



ISLINGTON

## **Capital Programming**

# **DRAFT REPORT OF THE HOUSING SCRUTINY COMMITTEE**



**London Borough of Islington  
February 2016**

## EXECUTIVE SUMMARY

### Capital Programming

#### Aim

- To investigate how contractors are selected;
- To look at opportunities for using local labour;
- To explore who determines what works are undertaken.

#### Evidence

The review ran from September 2015 until January 2016 and evidence was received from a variety of sources:

1. Presentations from council officers  
Damian Dempsey, Group Leader, Quantity Surveyors  
Aiden Stapleton, Consultation and Asset Manager  
Andrew Hunter, Programme Manager (Housing Investment)
2. Documentary evidence  
Guarantee documents  
Key performance indicators for capital works contractors  
Building inflation data and associated analysis  
Residents' Improvement Taskforce Major Works Consultation Report and Action Plan  
Results of major works telephone survey  
Summaries of ward councillor case work  
Information on Mears' social value work, satisfaction survey form and technical diagrams.
3. Information from witnesses  
Theo Petrou, Mears Group  
Islington Leaseholders Association  
Residents in attendance

#### Main Findings

The capital programme covers a variety of maintenance and improvement works to the council's housing stock. The most common works are carried out through the cyclical improvement programme. Properties are assessed on a seven year rolling cycle to identify possible external repair works, communal decorations, and any expired components such as roofs and windows. Maintenance and improvement works are then carried out by the council's capital works contractors, Breyer Group and Mears Projects, as required.

The two contractors were selected following a competitive tender process carried out in accordance with European public procurement rules. The tender submissions were evaluated against a 70% cost, 30% quality evaluation criteria as value for money was paramount to the selection process. Contractors were required to submit their prices against the National Schedule of Rates; these prices then became the agreed schedules of rates once the contracts were awarded. The contracts were awarded in 2010 for a four year term, with the council having the option to extend the contracts for two additional three year periods.

The capital works contractors are responsible for the ensuring the works are carried out to the agreed standard, including the selection of sub-contractors to carry out the works on site. The Committee queried if more could be done by the council to encourage the use of certain sub-

contractors, which may be preferred due to the quality of their work, their positive relationships established with residents, and their use of local labour. It was suggested that the council should increase its role in the selection and monitoring of sub-contractors.

The Committee considered the contractual relationship between the council and its capital works contractors. The capital works contracts are 'design and build' contracts, through which the contractor both designs and carries out capital works. This is intended to achieve value for money by delegating the council's responsibility for designing works and saving on professional consultancy fees. The contractor's role as a designer is reflected in the cost of works.

The Committee heard that, to foster a more collaborative partnership approach, the council had dispensed with penalty clauses for its current capital works contracts, which would require contractors to compensate the council and residents in certain circumstances. Although the council appeared to have positive working relationships with its contractors, the Committee thought this to be an unnecessary risk which could potentially damage the relationships between the council, contractors and residents, and recommended that such penalty clauses be reinstated when the capital works contracts are re-tendered. It was also recommended that appropriate incentives be explored to reward and encourage exceptional performance.

The Committee considered matters relating to social value. The Committee welcomed the social value work of Mears and suggested that social value should be considered further in future procurement activity. It was suggested that the service work with the council's Commissioning and Procurement Board to consider how social value can be maximised when procuring future contracts.

The Committee considered the cost of the capital programme in detail, noting that the contracts were let at a low point in the market and there had been significant price inflation in the construction industry since this point. The Committee concluded that it was likely the council was achieving value for money on the capital works programme, however it was not possible to state this definitively without market testing works under the full-range of procurement options. Of greater concern to the Committee was the future position when the capital works contracts are to be re-tendered. Given the proposed 1% annual reduction in social rents over the next four years, the Housing Revenue Account is due to decrease by £15million by 2020, by which point the capital works contracts will need to be re-tendered. Meanwhile, the Royal Institution of Chartered Surveyors estimate that construction tender prices will rise by 28% over the next five years.

This increasing gap between the available financial resources and the cost of capital works is concerning and the Committee recommended that all procurement options be investigated to ensure the greatest possible value for money when the contracts are to be re-tendered. It may be that greatest value can be achieved through a Term Partnering Agreement, procuring works in smaller lots, or excluding certain works from the contract and carrying them out in-house.

Given the council's increasingly limited financial resources, it suggested that the seven year cyclical programme may have to be amended to an eight or nine year basis, or even a non-specific timescale. The Committee emphasised that a detailed evaluation of the impacts of any service change would be required, however the capital works programme should be flexible and based on the life-cycles of components. It was considered vital that residents are involved in shaping the future of the service.

The Committee considered tenant and leaseholder satisfaction. The available evidence indicated overall satisfaction with the capital programme. The Committee was encouraged by recent surveying carried out in-house before, during and after works and recommended that this be continued and expanded.

The Committee received evidence from the Islington Leaseholders Association which indicated dissatisfaction with the council's practices in regards to billing for capital works and transparency surrounding the schedules of rates. It was concluded that further work was required to increase the accessibility and transparency of leaseholder service charges for capital works and the council should seek to discontinue the use of commercial sensitivity clauses relating to the schedules of rates when tendering for future capital works contracts.

The Committee considered the level of consultation with residents and overall found this to be sufficient; however the Committee agreed that further work was required to increase engagement. It was reported that there was generally a low level of attendance at initial 'scope of works' meetings, and that areas without tenants and residents associations tended to have a lower level of response to consultations. The Committee suggested that greater engagement with area housing offices and further publicity may help to increase engagement.

The Committee considered that appointing resident inspectors could increase transparency and resident engagement. It was suggested that the council could engage with TRAs and other resident groups to identify suitable candidates.

Whilst the Committee was encouraged that both contractors were meeting the contractual targets for local employment, it was queried how the capital works programme could be used to provide further local employment and increase the skills of residents. Given the scale of the council's capital works programme, there is an opportunity for the quantity and quality of local employment opportunities to be increased through the programme. The programme could be used to implement the recommendations of the Employment Commission, including offering local jobs, creating strong links between education and business, and offering flexible employment, especially to the long-term unemployed. The capital works programme provides an opportunity for skilled employment and apprenticeships to be offered to residents at a local level, even on their own estate.

The Committee also suggested that the council could establish some in-house capability for carrying out planned maintenance works. This would not only contribute to local employment and skills, but could generate savings as in some instances it may be more efficient to carry out works outside of the capital works contracts.

The Committee identified other possible service improvements, including the integration of council and contractor data, and opportunities for income generation.

## **Conclusions**

The Committee found that the capital works contractors were selected through an open tender process. Tenants and leaseholders were involved in the selection of contractors, and it is considered that the current contracts are likely to be achieving value for money. Recommendations have been made to improve the council's capital programming through greater involvement in the selection and monitoring of sub-contractors, introducing penalty clauses and incentives into contracts, and exploring alternative procurement options when the contracts are due to be re-tendered. The council and residents must be confident that the capital programme is achieving best value and all delivery options, such as separating works into smaller lots or carrying out some works in-house, should be considered when the current contracts end.

Both capital works contractors are using a greater proportion of local labour than required by the contractual target. Whilst this is encouraging, the Committee would support further work in this area, as there is an opportunity for capital works to increase the quantity and quality of local employment opportunities and help to implement the recommendations of the Employment Commission.

In addition, the Committee suggested that the council could establish some in-house capability for carrying out planned maintenance works. This would not only contribute to local employment and skills, but could generate savings as in some instances it may be more efficient to carry out works outside of the capital works contracts.

The Committee evaluated planning and prioritisation processes, including consultation with residents. Although these processes were found to be comprehensive, recommendations have been made to increase resident engagement, particularly in areas without tenant and resident associations. It was also acknowledged that as financial resources decrease, plans and priorities may have to change. In particular, the sustainability of the seven-year cyclical improvement programme may have to be evaluated. The Committee is particularly concerned about the cost of capital works increasing as the council's financial resources are decreasing. The possible impacts of this could be significant and it is vital that tenants and leaseholders are consulted on any future service changes.

The Committee also considered matters relating to transparency, resident satisfaction and communication during works and after completion. Recommendations have been made where the Committee consider that improvement can be made in these areas.

In carrying out the review, the Committee met with officers, contractors, and members of the public to gain a balanced view. The Committee would like to thank witnesses that gave evidence in relation to the scrutiny. The Executive is asked to endorse the Committee's recommendations.

## **Recommendations**

1. In future capital works contracts, the council should consider increasing its role in the selection and monitoring of sub-contractors, to ensure that those contractors which carry out high-quality work, establish positive relationships with residents and use local labour are preferred over those with recorded performance issues.
2. That penalty clauses be reinstated into future capital works contracts to ensure appropriate recourse in the event of performance issues, and incentives be explored as a means of improving performance.
3. That the council further consider social value matters when procuring capital works contracts.
4. Given the financial challenges facing the council, all procurement options be explored to ensure that best value is achieved when the capital works contracts are due to be re-tendered. The council should consider if the greatest value can be obtained through term partnering agreements, procuring works in smaller lots, or carrying out certain works in-house.
5. To assist in the future procurement of capital works, consideration be given to establishing a benchmarking club with other London local authorities, to ensure best practice on contractual, financial, and performance matters.

6. In order to continue gauging satisfaction and identifying performance issues, the council should continue and expand the pilot survey of residents before, during and after capital works.
7. That further work be carried out to increase the accessibility and transparency of leaseholder service changes for capital works, and the council seek to discontinue the use of commercial sensitivity clauses relating to the schedules of rates when tendering for future capital works contracts.
8. With a view to increasing resident engagement and transparency, resident inspectors be appointed to review capital works as they are being carried out. It is suggested that the council engage with TRAs, TMOs and other resident groups on this matter.
9. The seven-year basis of the cyclical improvement programme be reviewed to ensure that the greatest value for money is achieved. It is suggested that the basis of any capital works programme should be flexible and based on the life-cycles of components.
10. Following previous resident involvement in the selection of capital works contractors, tenants and leaseholders should continue to be involved in decisions about procurement and the future of the service.
11. To improve the response to capital works consultations, the council seek to engage further with tenants and leaseholders, particularly those in areas without TRAs which tend to have a lower response rate to consultations.
12. The council seek to use the capital works programme to increase the quantity and quality of local employment opportunities and implement the findings of the Employment Commission.
13. Consideration be given to establishing an in-house capability to carry out a proportion of planned maintenance works, subject to consultations with labour unions.
14. Future capital works contracts should require property data compiled by contractors to be held in an accessible format to enable integration into the council's own ICT systems. The contracts should stipulate that all such data is owned by the council.
15. The service explore opportunities for income generation, such as providing contractors with on-site facilities on a commercial basis.

## **MEMBERSHIP OF THE HOUSING SCRUTINY COMMITTEE – 2015/16**

### **Councillors:**

Councillor Michael O'Sullivan (Chair)  
Councillor David Poyser (Vice-Chair)  
Councillor Raphael Andrews  
Councillor Alex Diner  
Councillor Aysegul Erdogan  
Councillor Mouna Hamitouche MBE  
Councillor Una O'Halloran  
Councillor Flora Williamson

### **Co-opted members:**

Rose-Marie McDonald – PFI Managed Tenants  
Jim Rooke – Directly Managed Tenants

### **Substitutes:**

Councillor Gary Heather  
Councillor Olly Parker  
Councillor Alice Perry  
Councillor Gary Doolan  
Councillor Rakhia Ismail  
Councillor Jenny Kay  
Councillor Angela Picknell  
Councillor Nurullah Turan

### **Acknowledgements:**

*The Committee would like to thank all the witnesses who gave evidence to the review.*

### **Officer Support:**

*Damian Dempsey – Group Leader, Quantity Surveyors  
Jonathan Moore – Democratic Services*

## 1. Introduction

- 1.1 The Committee commenced the review in September 2014 with the overall aims of: investigating how contractors are selected; looking at opportunities for using local labour; and exploring who determines what works are undertaken.

The Committee also agreed to the following objectives:

- To identify the different types of capital works carried out;
  - To evaluate how the council's capital works contractors are procured;
  - To consider the costs associated with the capital works programme;
  - To measure the satisfaction of tenants and leaseholders with capital programming;
  - To consider how works are planned, prioritised, and communicated to tenants and leaseholders;
  - To consider if capital works can be used to drive local employment;
  - To identify any areas for improvement.
- 1.2 In carrying out the review the Committee met with officers and a representative of Mears Projects, one of the council's capital works contractors. The Committee also considered ward councillor casework, the views of the Islington Leaseholders Association, and evidence relating to resident engagement and satisfaction.

### Local context

- 1.3 Islington Council is landlord to over 35,000 homes. Around 25,000 are managed directly by the council; around 3,800 are managed by tenant management organisations and co-operatives, and just over 6,300 are managed by Partners for Improvement in Islington under PFI contracts. Around 9,000 are leasehold properties.
- 1.4 The Capital Programme Delivery Team is responsible for the maintenance and improvement of all directly-managed properties and the majority of works to tenant managed properties. The team is not responsible for capital works to properties managed under PFI contracts, and some tenant management organisations have responsibility for cyclical redecorations.
- 1.5 In 2010 the council appointed two contractors, Breyer Group and Mears Projects, to carry out capital works on its behalf. The contracts were awarded for a maximum ten year period. Whilst the council retains responsibility for managing the capital programme and authorising works, the contractors and their sub-contractors are responsible for designing and carrying out works.

## 2. Findings

### The different types of work carried out

- 2.1 The capital programme covers a variety of maintenance and improvement works to the council's housing stock. The most common works are carried out through the cyclical improvement programme. Properties are assessed on a seven year rolling cycle to identify possible external repair works, communal decorations, and any expired components such as roofs and windows. Maintenance and improvement works are then carried out by the council's capital works contractors as required.
- 2.2 Works are not carried out unless the council's technical officers consider them to be necessary. In some instances this may mean carrying out works at eight or nine year intervals as opposed to the usual seven year cycle. Components are not replaced if their useable life can be extended

through repairs.

- 2.3 The capital programme also includes mechanical works (domestic and communal gas boilers, communal ventilation), electrical works (domestic electric re-wires, communal and estate lighting, CCTV maintenance, door entry systems and lifts), water works (dry risers, boosted water sets, sprinklers and water tanks) and other miscellaneous works such as the replacement of smoke detectors and TV aerials and various fire safety works. Consideration is given to national guidance where applicable; for example, fire safety works are carried out in light of guidance issued by the Local Government Association. The Committee noted that guarantees were given for components when they were installed, which provided protection against defects in materials.
- 2.4 The capital works team is also responsible for the replacement of kitchens and bathrooms. The Decent Homes Standard, a national policy framework which sets minimum standards for social housing, requires these to be replaced at intervals of 30 years and 40 years respectively; however the council currently replaces these at lesser intervals, 20 years for kitchens and 30 years for bathrooms.
- 2.5 The Committee noted that as the council faces greater financial pressures in coming years it may not be able to continue carrying out capital works at the same intervals. In particular, the council may need to review the appropriateness of the seven year cycle and consider replacing kitchens and bathrooms at the statutory standard intervals. A further evaluation of financial matters is set out later in this report.

#### Procurement

- 2.6 The Capital Programme Delivery Team procured two contractors, Breyer Group and Mears Projects, to carry out works on its behalf. The two contractors were selected following a competitive tender process carried out in accordance with European public procurement rules. This required the advertisement of the tender process across Europe through the OJEU. All of the council's works contracts valued over £4,322,012 are required by law to be advertised in this way.
- 2.7 Tender submissions were evaluated against a 70% cost, 30% quality evaluation criteria as value for money was paramount to the selection process. In accordance with the industry-standard procurement process, contractors were required to submit their prices against the National Schedule of Rates, with the council indicating the most commonly recurring items of works in the procurement pack. These prices then became the agreed schedule of rates once the contracts were awarded.
- 2.8 The contracts were awarded in 2010 for a four year term, with the council having the option to extend the contracts for two additional three year periods, making the total length of the contract up to ten years if contractors perform to a satisfactory standard. During the review, the council was in the middle of the second contract extension and was to consider if a further extension was appropriate towards the end of 2016.
- 2.9 The Committee considered the relative merits of different procurement methods. Procuring two primary contractors to carry out works against agreed schedules of rates over a period of several years means that each works project is not required to be tendered individually. Given the scale of the capital works programme, this is intended to achieve considerable cost and efficiency savings over the duration of the contact in terms of economies of scale and officer time. Officers suggested that procuring works on an individual basis would likely require a dedicated procurement team, which would be more costly.

- 2.10 However, the Committee queried if greater value could be obtained by procuring works on a smaller scale. The large scale and European-wide advertisement of the capital works contracts means that only the largest international contractors are able to bid for works. The Committee speculated that such firms may charge comparatively more than smaller, local firms; especially as a significant role of the contractor is the management of works, with actual work on site often carried out by smaller sub-contractors appointed on their behalf. Further consideration of this matter is detailed later in the report.

#### Procurement: The use of sub-contractors

- 2.11 The capital works contractors are responsible for ensuring the works are carried out to the agreed standard, including the selection of sub-contractors. The Committee commented on the limited control the council has over sub-contractors. Although councillors and residents reported positive experiences of some contractors and negative experiences of others, such feedback has limited influence over which sub-contractors are selected to carry out further works. Although the council may communicate feedback to the capital works contractors, ultimately the contractors are responsible for their own supply chain.
- 2.12 The Committee queried if more could be done by the council to encourage the use of certain sub-contractors. It was recommended that the council should consider increasing its role in the selection and monitoring of sub-contractors, to ensure that those contractors which carry out high-quality work, establish positive relationships with residents and use local labour are preferred over those with recorded performance issues.
- 2.13 The Committee raised some initial concerns regarding the multiple sub-letting of contracts. It was advised that specialist works may on occasion require sub-contractors to further sub-contract works, however such instances were rare and this practice was generally discouraged by the Council.

#### Procurement: Contractual conditions

- 2.14 The Committee considered the contractual relationship between the council and its capital works contractors. The capital works contracts are 'design and build' contracts, through which the contractor both designs and carries out capital works. This is intended to achieve value for money by delegating the council's responsibility for designing works and saving on professional consultancy fees. The contractor's role as a designer is reflected in the cost of works.
- 2.15 The council has a Term Partnering Agreement with each contractor which specifies the schedule of rates, the types of works anticipated to be carried out, and the blocks/estates these works are to be carried out to. The Committee heard that it was previously commonplace in the building industry to have an adversarial relationship between contractors and clients; however following the government-commissioned Latham and Egan reports in the 1990s, there was a national culture-shift towards building trusting relationships between contractors and clients. The Committee heard that, to foster a more collaborative partnership approach, the council had dispensed with penalty clauses for its current capital works contracts, which would require contractors to compensate the council and residents in certain circumstances.
- 2.16 The Committee also considered the use of retention clauses. It was advised that Mears had a 5% retention clause with some of its sub-contractors; however the council did not have a similar arrangement with its capital works contractors. Retention clauses allow the contract commissioner to retain a proportion of the cost of the works for a given period in order to rectify any problems arising at a later date.
- 2.17 Officers and contractors were keen to emphasise that capital works are a partnership between the contractor and the council. Officers noted that contractors had voluntarily agreed to pay

compensation and carry out additional remedial works when required. An example was given of an occasion where incorrect paint was used in decorating due to an oversight in the specification. On this occasion it was agreed that the supplier would provide the correct paint and the contractor would provide labour at no additional cost.

- 2.18 Even though the contractors had agreed to pay compensation when works had not met performance standards, there was no contractual condition requiring this to be paid. Although the council appeared to have positive working relationships with its contractors, it was possible that this may not always be the case in future. The Committee thought this to be an unnecessary risk which could potentially damage, not support, the relationships between the council, contractors and residents, and recommended that such penalty clauses be reinstated when the capital works contracts are re-tendered. It was also recommended that appropriate incentives be explored as a means of improving performance.

#### Procurement: Social Value

- 2.19 The Committee considered matters relating to social value. Social value includes the social, economic and environmental well-being of the borough, and could include the use of local labour, the employment of apprentices, engaging with young people, and contributing to community activities. The Committee heard that a priority of Mears was to achieve social value through its work; from April 2015 to January 2016 Mears had participated in 11 social value activities and had calculated the 'in kind' value of its contribution as £1,725,734. Mears was a Living Wage employer and offered flexible working hours to staff where appropriate. Mears had also worked with the council to provide employment opportunities for those with learning difficulties, helped to provide employability skills to young people and adults, and actively participated in community events.
- 2.20 The Committee welcomed the social value work of Mears and recommended that social value should be considered further in future procurement activity. It was suggested that the service should work with the council's Commissioning and Procurement Board to consider how social value can be maximised when procuring future contracts.

#### Cost

- 2.21 The costs of carrying out capital works are fixed in accordance with the contractual schedules of rates. Rates are subject to an annual inflationary increase, which is derived from the September Retail Price Index figure released by the Office for National Statistics. The Committee noted the average annual cost of the service was £35.65 million.
- 2.22 The Committee heard evidence that leaseholders are particularly concerned about the cost of works, as they are responsible for a proportion of the cost of works to their properties through the payment of service charges. Although it was speculated if greater value could be achieved by procuring works on a different basis, such as separating contracts into lots and tendering on a smaller scale, it was not possible for the Committee to come to a definitive conclusion on this for several reasons.
- 2.23 Whilst it is certainly true that tendering for overarching works contracts in accordance with European Union public procurement regulations is a time-consuming and costly process, officers suggested that the alternative, tendering for each capital project individually or grouping similar works together and procuring on a smaller scale, would be more expensive due to the resources required to manage regular procurement exercises. Officers commented that not using a Term Partnering Agreement would probably require an increase in the professional fees charged against each contract by the Capital Programme Delivery Team; and indicated that the legality of splitting contracts which would otherwise be subject to public procurement regulations would

need to be explored. Officers also commented that procuring each project individually could be to the detriment of some leaseholders; under the Term Partnering Agreements all leaseholders pay according to the same costs, whereas higher tender costs would otherwise be expected for low-rise blocks and street properties, which would expose leaseholders in those properties to higher service charges.

- 2.24 The Committee questioned if greater value could be achieved by appointing smaller, more local firms to carry out works as opposed to large contractors. Whilst large contractors have well-established supply chains and preferred sub-contractors, the Committee speculated that directly appointing these sub-contractors to carry out works would save on a level of management. Smaller contractors may also be more open to price negotiation, and could be incentivised to carry out works to a high-standard at a low cost if works were procured more regularly on a smaller scale.
- 2.25 The Committee had intended to benchmark the council's costs against other local authorities and housing providers; however this did not prove to be possible. There is no London-wide benchmarking of capital works being carried out by local authorities, and it was noted that the circumstances and priorities of each organisation vary considerably depending on their available budget, the standard and age of their housing stock, and the contractual arrangements of each organisation. For this reason no meaningful comparison could be made to the costs of other capital works programmes.
- 2.26 However, officers provided evidence which suggested that the current capital works contracts were providing significant value for money in comparison to current market rates. The contracts were tendered in 2010 and accordingly the schedules of rates are fixed to the prices tendered at that time, subject to the annual inflationary increase. The Committee noted that this was a particularly low point in the construction market and prices have increased considerably since. The RPI-linked annual increases to the schedule of rates have been significantly lower than the industry inflation rate, as monitored by the Building Costs Information Services Tender Price Index for the London region (BCIS TPI). This regional measure of inflation is produced for the Department for Business Innovation and Skills and the data considered by the Committee (October 2014) measured inflation at 37.5; more than 20 points higher than RPI at 14.34.
- 2.27 The Committee considered the economic reasons for the significant increases in construction prices since 2010, the primary reasons being rising material and labour costs and increased demand and market confidence. Furthermore, it was reported that due to the high demand for construction work in London contractors were becoming increasingly project selective, basing their tendering decisions on available resources, client relationships, the complexity of the work and the perceived likelihood of a successful bid. In general, there is a hesitancy to tender for works where contractors are expected to accept significant risks.
- 2.28 The inference from this data is that the council is currently obtaining value for money from the capital works contracts. Whilst officers did not have in-depth knowledge of the contractors finances, it was explained that the substantial difference between the contractual rates and current market rates would have eroded the profit margins of the council's contractors, and that tendering for works individually at the prices the council is currently paying would be an unattractive proposition for most contractors.
- 2.29 In consideration of the above information, the Committee considered that it was likely the council was achieving value for money on the capital works programme, however it was not possible to state this definitively without market testing works under the full-range of procurement options. Of greater concern to the Committee was the future position when the capital works contracts are to be re-tendered. Given the proposed 1% annual reduction in social rents over the next four years, as set out in the government's Welfare Reform and Work Bill, the Housing Revenue Account is

due to decrease by £15million by 2020, by which point the capital works contracts will need to be re-tendered. Meanwhile, the Royal Institution of Chartered Surveyors estimate that construction tender prices will rise by 28% over the next five years.

- 2.30 This increasing gap between the available financial resources and the cost of capital works is particularly concerning and the Committee recommended that all procurement options be investigated to achieve value for money when the contracts are to be re-tendered. It may be that greatest value can be achieved through a Term Partnering Agreement, procuring works in smaller lots, or excluding certain works from the contract and carrying them out in-house. It was also recommended that consideration be given to establishing a benchmarking club with other London local authorities to ensure best practice on contractual, financial and performance matters.

#### Tenant and Leaseholder Satisfaction: Overall Impression

- 2.31 The Committee considered two reports on resident satisfaction. The first was the Residents' Improvement Taskforce Review of Major Works Consultation carried out in 2013/14. This review was carried out by residents and was previously reported to the Housing Executive in 2014. The report made a number of recommendations relating to the clarity, quality, timing and consistency of information given to residents; and sustaining good communication with residents whilst on site and ensuring quality after care. The Committee scrutinised the action plan arising from the report, which was last reviewed in September 2015 and indicated that all actions arising from the report were being met.
- 2.32 The second report detailed the results of the Major Works Telephone Survey Pilot Scheme. The Housing Service previously commissioned an external provider to survey resident satisfaction following the completion of capital works, however in August and September 2015 a simpler survey was carried out in-house which surveyed residents before, during and after works were completed.
- 2.33 The results of the survey were presented on an individual-estate basis. It was found that all households surveyed at Adams Place and the Miranda Estate were given the opportunity to discuss works before they commenced. Although a lesser number attended the public consultation meeting, all of those in attendance found the information to be helpful. During the works on the Mayville Estate and Whitehall Mansions, all households surveyed reported satisfaction with the works and the information provided by both the council and the contractor, however it was noted that this was from a smaller sample size of only five households. Findings following the completion of works at the New River Green Estate and the Elthorne and Hillside Estate were more mixed, with the majority of feedback being positive, however a proportion of respondents reporting the site clean-up and politeness of contractors to be poor.
- 2.34 The Committee suggested that regularly carrying out such surveys could be a useful tool in gauging satisfaction and identifying possible problems with capital works. The importance of communicating feedback to contractors and officers was emphasised; as any problems identified before or during works were possible to be rectified. It was recommended that in-house surveying be continued and expanded to ensure that surveys are fully representative.

#### Tenant and Leaseholder Satisfaction: Leaseholder Service Charges and Transparency

- 2.35 The Committee received evidence from the Islington Leaseholders Association which indicated dissatisfaction with the council's practices in regards to billing for capital works and transparency. During the review the Leaseholders Association was in a dispute with the council about the publication of the schedule of rates, which was classified by the council as commercially sensitive and therefore not for publication.

- 2.36 The Leaseholders Association submitted their own report to the Committee as evidence which included a history of contracting matters, an overview of public procurement and transparency issues, and a number of suggested recommendations. The Leaseholders Association contested that the council's procurement process worked against the interests of leaseholders. It was suggested that, through the use of large-scale term partnering agreements and the consequential EU procurement processes, the choice of contractor is limited to the largest contractors. It was suggested by the Leaseholders Association that this was a barrier to competition as it excluded smaller contractors from applying for works. It was thought that smaller contractors could carry out works at a lower cost, especially as these contractors were already appointed as sub-contractors to carry out works on site.
- 2.37 The Leaseholders Association queried the level of commercial sensitivity applied to the contractors schedules of rates and contested that without access to the schedule of rates it was impossible to ascertain if leaseholders were receiving value for money. The Leaseholders Association suggested that the schedules of rates should be available on the council's website to enable leaseholders to calculate their own service charge bill. There was an uncertainty from the Leaseholder Association about billing for capital works; it was thought that leaseholders could be being billed inaccurately, or being charged unreasonable prices for works. In response, officers noted that the cost of works was fixed in the schedules of rates. It was also noted that residents were involved in the evaluation of contractors during the procurement process. Officers advised that if leaseholders wished to challenge the works carried out to their property, then a challenge must be made on the scope of the works and not the cost, which is determined by the schedule of rates.
- 2.38 Officers noted that work was underway to make leaseholder bills for capital works more accessible, however advised that disclosing schedules of rates was not appropriate. It was commented that schedules of rates were technical documents and were not presented in a format which was easily accessible to members of the public. As a result, officers suggested that disclosing the schedules would not necessarily be helpful to leaseholders in calculating their own service charge bills, a point contested by the Leaseholder Association.
- 2.39 The Committee considered the arguments for and against disclosure of the schedules. It was concluded that further work was required to increase the accessibility and transparency of leaseholder service charges for capital works and the council should seek to discontinue the use of commercial sensitivity clauses relating to the schedules of rates when tendering for future capital works contracts.
- 2.40 One recommendation set out in the report from Islington Leaseholders Association was to appoint resident inspectors to review works during construction. The Committee agreed that such an initiative could increase transparency and resident engagement and recommended that this be implemented. It was suggested that the council could engage with TRAs and other resident groups to identify suitable candidates.

#### Tenant and Leaseholder Satisfaction: Other matters

- 2.41 The Committee considered witness evidence submitted by councillors. Members commented on casework, noting instances of delayed works, breakages and incomplete works, however this did not match contractors' experiences of capital works. For example, Mears consistently received a resident satisfaction rating of over 93%.
- 2.42 It was thought that this discrepancy could be partially attributable to sign-off processes; as although it may appear that works are completed when contractors leave the site, works are not formally completed until sign-off has been received from the council and this can take up to two

months. On occasion the council had delayed completion until remedial works were carried out to a higher standard. It was commented that this motivated contractors to carry out these works quickly as guarantee policies did not commence until works had been signed-off.

- 2.43 It was suggested that the survey form used by Mears was not sufficiently detailed to capture resident complaints; however contractors had separate complaints processes and complaints were regularly reviewed by the council and the contractor as a part of the performance monitoring process.
- 2.44 The Committee reviewed a complaint submitted by a leaseholder in 2012 which raised concerns about the level of consultation, the accuracy of surveys, and insufficient information relating to costs being communicated to leaseholders. In addition, the ward councillor queried how works were scoped and costed. Officers had responded to the resident at the time and offered further explanation to the Committee at the meeting. Although this complaint was submitted some time ago and had since been resolved, it was an example of misunderstanding regarding the cost of the capital works programme.

### Planning and Prioritisation

- 2.45 The council's limited financial resources require the careful management, planning and prioritisation of capital works. The Committee reviewed how works are planned and prioritised, and the systems, policies and procedures which inform this process.
- 2.46 The capital programme is guided by information held on properties in a database. This includes data obtained from previous maintenance and improvement works and stock condition surveys. The most recent large-scale stock condition survey was undertaken in 2010 by an external consultancy firm. Stock condition surveys provide an indication of the life expectancy of building components, and therefore help to identify when they may require replacing. Component life expectancy forecasts are updated annually as capital works are completed, which helps to calculate the level of investment required in housing stock in future.
- 2.47 Data from the stock condition survey informs the 30 year Housing Revenue Account Business Plan which details the level of resources required to invest in housing stock. The current Business Plan covers the period 2013-43, however is likely to require revision given the government's proposed reductions to social rents. The Housing Revenue Account is required to be self-financing and the council cannot subsidise financial shortfalls in housing from the general fund.
- 2.48 As the Business Plan confirms the financial basis for the capital programme, the Housing Asset Management Strategy sets out the approach the council will take to investing in its homes and estates. The overall aim of the Strategy is to maintain and improve the council's housing stock to provide places where people want to live, while delivering value for money to residents. The Strategy helps the council to prioritise different types of works in accordance with council priorities and the works which are considered to achieve the most positive and long term benefit. The main areas of investment detailed in the strategy are: the interior of our homes; making homes energy efficient; ensuring homes are free of damp and problem condensation; the exterior of our homes; and communal areas and our estates.
- 2.49 The Asset Management Strategy is used to formulate the Housing Investment Plan, which includes the seven year cyclical investment programme. Annual works programmes are derived from this Plan.
- 2.50 As detailed elsewhere in this report, works are only carried out when necessary and on technical officer recommendations. The decisions of technical officers are informed by the stock condition survey, repair histories and local knowledge. If works are deferred from the seven year rolling

programme they are typically carried out no later than ten or eleven year intervals. The seven year cycle begins from the completion date of the previous project.

- 2.51 The Committee discussed the workings of the capital programme with officers in detail and queried if the quality and quantity of works was tailored to the available budget, or if the annual budget was tailored to the required works. In response it was explained that works were planned up to three years in advance and as a result officers could both contribute to the annual budget setting process whilst also having regard to savings requirements.
- 2.52 The Committee commented on the council's increasingly limited financial resources and suggested that, in order to achieve savings, the seven year cyclical programme may have to be amended to an eight or nine year basis, or even a non-specific timescale. It was recommended that the programme be reviewed to ensure that the greatest value for money is achieved.
- 2.53 Officers advised that due to financial restraints the service was already prioritising maintenance over improvement works and the Committee accepted that this may have to be the basis for future works programmes. The Committee emphasised that a detailed evaluation of the impacts of any service change would be required, however the capital works programme should be flexible and based on the life-cycles of components.
- 2.54 Vulnerable people did not receive priority for capital works as these were carried out on an estate-by-estate basis; however officers did carry out home visits to assess if accessibility adaptations were required, such as walk-in showers and lower level cupboards. Officers also liaised with the high-value repairs team to assist in the scheduling of works to properties which require emergency repairs.

#### Communication and Consultation: In procurement

- 2.55 The Committee heard that residents were involved in the selection of the capital works contractors, with tenants and leaseholders involved in interviewing and assessment of contractor presentations. The Committee emphasised the importance of involving tenants and leaseholders in decisions about procurement and the future of the service. Given the increasing financial pressures on the council and the significance of the capital works programme, it was considered vital that residents are involved in shaping the future of the service.

#### Communication and Consultation: On specific works

- 2.56 Under the capital works contracts, each individual project is known as a 'task order'. Before each task order is carried out, the council consults with tenants and leaseholders to help establish which works are required to each block/estate. The council also has a statutory duty under Section 20 of the Landlord and Tenant Act to consult with leaseholders, as they are liable for part of the cost of capital works through service charges. Officers in area housing offices and the repairs and maintenance team are also asked to provide information on required works.
- 2.57 At the start of the consultation process, a resident consultation meeting is held known as a 'scope of works' meeting. At these meetings residents are presented with details of the works proposed to be carried out (what is required and why), how long it will take to carry out, and who to contact for further information.
- 2.58 Following this meeting, the council considers information gained from residents, reviews the repairs history and building technical information and carries out surveys which enable a scope of works to be compiled. Once the scope is completed, the statutory consultation with leaseholders commences in which they have 30 days to make representations to the council as landlord.

- 2.59 Leaseholders are written to and advised of the scope and indicative cost of the works. Leaseholder consultation meetings are then held which detail the scope of the works, the affected properties, approximate timescales, contact details for the project team, details of how to submit representations and payment arrangements. The Committee reviewed a presentation given at a Section 20 meeting and noted that it included photographs where possible to explain the required works, which was considered helpful.
- 2.60 The Committee was encouraged that consultation and communication continued as the works progressed, with a Pre-Start Residents' Meeting taking place two weeks before works commence, and regular newsletters from the contractors during the works. Satisfaction surveys are then carried out after works are completed.
- 2.61 Overall the Committee found the level of consultation to be sufficient; however agreed that further work was required to increase engagement. It was reported that there was generally a low level of attendance at initial 'scope of works' meetings and that areas without tenants and residents associations tended to have a lower level of response to consultations. The Committee recommended that the council seek to engage further with these groups. It was suggested that greater engagement with area housing offices and further publicity may help to increase engagement.
- 2.62 Elected members received a monthly update on capital works in their ward. This was welcomed and members queried if further information could be provided.
- 2.63 Following comments from leaseholders that the council did not give sufficient consideration to representations made on the cost of works, the Committee queried the council's response to consultation. In response officers advised that the cost of works was fixed under the capital works contracts; and any representations must instead challenge the scope of the works. The Committee concluded that some such representations may be avoided if the council's leaseholder billing process was more transparent.

#### Local Labour

- 2.64 One objective of the review was to consider the extent to which contractors used local labour. Given the scale of the capital works programme, it was suggested that the use of local labour could increase resident employment and provide valuable skills in the borough.
- 2.65 The importance of local labour was already recognised by the council, as 'percentage of local labour' and 'use of local/BME firms' were included as contractual key performance indicators, which were reviewed quarterly. The Committee considered the performance indicators for September 2015, which found that Breyer was using 37.8% local labour and Mears was using 48%, both above the contractual target of 35%. It was also found that Breyer was using six local/BME firms and Mears was using three.
- 2.66 The Committee received witness evidence from Mears at the January 2016 meeting. Mears appreciated Islington's commitment to local labour and sought to employ local people as far as possible. The Committee was pleased that Mears had employed six local apprentices, however queried if this number could be increased. In response, it was reported that there were a limited number of opportunities available through planned works contracts as the majority of works on site were carried out by sub-contractors. As a result, apprenticeship opportunities were limited to positions such as administration, resident liaison, site management and surveying, and the current number of six apprentices was considered appropriate for Mears' needs.

- 2.67 It was known that the sub-contractors carrying out works on site offered apprenticeships, however detailed information on sub-contractor staffing arrangements was not available. Anecdotal evidence suggested that the majority of local staff were labourers as opposed to tradespeople. The Committee queried if Mears could contractually require sub-contractors to take on a given amount of local trade apprentices to carry out works. In response, it was advised that imposing such conditions would be unfair as Mears was not able to guarantee the volume of works to sub-contractors; however Mears did informally negotiate with sub-contractors and encourage them to offer apprenticeships in return for works.
- 2.68 Whilst it was encouraging that that both contractors were meeting the targets for local employment, the committee queried how the capital works programme could be used to provide further local employment and increase the skills of residents. Given the scale of the council's capital works programme, the Committee considered that there is an opportunity for capital works to increase the quantity and quality of local employment opportunities and help to implement the recommendations of the Employment Commission; including offering local jobs, creating strong links between education and business, and offering flexible employment, especially to the long-term unemployed. The capital works programme provides an opportunity for skilled employment and apprenticeships to be offered to residents at a local level, even on their own estate.
- 2.69 Following the example of the in-house responsive repairs service, which is providing apprenticeships and skilled work to local people, the Committee recommended that the council consider establishing some in-house capability for carrying out planned maintenance works. This would not only contribute to local employment and skills, but could generate savings as in some instances it may be more efficient to carry out works outside of the capital works contracts. It was thought that the experience of directly carrying out works could also assist the council in procuring capital works in future; as officers would have a greater understanding of the costs and considerations which would be applicable to contractors.

Other improvements: Integration of data

- 2.70 Other possible service improvements were identified. The Committee considered how contractors recorded the works carried out and noted that diagrams were often completed by hand. A signed copy of every document was provided to the council and stored on a database, however it was suggested that such data could be held in a more accessible format which allowed for easy integration into the council's own ICT systems. This would assist the council in maintaining a comprehensive history of work carried out to a property and would contribute to future maintenance and repair works. It was recommended that the contracts should stipulate that all such data is owned by the council.

Other improvements: Generating income by assisting contractors with site set-up

- 2.71 The Committee noted the facilities which contractors required on-site to carry out capital works; fencing, portable toilets, signage, storage, and so on. As similar facilities were required for every capital works project, it was suggested that the council could seek to generate income by providing these facilities to contractors on a commercial basis. In some cases, facilities such as toilets and storage may already be available in the local area and could be available for hire at no additional cost to the council.

### 3. Conclusions

#### How contractors are selected

- 3.1 The Committee found that the capital works contractors were selected through an open tender process. Tenants and leaseholders were involved in the selection of contractors and it is considered that the current contracts are likely to be achieving value for money. Recommendations have been made to improve the council's capital programming through greater involvement in the selection and monitoring of sub-contractors, introducing penalty clauses and incentives into contracts and exploring alternative procurement options when the contracts are due to be re-tendered. The council and residents must be confident that the capital programme is achieving best value and all delivery options, such as separating works into smaller lots or carrying out some works in-house, should be considered when the current contracts end.

#### Opportunities for using local labour

- 3.2 Both capital works contractors are using a greater proportion of local labour than required by the contractual target. Whilst this is encouraging, the Committee would support further work in this area, as there is an opportunity for capital works to increase the quantity and quality of local employment opportunities and help to implement the recommendations of the Employment Commission; including offering local jobs, creating strong links between education and business, and offering flexible employment, especially to the long-term unemployed.
- 3.3 In addition, the Committee suggested that the council could establish some in-house capability for carrying out planned maintenance works. This would not only contribute to local employment and skills, but could generate savings as in some instances it may be more efficient to carry out works outside of the capital works contracts.

#### Who determines what works are undertaken

- 3.4 The Committee evaluated planning and prioritisation processes, including consultation with residents. Although these processes were found to be comprehensive, recommendations have been made to increase resident engagement, particularly in areas without tenant and resident associations. It was also acknowledged that as financial resources decrease, plans and priorities may have to change. In particular, the sustainability of the seven-year cyclical improvement programme may have to be evaluated. The Committee is particularly concerned about the cost of capital works increasing as the council's financial resources are decreasing. The possible impacts of this could be significant and it is vital that tenants and leaseholders are consulted on any future service changes.

#### Other conclusions

- 3.5 The Committee also considered matters relating to transparency, resident satisfaction and communication during works and after completion. Recommendations have been made where the Committee consider that improvement can be made in these areas.
- 3.6 In carrying out the review, the Committee met with officers, contractors, and members of the public to gain a balanced view. The Committee would like to thank witnesses that gave evidence in relation to the scrutiny. The Executive is asked to endorse the Committee's recommendations.

<b>SCRUTINY REVIEW INITIATION DOCUMENT (SID)</b>
Review: Capital Programming
Scrutiny Review Committee: Housing Scrutiny Committee
Director leading the review: Simon Kwong
Lead Officers: Christine Short and Damian Dempsey
Overall aim: To investigate how contractors are selected; to look at opportunities for using local labour; to explore who determines what works are undertaken.
<p>Objectives of the review:</p> <ul style="list-style-type: none"> <li>• To identify the different types of capital works carried out</li> <li>• To evaluate how the council's capital works contractors are procured</li> <li>• To consider the costs associated with the capital works programme</li> <li>• To measure the satisfaction of tenants and leaseholders with capital programming</li> <li>• To consider how works are planned, prioritised, and communicated to tenants and leaseholders</li> <li>• To consider if capital works can be used to drive local employment</li> <li>• To identify any areas for improvement</li> </ul>
<p>How is the review to be carried out:</p> <p>Scope of the Review</p> <p>The review will focus on:</p> <ol style="list-style-type: none"> <li>1. Capital Works <ul style="list-style-type: none"> <li>• The types of capital works carried out</li> <li>• Planning processes and asset management data base</li> <li>• How capital works are prioritised</li> <li>• Who determines what works are undertaken</li> </ul> </li> <li>2. Procurement of Contractors <ul style="list-style-type: none"> <li>• Procurement processes</li> <li>• Types of contract available</li> <li>• The quality of completed works and guarantees</li> <li>• Comparisons with other local authorities and registered providers</li> </ul> </li> </ol>

3. Local Labour

- Conditions contained within contract
- How much local labour is currently used
- Other options available to encourage this

Types of evidence:

1. Documentary evidence including

- Contextual report/presentation
- Service policies and strategies
- Service evaluations and performance indicators

2. Witness evidence including

- Officer presentations
- Representatives of the Council's capital works contractors
- The views of tenants, leaseholders and ward councillors, including unmediated written evidence

3. Possible site visit

Additional Information:

None.

Programme

Key output:	To be submitted to Committee on:
1. Scrutiny Initiation Document	13 July 2015
2. Draft Recommendations	26 January 2016
3. Final Report	29 February 2016

Housing Scrutiny Committee – Work Programme: Capital Programming

7 September 2015		
Who / What	Organisation / Purpose	Other key information
Damian Dempsey, Group Leader, Quantity Surveyors – Report / Presentation	Report providing introductory information on several areas set out in the SID.	To include: <ul style="list-style-type: none"> <li>the different types of work carried out,</li> <li>how capital works contractors are procured,</li> <li>the roles of the council acting as a client and a delivery team,</li> <li>how works are communicated to tenants and leaseholders,</li> <li>the overall costs of the service.</li> </ul>
Guarantee policies and other written evidence	Providing information on the guarantees received on capital works, roofs, windows, cavity wall insulation, etc.	
Key performance indicator data	To provide the Committee with the latest performance indicator data; to discuss the usefulness of this data; and to consider how the performance of the service can be best evaluated.	To include the known levels of local employment used by the capital works contractors, in accordance with SID.
8 October 2015		
Who / What	Organisation / Purpose	Other key information
Tenants and leaseholders	To inform the Committee of their views on capital programming. In particular, how works are planned, prioritised and communicated.	The views of tenants and leaseholders to be received through – <ul style="list-style-type: none"> <li>Residents’ Improvement Taskforce Major Works Consultation (January 2014) and up-to-date action plan.</li> <li>Results of major works telephone survey (September 2015).</li> <li>Summaries of ward councillor case work.</li> </ul>
Ward councillors		

Andrew Hunter, Programme Manager (Housing Investment) and Aiden Stapleton, Consultation & Asset Manager – Report / Presentation	To advise the Committee on how the Council's housing assets are managed and how capital works are planned and prioritised.	
Updated key performance indicator data	To provide the Committee with the updated performance indicator data; to discuss the usefulness of this data; and to consider how the performance of the service can be best evaluated.	To include the known levels of local employment used by the capital works contractors, in accordance with SID.
Building inflation data	To provide a general overview of inflation in the building trade, and how this has increased since the capital works contracts were let in 2010.	

#### 16 November 2015

Who / What	Organisation / Purpose	Other key information
Building inflation data	Further detail and analysis of the building inflation data considered at the previous meeting.	

#### 26 January 2016

Who / What	Organisation / Purpose	Other key information
Theo Petrou – Mears Projects (Representative of the council's capital works contractor)	Mears Projects. To provide the Committee with the contractor's perspective of the council's capital programming.	Contractors may be able to compare their experiences of working with other local authorities, the different types of contract they carry out, further information on their use of local labour, and their own planning, prioritisation and communication processes.  To include comparisons with other local authorities capital programmes.

#### Key dates:

Draft recommendations: 26 January 2016

Final report: 29 February 2016