ISLINGTON
For a more equal future

Report of: Corporate Director of Community Wealth Building

Meeting of: Audit Committee

Date: 29th January 2024

Ward(s): All

Subject: Risk Deep Dive: New Build Principal Risk

1. Synopsis

1.1. In accordance with its Terms of Reference, the Audit Committee (the Committee) is required to consider the Council's arrangements for corporate governance and risk management.

1.2. The Committee has agreed to conduct regular deep dives on individual Principal Risks. The purpose of the deep dive is for the Committee to obtain a deeper understanding of the chosen risk area, develop insight into risk controls and the action plan, and to get the opportunity to discuss the risk directly with the risk lead. As noted in paragraph 3.3 below, a comprehensive review of the council's New Build Programme is underway, and a revised new homes programme is being developed. The council's Executive will be asked to approve this programme on 14 March 2024.

2. Recommendations

2.1. The Committee is asked to note the mitigations that are in place and the overarching risk management strategy for this principal risk.

2.2 The Committee is asked to note that the Council's new New Build Programme will be presented to the Executive on 14th of March 2024.

2.3 The Committee is asked to note the proposed including of the New Build Programme governance and risk mitigations in the internal audit plan for 24/25.

3. Background

3.1 The New Build programme has a target of delivering 750 starts on site for new council homes by December 2027. Several principal risks are impacting our ability to deliver this target on time. This paper sets out how we are mitigating the risks that impacting the delivery of new homes as set out in the principal risk register:

1. Economic climate including interest rates and inflation, cost increases, continued lack of funding to support housing delivery, external market factors, funding model for the programme.
2. Contractor failure.
3. Delay in planning approval.
4. Lack of resident support.

In addition to the principal risk profile, individual risk assessments are undertaken for each scheme and these schemes are reviewed and updated at each key decision point within the programme.

3.2 The manifesto target of 750 new council rent homes to be started on site before December 2027 was set in October 2021 based on an assessment of deliverability and affordability at the time. Since this time, the delivery context has become ever more challenging and many public and private sector developers have either frozen, slowed or radically altered delivery programmes (including delivering fewer affordable homes).

3.3 The New Build Service has been moved into the Community Wealth Building Directorate, partly in response to the materially increased risk profile, mitigating this challenge by placing responsibility for all housing delivery (HRA, General Fund, partners, and external developers) in once place.

3.4 As part of the Community Wealth Building Directorate taking on full accountability for the delivery of new affordable homes, a strategic review of the existing pipeline commenced in 2023. The outcome of that review was a decision to stop some schemes that offered poor value for money, and which presented the highest level of risk in terms of their deliverability (see section 10 - Financial Implications). The Executive will be asked to approve the amended programme in March 2024. Meetings with the Ward Councillors in the Wards that will benefit from new schemes are being scheduled.

3.5 To support the effective delivery of the revised programme the structure of the New Build Team has also been reviewed. The proposals are currently out to consultation with impacted staff and implementation of the new structure will commence in April 2024. This means that the new structure will start to be in place once the updated programme has been agreed and is ready for implementation.

3.6 In addition, the governance arrangements in relation to the programme are being further strengthened. Key decision points (known as gateways) have been introduced and a formal recorded decision on whether to proceed with a scheme will be made at each gateway. Any decision to proceed will be dependent upon the agreement of the business case and viability appraisal of the scheme and clear evidence that all known risks have been either addressed or appropriately mitigated. Furthermore, the updated governance arrangements will consider financial viability and risks at a programme level.

3.7 The sections below detail a range of measures that are being employed to mitigate against the four principal risk factors.

4. Principal Risk Mitigations

Principal Risk 1. Economic climate including interest rates and inflation, cost increases, continued lack of funding to support housing delivery, external market factors, funding model for the programme

4.1 Economic climate - there are a variety of factors that can influence construction costs and the affordability of building new homes. Islington has characteristics that present additional challenges often resulting in higher construction costs and viability pressures, when compared to other London boroughs, such as the scarcity of available land. The new build programme is moving into a new phase, at a time when wider economic conditions have increased the difficulties of achieving the volume of affordable housing that is needed. It is essential that efforts to meet the housing need are balanced with what the council can afford. Existing processes will be amended to ensure that there is a focus on managing construction costs from the project inception stage through to implementation. Any proposals that are overly complex or inefficient will not be progressed through the project gateways. Furthermore, contractors will be invited to have input into proposals prior to the schemes being submitted for planning permission This will ensure that schemes can be built in a high quality but efficient and cost-effective manner prior to planning permission being granted.

4.2 Interest rates and inflation – interest rates have risen significantly, impacting the cost of borrowing. The Council borrows to fund capital schemes from the Public Works Loan Board (PWLB). From Jan 2022 to Nov 2023 the PWLB 40-year maturity rate rose from 2.06% to 5.49%. Furthermore, high levels of inflation, particularly in relation to construction costs have been coupled with a slowdown in the private housing market. The cost of construction materials is stabilising, albeit at very high levels for certain materials. Several new building regulation changes requiring a higher standard of specification and design, including new fire safety requirements, are also increasing construction costs and causing programme delay as we work to achieve compliance with emerging technical requirements. These changes have negatively impacted the cost and viability of council house building schemes to a significant degree. Construction costs are being closely monitored through our Commercial Manager and benchmarking with other house builders across London, including Local Authorities.

4.3 The council's Treasury department currently determines the level of interest rates applied through the development of viability appraisals, and sensitivity analysis is applied to support longer term view of the affordability of individual schemes. The cost of borrowing is actively tracked. Current viability modelling assumes an interest rate of 5.91% for new borrowing taken out on capital schemes, the 50-year rate in Sept 2023. From Quarter 1 2024, this rate will be reviewed on a quarterly basis and reflected in updated viability models. The Government has allowed Local Authorities to borrow at a concession of 40 basis points in the HRA until 2025, but the council will continue to add

50 basis points (0.5%) risk factor to the prevailing rate for prudence, given the high level of volatility in recent times.

4.4 Lack of funding to support housing delivery - lack of sufficient government investment, particularly in respect of grant funding for affordable housing has been a longstanding challenge. This underinvestment inhibits new supply. Income available to the council is significantly constrained and controlled by the government through the control of rent increases, preventing landlords from setting rents at a level that represents a sustainable level of investment in homes. This underinvestment in existing stock has an indirect impact on the delivery of new housing, as further income is required to maintain, repair, and improve dwellings to ensure the council meets our Decent Homes for all priorities.

4.5 The four-year rent reduction of 1% by the government between 2016-2020, and the 2023 rent cap of 7% during a time of significant inflation on repairs, resulted in a net reduction of income of £1.7 billion over the life of the 30-year HRA Business Plan. This has exacerbated the financial challenges faced by the HRA.

4.6 Grant levels have not increased in line with high inflation in construction costs, nor addressed the current significantly high interest rates, which is undermining scheme viability. To mitigate the risk of losing Right to Buy (RTB) receipts and maximising GLA grant, the New Build team meet regularly with the GLA to provide updates on the new build programme and pipeline schemes, as well as exploring future funding programmes when they are launched. Similarly, the New Build Team have an ongoing relationship with One Public Estate to identify suitable schemes for funding and potential for partnership working with other local public bodies to deliver housing and other public services. Even in improved economic conditions, we will see a legacy of this lack of funding support, and it is not reasonable that local authorities are expected to carry all the delivery risk and liability of tackling a national housing crisis. This risk is monitored as part of the monthly reporting process.

4.7 Lobbying Central Government - Islington has a joined a small working group of developing Local Authorities convened by London Councils and the GLA to co-produce a paper to be presented to the Department of Levelling Up, Housing and Communities (DLUHC) in February 2024, which lobbies for further reforms to the RTB spending framework. The purpose of the paper is to ask the Government to introduce additional, permanent flexibilities to the RTB funding regime, particularly in combining RTB receipts with Affordable Housing Programme (AHP) grant to address significant viability deficits in new residential development schemes. This builds on the previous successful lobbying led by the GLA and London Councils, of which Islington council was also part, that resulted in some short-term reforms to the RTB spending framework.

4.8 The council will also work alongside other social landlords to seek a more sustainable rent settlement from Central Government, which will enable greater certainty over long-term financial planning and investment in our housing stock, as well as the ability to support further investment in increasing the supply of new homes across the borough.

4.9 Working with external consultants - the council relies heavily on external consultants providing a variety of specialist professional services. Our new procurement approach delivers greater confidence that we have access to the right consultants to support successful delivery. We are strengthening the oversight and management of consultant performance which will continue to be a key risk. Our corporate consultant procurement strategy approved in 2022 provides a wider pool of experienced consultants to select from, introducing diversity in place of an over-dependence on a small number of consultants. Added rigour has been introduced into our consultant selection process through competition, framework provider support and ensuring clear and consistent project briefs and scopes of service. We now have closer supervision and monitoring of key consultants and a payment structure linked to staged design completion and performance with invoice authorisation monitoring. Introduction of consultant key performance indicators (KPIs) is planned for 2024/25 which will provide improved visibility of consultant performance against agreed objectives.

4.10 Contractor selection and engagement - selecting the right contractors to deliver our projects and how/when we engage with them is critical. The council's existing contractor framework for residential and mixed-use construction projects, expires in July 2024. A new procurement strategy is being prepared that will provide the council with flexible access to a wider pool of contractors, across a range of construction price bands and specialist construction lots e.g., roof-top extension and modern methods of construction (MMC).

4.11 Contract management - a new Contracts Manager position is proposed to be created that will further strengthen pre-contract knowledge, competency and compliance as well as in-contract performance scrutiny and management.

4.12 As noted above, we are introducing a model of early contractor involvement (ECI) to inform buildability, design efficiency, programme, construction risks and cost plan through pre-planning design stages, and Finsbury Leisure Centre (FLC) is an example of a scheme that is testing contracted contractor input to develop Stage 3 design. This model or other approaches to secure the benefits of early contractor input will be rolled out across the pipeline.

4.13 Working closely with Finance - working closely with Finance colleagues enables us to set out our strategic approach to dealing with factors such as the interest rate increases and the complexities around drawing down external funding based on sound financial advice, and the finance team are regularly updated on any areas of financial risk across the programme. Some examples of how we work together with finance colleagues include:

- The development of financial business cases and viability appraisals for individual schemes and for the programme as whole. These business cases and viability appraisals are updated at each key stage (or gateway) in the project development and implementation process and projects will only progress to the next stage if the business case and viability appraisals are robust and there is evidence that any risks are removed or appropriately mitigated.

- The setting of risk and contingency rates across the programme.
- The monitoring of use of contingency and application of optimism bias across the programme. In terms of business case development, an optimism bias factor of 10% is added on top of assumptions about risk and contingency. This increases the assumed cost of schemes at the inception stage. However, as schemes move through the gateway process and business cases are refined the level of optimism bias can be reduced if it can be demonstrated that any unforeseen risks associated with the project are removed or mitigated.

Principal Risk 2. Contractor failure

4.14 According to the Building Cost Information Service (BCIS), in the year to November 2023, the total number of construction firms becoming insolvent was 4,370. This was an increase of 7.0% on the 4,086 insolvencies recorded in the year to November 2022, and a 35.8% increase on the 3,218 in 2019. We've experienced directly the impact from a main contractor going into administration and we are currently undertaking field work for an internal audit, supported by PWC, to take lessons learnt from that experience. The lessons learnt and recommendations from that audit will be embedded into our ongoing processes. The current climate and the financial challenges are also experienced in the way in which contractors pass their own pressures onto their clients. Many contractors will continue to struggle to deliver on their contractual obligations, mainly due to their increased costs. They are then looking for ways to recover losses onto their clients as a way of mitigating their own risk, and we are seeing first-hand the pressures the contractors are under - resulting in an increase in contractor claims for loss and expense, generally associated with programme delays and design changes.

4.15 A Commercial Manager was added into the structure in 2021 and since being in post the following measures have been implemented:

- An arrangement with Creditsafe providing an assessment of the financial stability of a particular company. This 'risk factor' is based on their submitted company accounts (that generally will be as a minimum 12 months out of date) together with trade payment data that relates to real life payment experiences gathered from selected third-party partners. This is reliant on the accuracy of the data being uploaded and there are acknowledged limitations. To partially mitigate the limitations, Creditsafe provides alerts when a tracked company uploads fresh information e.g. latest accounts, change of directors, or a county court judgement (CCJ). As part of an internal audit, we are currently reviewing our arrangement with Creditsafe and if necessary, will seek an alternative arrangement or additional measures to strengthen our oversight of contractor financial stability. This will be undertaken in consultation with finance colleagues.
- Ensuring that all collateral warranties and guarantees are up to date and in place.
- Standardising Costreports and monitoring contract sums against projected outturn final costs, fully interrogating the Employer's Agent (EAs) to ensure that they are challenging our contractors and that we are receiving value for money.

- A watching brief across all schemes including scrutiny of extension of time (EOT) claims.
- Formulating and updating benchmarking construction rates as a member of the London Benchmarking group – which also enables us to engage directly with other members on other aspects of delivery.

4.16 Some further commercial risk mitigations examples currently in place include:

- Detailed references from other clients on completed or existing schemes at the pre-contract award stage.
- If the contract to be awarded is on an existing external framework we consult with the specific framework provider to identify any issues that are known to them.
- Ensuring accurate assessment of the main contractor's valuations with minimal on account payments and no consideration for materials off site if possible.
- Ensuring works are generally on programme with subcontractors on site when they should be and no issues with the main contractor paying their supply chain.
- Ensuring all collateral warranties/guarantees in place as soon as practicable to reduce impact from the main contractor going into administration.
- Ensuring the required performance bond/parent company guarantee is in place.
- Reviewing the cost and effectiveness of arranging contractor insolvency insurance.
- Reformatted liquidated and ascertained damages (LAD's) template, now including for consultant costs, and a clear process of imposing LAD's when there is a contractual opportunity to do so.
- Ability to further mitigate the issue of contractor insolvency and the negative affect of this, by ensuring that valuations for completed works are accurate on both % complete and accurate costings to avoid 'on account' assessments.

Principal Risk 3. Delay in planning approval

4.17 The Community Wealth Building Directorate has taking on full accountability for the delivery of new affordable homes and as a result the Planning department and the New Build programme now sit under the same Corporate Director. This provides an opportunity to work more closely together to unlock and resolve any potential planning issues at earlier stages in project delivery, mitigating any potential delays, cost increases and resident dissatisfaction.

Navigating the planning process has been impacted by recent fire safety regulatory changes. A clear example of this is the introduction of the requirement for two staircases in buildings over a certain height, which by way of an example has meant that the Vorley Road scheme consented at Planning Committee in December 2022 is undergoing a re-design to ensure the scheme complies with the new fire safety regulations and mitigations for viability pressures that have resulted from the changes and the delays caused. We are mitigating the impact from changes in legislation by:

- Continuing to work closely with our colleagues in Planning and Building Control. All new opportunities are discussed with Planning Officers as part of the Gateway 0 process and their feedback around heights, massing, daylight/sunlight, trees and other key considerations supports the development of project proposals.
- The introduction of in-house technical design capacity in 2021, which will be further strengthened in the current proposed restructure. These roles help us keep up to date with regulatory changes and plan for these ahead of time, for example we are already mitigating the impact of the' Future Homes Standard' that will come in in 2025.
- Continued liaison with internal and external experts in the sector, as well as other housebuilders to ensure we are kept well informed about emerging policies, regulatory changes and working with others to develop a 'good practice' approach.

Principal Risk 4. Lack of resident support

4.18 There is an ongoing and established process of resident engagement throughout the delivery of all New Build projects, recognising that it is essential to undertake quality resident engagement activities throughout the project delivery cycle. Poor resident engagement can have a range of implications including causing delay to the delivery of new homes. The engagement with residents is predominantly lead by the Project Managers with support from Communications with the production of newsletters and other consultation materials.

4.19 Specialist external consultation support has also been utilised, such as with the consultation of our Finsbury Leisure Centre scheme.

4.20 As part of the planned restructure a new Strategic Engagement function is proposed to ensure sufficient skills and capacity to deliver effective communication and engagement with residents and stakeholders for both New Build and Capital schemes undertaken by Community Wealth Building.

4.21 The processes for engaging with residents will continue to be refined, working with partners and adopting good practice to ensure successful and inclusive engagement.

5. Risk monitoring and risk register

5.1 In addition to the mitigations detailed above the New Build programme has a well-established risk monitoring process in place and dedicated resources to manage these see APPENDIX B and a structured governance process see APPENDIX C.

5.2 The introduction of the risk monitoring process was part of a suite of programme controls that have been gradually implemented following a reorganisation of the New

Build Team in 2021. These measures were based on both the recommendations set out in an internal audit and our own lessons learnt. Further measures that will provide additional assurance over the delivery of the 2023 – 2027 programme will be implemented alongside a new scheme of delegations that will clearly set out where decision making thresholds sit within the programme governance framework.

The New Homes programme is managed using the following assurance framework:

- Strategy
- Structure
- Governance
- Project Controls
- Change control
- Sales management
- Risk management

Current programme governance includes:

- Terms of Reference for New Homes Project Board (NHPB) have been revised to include accountability for monitoring the use of feasibility, contingency and sales budgets across all projects.
- The Gateway process, which requires all projects to be critically reviewed at key stages, is monitored fortnightly at NHPB meetings. A decisions and actions log provides a detailed audit trail of all decision making across the programme.
- Where appropriate matters are escalated to executive and senior management boards: Housing Delivery Board (HDB), Corporate Asset Development Board (CADB), Housing Management Team (HMT) and Major Projects Board (MPB).

5.3 The New Build Programme Management Office (PMO), established in 2021, have implemented the following risk reporting processes under an overarching Programme Assurance Framework:

- Monthly project and programme risk reporting. All project leads provide an update on the status of their project (issues) and any predicted risks as part of their mandatory monthly reporting. The programme manager provides a monthly update on risks that cut across all projects and have wider programme implications.
- A tailored risk matrix has been established for the New Build programme and it sets out how risks should be scored against 6 categories: Programme (delay), Health & Safety, Compliance & Quality, Reputation & Political, Environmental and Legal.
- All the risk data gathered through the monthly reporting process is then detailed in a risk register and analysed in our programme dashboard, key trends and the highest scoring risks are reviewed at NHPB and where necessary escalated to HDB.

5.4 Alongside the reporting, a change control process has been introduced that provides greater oversight of proposed project changes and an ability to capture lessons learnt.

5.5 The Strategic Pipeline Group (SPG) was established in October 2022, while SPG is not a formal decision-making body it's responsible for our enhanced governance up to Gateway 0 with a focus on accelerating delivery of the best opportunities for new homes. It makes recommendations that a scheme should move to Gateway 1, or not progress. Gateway 0's can also be paused or asked to be brought back with further information. These reports conform to an agreed template to ensure consistency in decision-making, including viability sensitivity modelling, due diligence, opportunities, constraints, risks and issues which are tested and consulted with internal key stakeholders, including Planning Officers. Project managers deliver Gateway 0 evidence-based presentations and reports to the group summarising the feasibility work undertaken to date, reviewed by Team Leaders, during which time the views and comments from the Technical Manager, Commercial Manager and other colleagues such as Planning Officers are provided.

6. Risk trend

6.1 Since 2022-2023 we have seen an increase in the likelihood score for this programme risk. This is due to external factors such as the increase in interest rates materialising. At the last review it was anticipated that there would be no change in the risk trend during the rest of 2023-2024, however since this we have seen some improvements in factors such as interest rates.

6.2 Audit Committee are asked to note the VUCA (volatile, uncertain, complex, ambiguous) environment in which we are currently working and the fact that we some external factors are out of our control. Given that we have seen unexpected events such as Covid and the Ukraine War materialise we cannot say for certain that there will not be any more significant external events that will have an impact on the New Build Programme.

6.3 Delivering ambitious and complex programmes, such as the New Build programme, will inherently carry risk. It is recommended that the council’s risk appetite should reflect that a certain amount of risk should be accepted in order to be able to deliver on our strategic objectives and to meet the needs of our residents.

7. Implications

7.1 **Financial Implications**

7.1.1 The HRA New Build programme has two main elements:

- The Current Programme covers the progression of schemes delivering starts on site up to 2024.
- The Pipeline Programme covers the progression of schemes intended to deliver 750 new social rent units starting on site by the end of 2027.
- The below table shows the Current Budget and forecast as at Quarter of this financial year (2023/24):

		Current budget 2023/24 onwards (£m)	Current forecast (£m)	Variance (£m)
Current Programme (remaining schemes)		62.4	83.9	21.5
Pipeline Programme:				
Finsbury Leisure Centre		0.0	102.2	102.2
Vorley Road		41.3	47.0	5.7
Bemerton Estate South		0.0	52.3	52.3
Total New Build Prog.		**103.7**	**285.4**	**181.7**
Financed By:				
141 RTB Receipts		15.5	48.0	32.5
OMS and SO Sales		28.0	119.8	91.8
Other HRA Resources		49.5	83.3	33.8
Unsupported Borrowing		10.7	34.3	23.6
Total Financing		**103.7**	**285.4**	**181.7**

7.1.2 The Current Programme is largely complete, although there remain nine schemes still on site, with a further two to be started. Many of these schemes experience cost pressures, which are built into the budget during the annual budget setting process. In some cases, schemes present in-year financial pressures, and these are documented through quarterly financial reporting with mitigating actions considered. This is due to cost escalation arising from several factors, including:

- industry-wide inflationary pressures not existing at the time of contracting,
- changing designs which have resulted in significant revisions through the construction process,
- delays to schemes during the planning and construction phases, and
- contractors issuing loss and expense claims due to delays and redesigns.

7.1.3 The Pipeline Programme has several projects currently under consideration, with three specific schemes (Finsbury Leisure Centre, Bemerton Estate South and Vorley Road) more advanced than others. There are some redesigns currently in progress on the latter two schemes following changes in regulations announced by the Secretary of State in recent months. Once the plans are finalised, the financial position on those schemes will be analysed and a decision about whether to proceed will be taken. Estimates of costs involved in current viability workings on all schemes moving forwards are now subject to an additional allowance to cover optimism bias, in addition to contingency allocations already included. As a starting point, this is set at 10% for optimism bias and 12.5% contingency, making an additional 22.5% allowance for cost escalation on all schemes in the pipeline programme.

7.1.4 Following progress of the current programme, and the identification of issues mentioned above, some measures have been implemented with a view to mitigating the risks of delivering schemes:

- At the point that the New Build Team was moved into the Community Wealth Building Directorate, analysis was undertaken of schemes yet to start on site within the Current Programme, with a view to determining the relative value for money of those schemes compared to others in the pipeline programme.
- Through that process, schemes were ranked reviewing net funds required to per social rented unit delivered. Schemes performing considerably worse in were stopped, in favour of delivering more viable projects.
- As mentioned in section 4.2, the interest rate assumed in viability modelling for borrowing externally to fund capital schemes not-on-site includes a 50-basis point risk factor. This reflects the uncertainty following several increases in rates in the last two years. In addition, the value of contingency included has also been revised from 10% previously to the 12.5% used currently.
- The New Build Team has introduced the Gateway process for scheme development. Schemes progress through core Gateways during the project delivery process. At these points, the project manager reports to the New Homes Project Board with the current progress of the scheme, including a breakdown of the financial position. Approval is required at each point, to progress to the next stage. This gives a level of formal oversight to the programme, with a diverse range of financial and non-financial advice and challenge, ensuring project goals are met.
- There has also been an increase in the level of interrogation of contractor claims, including the appointment of a commercial manager who is present at regular monthly meetings with the New Build Team's Employers Agents to discuss progress of schemes and costs incurred. In addition, the team has recently appointed an external cost consultant. This post supports the challenge of requests for Loss and Expense payments received from contractors throughout the programme, which are considered unreasonable.

7.1.5 To support the mitigation of risks within the programme, the below will also be in place:

- The New Build Team seeks permission to progress schemes to planning stage which may currently be unviable, without committing to deliver them until macro-economic conditions become more favourable. With small improvements predicted in 2024 in factors such interest rates or market sales values, schemes will be sufficiently prepared to progress from planning stage to delivery more quickly.
- As noted in section 4.6, lobbying for additional use and flexibility of RTB receipts could reduce the reliance on external borrowing and ensure pipeline schemes become viable.
- The use of Optimism Bias will be rolled out more comprehensively, including analysing the mitigation actions that have been carried out in each individual scheme. This will reduce the risk of cost escalation in the project. Each project to

have a tailored, risk-adjusted contingency, and the cost of mitigating actions will be included in the costing of schemes.

- The New Build team currently update a dashboard with key programme information, and going forward this will have regularly revised financial information. This will give Project Managers and other stakeholders the opportunity to review the financial position at any point and allow a greater understanding of the financial health of the project.
- The finance department has recruited a capital lead, who will be reviewing current internal governance structures, to ensure that they are streamlined and fit-for-purpose.

7.2 **Legal Implications**

7.2.1 There are no legal implications arising from the recommendations in this report.

7.3 **Environmental implications and contribution to achieving a net zero carbon Islington by 2030**

7.3.1 There are no direct environmental implicating arising from the recommendations in this report. A full environmental impact assessment is being developed for the new programme and will be submitted with the report to the Executive in March 2024.

7.4 **Equalities Impact Assessment**

7.4.1 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

7.4.2 There are no direct equalities impacts arising from the recommendations in this report. A full equalities impact assessment is being developed for the new programme and will be submitted with the report to the Executive in March 2024.

8. Conclusion and reasons for recommendations

8.1 The Committee is asked to note the mitigations that are in place and the overarching risk management strategy for this principal risk.

Final report clearance:

Signed by:

Corporate Director of Community Wealth Building

Date: 23 January 2024

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Appendix A: Risk on a page New Build programme

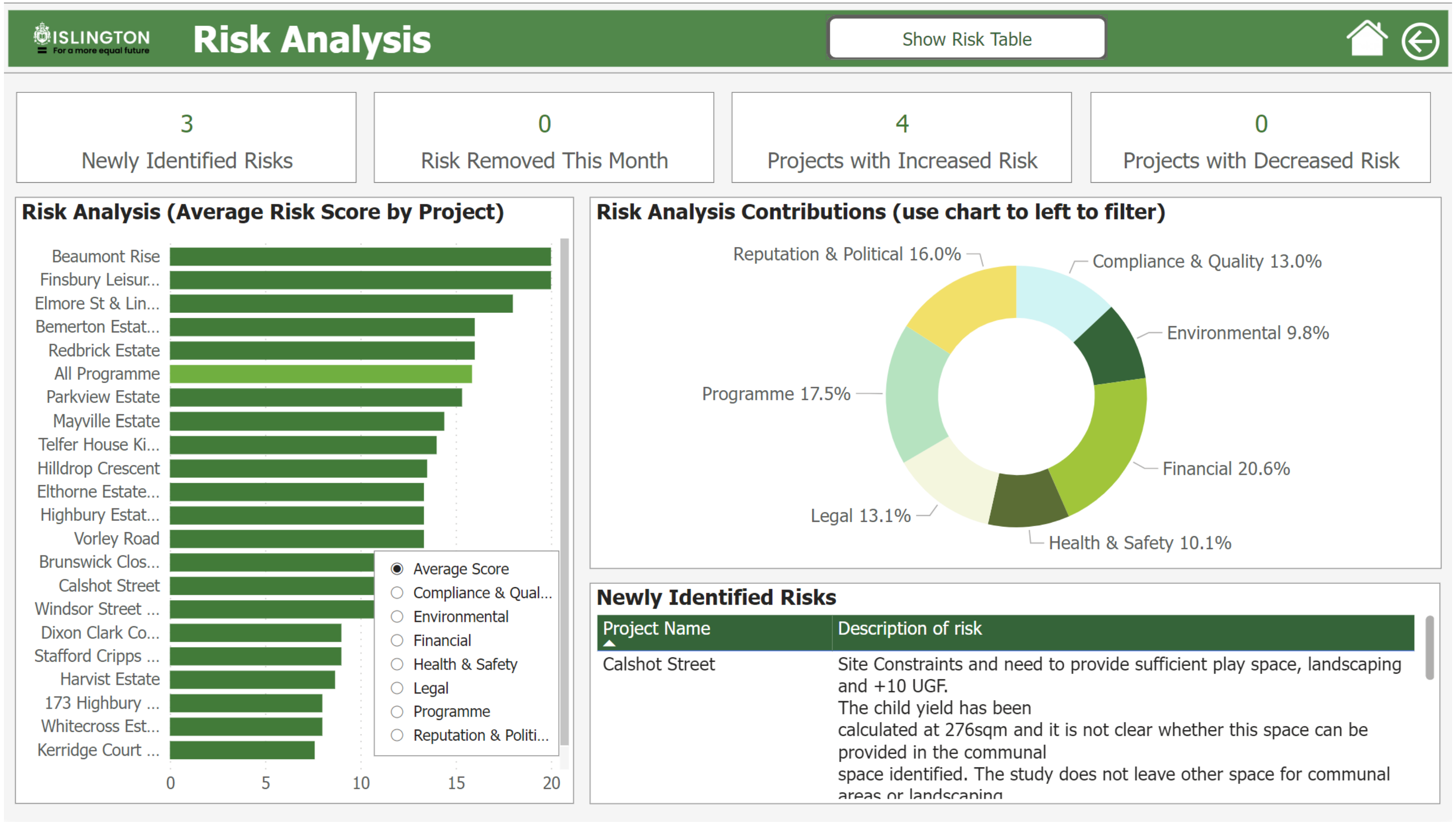
(Extract from Principal Report)

Risk Information Risk Title – 1. New Build Programme	Risk Scores	Existing Controls
Risk Affordability challenges slow progress in delivering new council homes. Unable to deliver the 2023-2027 programme target of 750 new affordable homes started on site by December 2027. **Cause:** • Financial climate including interest rates and inflation, cost increases, continued lack of funding to support housing delivery, external market factors, funding model for the programme. • Contractor failure. • Delay in planning approval. • Lack of resident support. **Consequence** Reputational damage, loss of opportunity for residents, increase in housing issues in the borough. **Risk Update** The target of 750 new council rent homes to be started on site before December 2027 was set in October 2021 based on the data and insight available at the time. Since this time there have been significant changes in the delivery environment. Wider events affecting the national economy, including high inflation and interest rate rises, have led to a significant increase to the cost of building new homes and construction costs are now at a 40-year high. There is a lack of government funding to support the delivery on new homes. Some of our current contractors have been open regarding their inability to offer fixed price contracts going forward. Delaying in getting viable schemes through the planning process may result in increased costs leading to unviable schemes. The New Build programme is driven by the needs of our residents but concerns around disruption and potential dislocation may weaken resident support for specific schemes.	**Current Score:** L:4 (+1) I:5 (+1) **Target Score:** L:3 I:5 (+2) **Gap to target:** L:1 I:0	1. A Strategic Pipeline Group has been set up to ensure a pipeline of viable schemes comes forward into the 2023 – 2027 programme. A programme assurance framework and programme level controls will mitigate against cost overspends. 2. Regular contact with contractors and review of their ability to manage risk. Working with employers' agents to understand industry trends. 3. The New Build programme has been moved into the Community Wealth Building (CWB) Directorate and will now work directly alongside planning colleagues. Lessons learnt from schemes in the 2018 – 2022 programme will feed into planning applications for new schemes. 4. As part of the move into the CWB Directorate there will be a review of the resourcing required to deliver the 2023-2027 programme and this will include consideration of more specialist resident engagement resources, particularly in regard to the delivery of larger estate transformation opportunities.

Actions	Expected impact	Resources required	Owner	Due Date	Status
A paper for Executive will set out mitigations across the programme, including recommendations to cease the most unviable schemes, explore scheme options across general fund, commence feasibility on the potential for long term estate transformation sites, and assess potential for generating additional funding.	Reduce Likelihood and Impact	Staff	Stephen Biggs	Sept 2023	In Progress
Ongoing monitoring of the risk of not being able to deliver the programme and the risk to the HRA from the programme's financial commitments.	Reduce Impact	Staff	Stephen Biggs	Ongoing	In Progress

Appendix B: Some illustrative examples of the risk monitoring that is in place across the New Build programme

(Extract from the New Build programme dashboard)



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Risk Table

Show Risk Analysis

Team Leader

All

4
Projects with Increased Risk

0
Projects with Decreased Risk

Project Name	Project Manager	Score	Score Last Month	Change	Description of risk	Action to mitigate the risk	Cause of
Andover Block B2 (Corker Walk)	Junju, Jojo	25	25	▶	The build contractor has submitted a post-tender inflation cost claim of £106k	An internal meeting was held and it was decided LBI will not grant the uplift because no commitment was made in the contract that we will cover. This decision was later relayed to the contractor.	Market in labour pre
Andover Estate	MensahTwumasi, Phyllis	25	25	▶	Significant cost increase for project.	An independent claims consultant together with Calfordseaden are interrogating Osborne's loss and expense claims.	The redes letting of entitling t claims an
Andover Estate	MensahTwumasi, Phyllis	25	25	▶	The scheme going overbudget.	A claims consultant has been engaged to advise on the true cost of the delay to Osborne.	Prolongat applicatio awarded t
Charles Simmons House	MensahTwumasi, Phyllis	25	25	▶	Development not having any building warranty.	The council is exploring taking responsibility for the first year post completion and exploring alternative warranty providers to LABC.	The origir administr provide a windows i requireme
Harvist Estate	Hunter, Andrew	25	25	▶	Contract termination being extended to 16th June 2023 and Quinn having access to make ground works area secure and safe.	Discussions held to resolve dispute but unsuccessful.	Contract c

Project in a Page

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Select a Project Name

Beaumont Rise

HILLRISE Ward	Start On Site	48.62 Average GIA m2

Project Manager	Assistant PM	Development Officer	Employer's Agent	Main Contractor	Contractor Demolition/ Enabling	Contractor PCSA
Renee Peters-Findley	Yusuf, Abdi		Potter Raper	Glenman		

Project Description

Demolition of existing Community Care Centre and construction 2 new build blocks for general needs flats (10 no) and mental health supported housing, bedsits (17 no).

RAG Status	Previous RAG Status	Next Gateway Name	Next Gateway Date	Planning Approval	Start on Site	Practical Completion
		No Data		07/11/2017	23/09/2019	29/03/2024

Project Update	Issues
Work is progressing internally on site. Site team and design team (including Calford Seaden Architects) continue to work through a number of outstanding design issues (AOV), with regular visits to site from Islington Architects. Awaiting final AOV details from Islington Architects for block 2 to be confirmed as acceptable by LBI Planners. EOT is outstanding from July 2022, despite asking Glenman on several occasions to submit. New EOT were submitted in April 2023 and Oct 2023, however both lack key information. Glenman will not be paid any further prelims until a new EOT is submitted. Despite numerous promises, the new EOT has not yet been submitted. Non-completion notice served on contractor. Awaiting updated programme, but completion likely to take	Some outstanding design details need to be resolved by the architects and contractors related to AOV. LBI architects are working to resolve these details and issue to the contractor.

Total CR Units	Total OMS Units	Total SO Units	Total Supported Housing
10	0	0	17

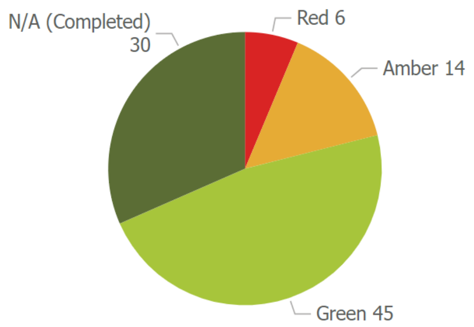
Description of risk	Action to mitigate the risk	Score
Increased costs, with the Practical Completion now estimated to be March 2024.	Ongoing commercial meetings taking place with CA and QS to unblock commercial matters. Project team looking at contractual matters and exploring taking action within contract terms (i.e. serving payless notice, certificate of non completion/LAD's). External audit of the project focusing on contractual matters undertaken, to look at the approach to EOTs, contractual commercial matters and the achieving practical completion. This input will be sought for all future EOT and any future settlements.	20
Potential Risk if the contractor not completing the scheme.	Project team looking at contractual matters and exploring taking action within contract	20

Back to report

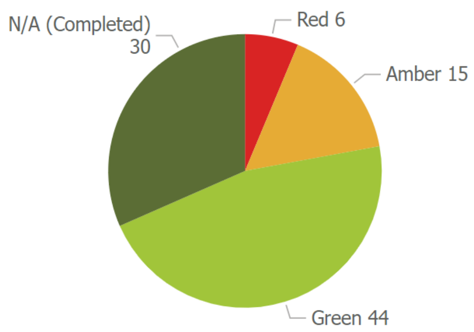
Description of risk	Action to mitigate the risk
Increased costs, with the Practical Completion now estimated to be March 2024.	Ongoing commercial meetings taking place with CA and QS to unblock commercial matters. Project team looking at contractual matters and exploring taking action within contract terms (i.e. serving payless notice, certificate of non completion/LAD's). External audit of the project focusing on contractual matters undertaken, to look at the approach to EOTs, contractual commercial matters and the achieving practical completion. This input will be sought for all future EOT and any future settlements.
Potential Risk if the contractor not completing the scheme.	Project team looking at contractual matters and exploring taking action within contract terms (i.e. serving payless notices, certificate of non completion/LAD's) External audit of the project focusing on contractual matters undertaken, to look at the approach to EOTs, contractual commercial matters and the achieving practical completion.

RAG Analysis (excludes Dormant and Scheme Aborted)

Projects by RAG Status This Month

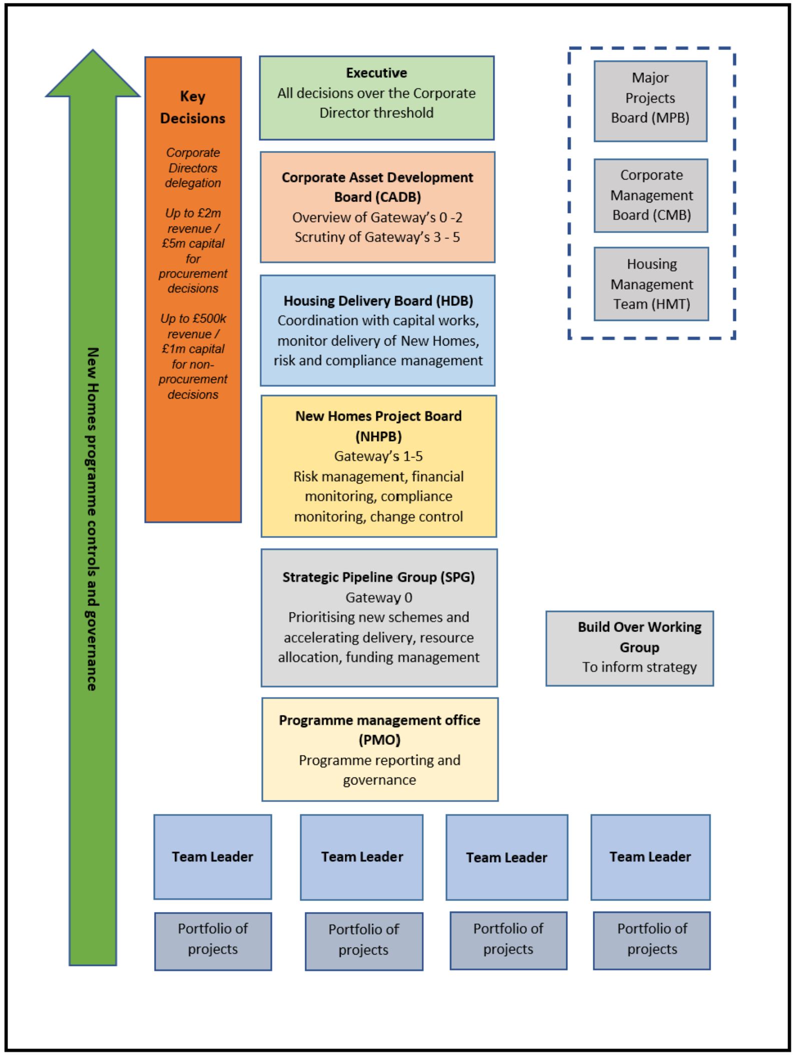


Projects by RAG Status Last Month

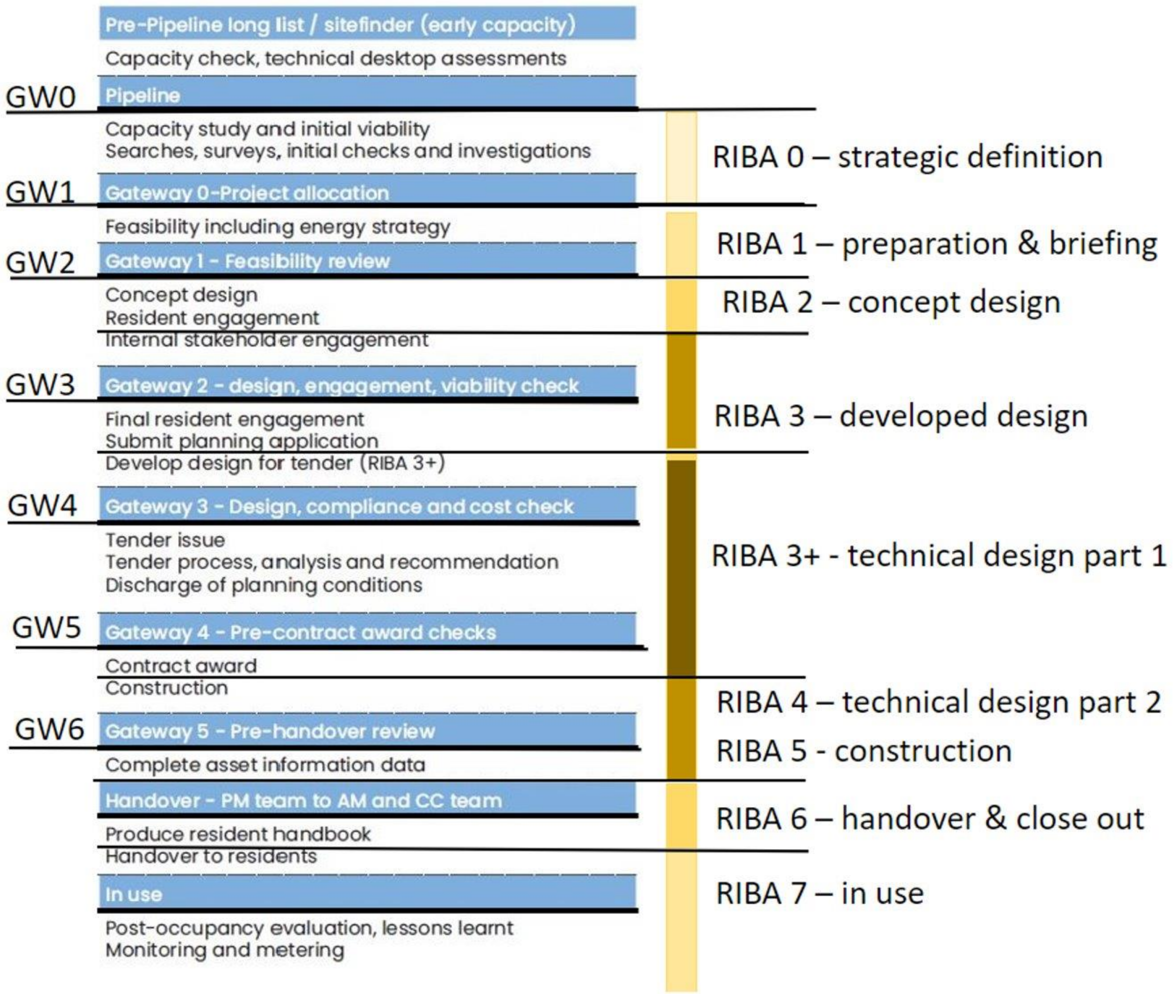


Project Name	RAG Status	Previous RAG Status	Project Update
Andover Estate			Completion of all three blocks is now due in February 2024. Block J might be handed over earlier in January. Osborne's projected final account figure is c. £8.5m greater than Calfordseaden's.
Beaumont Rise			Work is progressing internally on site. Site team and design team (including Calford Seaden Architects) continue to work through a number of outstanding design issues (AOV), with regular visits to site from Islington Architects. Awaiting final AOV details from Islington Architects for block 2 to be confirmed as acceptable by LBI Planners. EOT is outstanding from July 2022, despite asking Glenman on several occasions to submit. New EOT were submitted in April 2023 and Oct 2023, however both lack key information. Glenman will not be paid any further prelims until a new EOT is submitted. Despite numerous promises, the new EOT has not yet been submitted. Non-completion notice served on contractor. Awaiting updated programme, but completion likely to take place in April 2024, to be confirmed by contractor programme. A commercial meeting has taken place and several historical architect instructions have been agreed and closed out. This has been reflected in the latest cost report.
Braithwaite & Quaker Court			Planning application for this scheme has been withdrawn

Appendix C: New Build governance and gateway stages



New Build gateway stages



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