation payments. The report stated '*... whilst the Group have the facility to report on all compensation payments made, there is no process in place to identify whether claims have been investigated in order to assess the reasonableness of the compensation payments awarded to tenants*'

3.2 A revised compensation policy was approved by Leadership Team and Operations Committee in October 2016.

3.3 At the time of writing this report, no procedures had been published.

4. Methodology

4.1 The evidence and findings for this scrutiny were collated through:

- Review of costs associated with compensation payments and comparison with other organisations
- Review of THG Documents associated with compensation
- Review of individual payments made in financial year 2016-17 (up to 9th December)
- Assessment of audit trail for selection of payments
- Understanding of current recording methods
- Review of communications to staff and customers
- Comparison with how other organisations process compensation payments
- Staff workshops - 4 workshops held across the group with 30 staff attending from a range of service areas.

4.2 For the purpose of this scrutiny, we used 9 case studies selected to reflect a range of amounts, areas and reasons given for compensation from all payments processed in the financial year 2016-17 up to December 9th.

4.3 This scrutiny project has focussed on discretionary compensation which is often seen as a goodwill gesture and may take the form of, direct payment, voucher, flowers, chocolates etc.

4.4 The project has looked at compensation payments across all of THA and Pendleton Together.

4.5 When assessing the compensation payments made for service failure, the definition used in the THG compensation policy was applied:

‘Compensation for service failure should be used not because something went wrong, but for the failure to put it right.’

Key findings of this scrutiny

5. Costs

5.1 For the purpose of this scrutiny project scrutiny members looked at all payments recorded against the compensation expense code with the finance team. Finance were able to give members a spreadsheet showing all payments made in the financial year 2016-17 up to 9th December. They also looked at the total costs for the previous year.

5.2 THG’s 2015-16 total spend on compensation payments was £17,529 with an average claim of £153 which equates to a cost of 47p/unit (based on 37,000 units)

5.3 The total year end costs for 2016-17 are £16,879, slightly down on the previous year but with fewer payments made (22 less than previous year) but with a much higher average award of £183. This gives a unit price of 46p

5.4 It is important to remember that there is also the add-on cost to compensation claims that of staff time for investigation and processing.

5.5 We also identified some payments which, when using the definition set out in the policy, do not seem to be compensation and should have been coded to different expense codes.

6. Strategic Documents

In order to understand the message from THG to staff and customers, members looked at all documents and information that THG had in relation to Compensation and compared these to others in the sector.

THG Compensation Policy

6.1 The Compensation Policy sets out that discretionary compensation is not automatic and it should reflect the level of inconvenience, disturbance, stress or annoyance suffered by a customer for not putting it right and the extent to which THG has been directly responsible. It should take into account the time taken to resolve the problem and should acknowledge where this is deemed excessive.

6.2 The level of compensation should be reasonable, justifiable, proportionate and needs to reflect value for money for THG residents overall. Compensation may be a sum of money in recognition of loss or a failure to put things right, but it may also be vouchers, an apology or a change in procedures to put things right.

6.3 Members compared the THG policy to other compensation policies from other housing associations, Adactus, Moat, 3 Rivers, Grand Union, Paragon, Progress, Broadacre and Incommunities. Members compared descriptions of discretionary compensation with a focus on impact, values, authority and timescales, members have also considered tone of language used and references to home contents insurance.

6.4 The tone of language used in many of the other organisations' policies was stronger than that used in THG's and members feel that the THG compensation policy could be enhanced with stronger language making it clearer to customers what is expected and what is their responsibility. For example THG policy states '*Customers are encouraged to have contents insurance...*' Members do not feel that 'encouraged' equates to an expectation or given responsibility.

6.5 Other organisations use stronger language and make referral to their identified insurance scheme. Adactus state '*Customers are responsible for arranging insurance for their home contents*' Three Rivers and Moat state '*Compensation is not a replacement for home contents insurance. Customers are responsible for arranging their own home contents insurance.*'

6.6 Another concern in the THG policy is the six month timescale given for customers to make a claim, all of the other organisations looked at have a much tighter timescale and give a 28 day/one month average. Reducing the current THG timescale would make investigations quicker and easier and give more accurate outcomes.

6.7 The THG Policy is unclear in its distinction between direct loss payments and inconvenience suffered. The table in the policy sets out the different levels of inconvenience suffered etc and associated limits for payment, but it is not clear to staff

and customers that direct loss (paying to customers if THG are responsible for damage or loss caused) is separate to the levels set in the table.

- 6.8 There is no specific Pendleton Together compensation policy; however the Pendleton Complaints policy makes a very brief reference to compensation being an option for resolution for the complaints panel and obligatory compensation is referred to in the Reactive and Cyclical Repairs method statement under Right to Repair scheme and Tenant Decoration scheme. Therefore members feel that the existing THG Compensation policy should cover Pendleton Together also and should be promoted to Pendleton staff and customers.
- 6.9 The THG Policy states, 'In order to assess value for money, all compensation payments shall be recorded and reported by service managers to their Head of Service. The value and reasons shall be reported to Leadership Team through the Head of Business Assurance and also annually to Operations Committee' The Business Assurance manager has said 'this does not currently happen as we need to get the data right first' faith in the data being recorded consistently and accurately across the group will ensure reliable reporting.
- 6.10 Members agree that regular reporting to leadership and Operations Committee needs to happen, however, members also discussed the options for an independent panel to look at compensation on a regular basis. The Auditors have suggested that this is good practice and members have looked at one organisation that does this.
- 6.11 Members are concerned that of the 30 staff interviewed as part of this project all said that they had not seen or read the existing policy and yet nearly half of them had said they had been involved in a recent compensation claim investigation.

THG Website

- 6.12 There is no information available to customers on the THG website in relation to compensation, in fact if the word compensation is typed into the search bar all that comes up are two links to *condensation*. Members looked at what information was available on other housing association's websites for customers and many had access to its policy or an overview of the policy.
- 6.13 Members liked the leaflet that Accent have available on their website, it's clear and simple, explains to customers the steps in making a claim and what is and isn't covered under obligatory and discretionary compensation. Members felt a similar clear leaflet should be available to THG customers through the website.

THG Complaints Policy and Procedures

- 6.14 The Complaints Policy does refer to compensation and makes reference to the Compensation Policy in 'associated documents' however the Complaints Procedures has no mention of compensation in the document. Members feel that as compensation is often linked to a complaint, compensation payments and the compensation policy should therefore be referred to within the complaints procedures.

THG Partner Insurance offer

- 6.15 A new partner insurance scheme for all THA customers and customers of Pendleton Together was launched 1st April 2017. Members of staff are currently undergoing training and the scheme is being promoted to all new tenants. At sign up, new tenants are now

asked to sign a declaration that they have seen the insurance details and that they understand that it is their responsibility to take out insurance for their home contents.

6.16 Members feel that the insurance offer is a very positive offer for customers and are pleased that it is being explained to new tenants but are keen to see this promoted to all existing customers also as well as making reference to it in the compensation policy to further strengthen the message to customers.

7. Process

Members wanted to establish what processes were in place across THG for compensation payments and compare this with other organisations.

Process at THG

7.1 There are currently no procedures or process map to guide staff, so members looked at the policy to assess what process is laid out in there. There is some guidance on what is and isn't discretionary compensation, what the levels of impact are and who can authorise at what level.

7.2 However, the lower impact level states any member of staff can offer compensation as part of the Get it Sorted approach, when the issue is first identified, but no guidance is given on authorisation for medium level. It states that high impact claims up to £250 should be authorised by a service lead and anything outside of the above criteria by a member of senior management. This guidance needs making clearer especially around the 'lower and medium impact levels' and for claims that are outside of the stated criteria. In order to make it clear for staff (and customers) it would be beneficial if this was part of the existing table showing the impact levels and award limit for each level.

7.3 The QL guide for inputting complaints makes reference to compensation but it is very brief and not detailed and gives no instruction for recording detail as to what the compensation is for or lessons learnt.

7.4 There are no standard template letters in place for corresponding with a customer when processing a compensation claim. Members are keen to see the use of an acknowledgment letter that sets out what the issue is, what the customer is expecting and what THG are going to do next etc. There should also be a standard final letter setting out the amount awarded, what it is for and state that payment is accepted as final settlement, and as far as THG are concerned, brings the matter to a close.

7.5 Of the 30 staff present at the workshops, 14 said that they had experience of handling a compensation claim. Members who observed the workshops felt that, in general, staff had a good understanding of compensation however when presented with a couple of scenarios, some staff said they would have paid compensation when actually the tenant should be referred to their home contents insurance.

7.6 From the case studies and other preliminary searches on QL, along with discussions with staff at the workshops, members established that the level of investigation varies greatly from team to team and the ad-hoc methods of establishing an audit trail i.e. recording

outcome of investigation, inspections, reason for and authorising payments (authorisation generally is only obtained at payment request stage), means that there is currently not a consistent process being implemented across THG. The case studies looked at for this project highlighted this (see section 8 below)

8 Case Studies

In order to understand what compensation payments had been paid recently, and with a lack of information through QL, finance were asked for details.

8.1 The spreadsheet obtained from finance and run from Open Accounts showed all payments processed against the compensation expense code, between the 1st April 2016 – 9th Dec 2016. There was very limited information against each of the payments with only half of them having an address or name against and there was very little detail as to what the payments were for.

8.2 The 9 case-studies selected, totalled £3,545.53 worth of compensation payments, members found two anomalies with payments coded to compensation instead of the stated voids expense code, suggesting that tighter control is needed at this stage of payment processing.

8.3 Some of the cases were payments for direct loss after THG accepted responsibility for damage. The spreadsheet also showed many payments made each year for damage to personal belongings that perhaps should have been covered by customer's home contents insurance, some staff at the workshops said that they didn't always discuss that option with a customer when looking at a claim.

8.4 Of the 9 cases looked at members only found one example of letters to the customer that referred to the policy and impact level the manager felt matched their case and offered compensation to that limit accordingly.

9. Conclusion

9.1 As our data in this report demonstrates, although some steps have been taken to address concerns raised by the Internal Auditors last year when looking at Complaints Management, there is still some way to go to fully rectify their concerns and feel that our recommendations will help ensure that these are addressed along with the other concerns that we have evidenced in this report.

9.2 Without a clear set of procedures and process map in place it is not surprising that staff are dealing with compensation claims in different ways. The current process being followed by staff varies across the group, and whilst the majority of the cases we reviewed had some form of audit trail most were held in the form of emails between staff members with very little or no information on QL, making it impossible to easily obtain evidence of investigation.

9.3 The various ways of raising payments and methods used for investigation (if at all) makes establishing a clear audit trail difficult and we are concerned that the current practice leaves it open to potential abuse and fraud, particularly for the lower amounts.

- 9.4 Although other organisations have successfully used various data bases and or spreadsheets to record compensation payments we feel that THG need to use the management system currently in place to capture this information alongside details of complaints. QL already has the required fields set up to capture compensation payments and Documotive to store related letters etc. and should be the only place that discretionary compensation payments are recorded.
- 9.5 Staff have said that their first feeling when receiving a compensation claim is that it's going to be a hassle and frustrating. There is confusion about the levels of compensation and how much is proportionate to the issue raised and who can authorise at the lower and medium levels.
- 9.7 The existing compensation policy needs to be strengthened and made clearer for staff and customers so that this confusion can be addressed. A clear set of procedures needs to be developed as soon as possible so that all staff are investigating claims and making decisions in a consistent manner across THG.
- 9.6 The THG message needs to be clear and strong when stating that it is the tenants' responsibility to have home contents insurance and that THG Compensation is in no way a substitute for that. Staff need to feel confident in saying no to a claim and referring customers to their home contents insurance when applicable, a more robust policy will help give staff this confidence.
- 9.7 Pendleton Together has no existing discretionary compensation policy and although there are obligatory compensation specifics set out in various method statements we feel that for discretionary compensation payments, staff and customers should be referred to the THG policy.
- 9.8 The policy and procedures, recommended in this report, need to be appropriately communicated to all staff to ensure that consistent processes are followed and decisions made fairly and that payments are justifiable and proportionate to the claim/complaint.
- 9.9 The THG compensation policy clearly states that 'Compensation for service failure should be used not because something went wrong, but failure to put it right' there is evidence that THG are putting it right but sometimes THG are also awarding compensation as well. Poor communication during an issue has often been the cause for awarding compensation despite the actual service failure being rectified.
- 9.10 Effective control of compensation payments will lead to greater efficiencies and savings, yet still ensure tenants receive fair treatment for poor service or direct financial loss.

10. Further Investigation/points to consider

Whilst collating evidence for this project we have identified areas that we feel would benefit from further consideration by THG.

1. The current financial controls for coding.

Of the 9 case studies, 3 payments had been miscoded at the point of processing by finance. With the recent HCA downgrade to G2 we feel it is important to establish if this miscoding is an isolated issue, something particular to compensation payments and the ordering of B&Q vouchers in the Yorkshire & Humberside area, or an issue that is affecting other service areas and associated expense codes? Whilst not affecting the overall spend of the business, it does mislead THG to the total spend for individual service areas.

Management response

This issue will be referred to the Finance Team to identify where responsibility for coding compensation payments lies. Appropriate training and advice will be provided to staff on this issue.

2. How THG communicate new policies/procedures to staff.

All of the staff attending the workshops (in March 2017) as part of this scrutiny project said that they had not seen the existing compensation policy, that was launched in October 2016 and yet 50% of them had said that they had recently dealt with a compensation claim. THG need to consider how new policies are communicated to staff as this suggests that the traditional method of the intranet, blogs, team meetings etc. is not effective. More importantly staff need to understand the importance of referring to relevant policies when working in that service area.

Management response

We are currently finalising a procedure guide for staff to use when developing, writing and implementing policies. This includes guidance on how to communicate policies to affected staff and where they should be stored within Documotive, our document management system. This will be launched during June/July 2017.

11: Recommendations & Management Response

We believe that our recommendations will help THG to address the fundamental concerns raised in the Internal Audit report and will ensure that THG have a clearer picture of where & why compensation is paid and that payments are consistent and proportionate across the Group and can improve services from the lessons learnt.

Issue		Recommendation	Management response & how will this be implemented?	Timescale & who responsible
Policy				
<p>The existing THG Policy is unclear & generous with regards to specific responsibilities for customers and staff.</p> <p>Risk: That THG are exposed to unnecessary compensation payments due to the generous timescales and expectations of customers and staff.</p>	1	<p>The Compensation Policy needs to be updated to include:</p> <ul style="list-style-type: none"> • Stronger language in regards to customer responsibilities • Clearer authority levels • Reduced timescale for submitting a claim • Distinction between direct loss and inconvenience payments 	<p>Agreed. We will review the Compensation policy to take account of these issues and comments. We will also ensure appropriate changes are made to the Complaints Policy to reflect any changes made to the compensation policy.</p> <p>New policy to be implemented by Sept 2017</p>	<p>Business Assurance Manager</p> <p>Sept 2017</p>
<p>There is no Pendleton Together Discretionary Compensation Policy</p> <p>Risk: The lack of policy at Pendleton leaves THG exposed to inconsistent service delivery and uncontrolled costs</p>	2	<p>Pendleton Together adopt and implement the updated THG Compensation Policy</p>	<p>TBC. We agree this in principle, but need to check that it is allowable within the PFI Housing Management contract</p>	<p>Business Assurance Manager</p> <p>Sept 2017</p>
Process				
<p>At the point of making a claim, customers' expectations are not managed.</p> <p>Risk: That THG customers are</p>	3	<p>Develop a leaflet available to customers that sets out summary of policy and process for making a claim</p>	<p>Agreed. We will produce a leaflet for customers setting out a summary of the new compensation policy. Agreed in principle however we</p>	<p>Business Assurance Manager</p>

Issue		Recommendation	Management response & how will this be implemented?	Timescale & who responsible
dissatisfied	4	Develop and implement a form that all customers complete when making a claim setting out detail of issue and what they expect.	would want this to be optional rather than compulsory, particularly for lower level compensation e.g tokens, flowers etc. This will be included with the procedures/process map	Nov 2017 Business Assurance Manager Sept 2017
<p>There is no set of procedures or process map to support the compensation policy</p> <p>Risk: That compensation payments are inconsistently managed, awarded and recorded across THG leading to potential fraud or abuse</p>	5	<p>Write and implement a set of procedures with accompanying process map that includes:</p> <ul style="list-style-type: none"> • Referring to the Policy • How to record All payments on QL • Using relevant subject action codes • Recording amounts & lessons learnt 	Agreed. We will develop clear written procedures for staff to support the implementation of the revised policy from Sept 17.	<p>Business Assurance Manager / Complaints Co-ordinator</p> <p>Sept 2017</p>
<p>Inconsistencies in processing payment requests</p> <p>Risk: That THG performance management data is incorrect and misleading and unreliable</p>	6	<p>Implement tighter controls to understand spend, identify trends and ensure accessible evidence is retained. To include:</p> <ul style="list-style-type: none"> • Clear printed name of authoriser • All relevant documents are uploaded to Documotive • Letter accompanying payment states 'final settlement in relation to...' 	<p>Agreed. This recommendation will be met with the introduction of detailed procedures. However we are unable to agree to use the term "final settlement" in any correspondence. The Housing Ombudsman Service advises organisations that this should be avoided as tenants/customers should have a right of appeal as to the level of any compensation offered.</p>	<p>Business Assurance Manager / Complaints Co-ordinator</p> <p>Sept 2017</p>

Issue		Recommendation	Management response & how will this be implemented?	Timescale & who responsible
Monitoring & Reporting				
Service Areas are not reporting on what compensation payments they are awarding, reasons why and what lessons can be learnt.	7	As per policy service managers should report on compensation awards.	Agreed in principle, however this will be captured within summary reports from the Complaint Co-ordinator, not service managers. The policy will be updated to reflect this.	Business Assurance Manager / Complaints Co-ordinator
Risk: THG does not have a clear understanding of what compensation claims are awarded and what for.	8	As per good practice, establish a compensation review panel made up of customers and staff to review compensation payments.	Not agreed as it is not clear that this would generate sufficient interest as a standalone panel. However in order to give some degree of tenant oversight on compensation payments, we will include details of compensation payments made within the complaints reports which are provided to Local Panels.	Sept 2017 Business Assurance Manager / Complaints Co-ordinator Dec 2017

12. Acknowledgements

The Scrutiny Group members wish to express their thanks to the Scrutiny Advisors and to the Together Housing Group staff who gave up their time and shared information, as without their help and co-operation this Scrutiny would not have been possible.

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