



CITYWEST HOMES

**Policy & Scrutiny Task Group:  
CityWest Homes – Session 3  
Major Works Briefing Note**

**3 September 2018**

# Context / Background

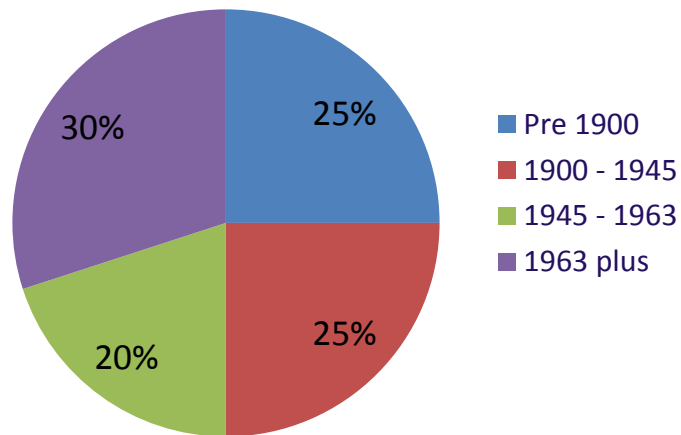
- The Task Group has stated they would like to explore the following topics regarding 'Major Works' undertaken by CWH:
  - Cost recovery (on costs)
  - Discussion on how the long term repairs programme is developed
  - Discussion on resident engagement
  - How and when are leaseholders consulted about future major works - how can they query proposals?
  - How do we decide which major works contractors to use?
  - What choice exists to use a specialist contractor (e.g. for windows)?
- Each of these are considered in this Briefing pack, albeit a number of the items are inter-linked.
- 'Major Works' are defined for these purposes as the large, long term planned / cyclical capital investments in the Council's housing stock e.g. re-roofing; block-wide window installations; major decoration projects; as well as over-hauling key Mechanical & Electrical components e.g. lifts, heating systems etc.
- These works are different to 'minor' works and / or 'repairs', which tend to be either reactive (e.g. individual boiler breakdowns) or annualised (e.g. safety checks / regular cleaning of gutters).
- Some of the processes discussed in this Briefing equally apply to elements of the 'repairs' programme, but these are not dwelt upon here.
- Please note that information provided here is purposefully high-level / summarised; more detail can be provided if required. A summary of the property portfolio owned by the Council is also shown over-leaf.

# Context / Background (cont.)

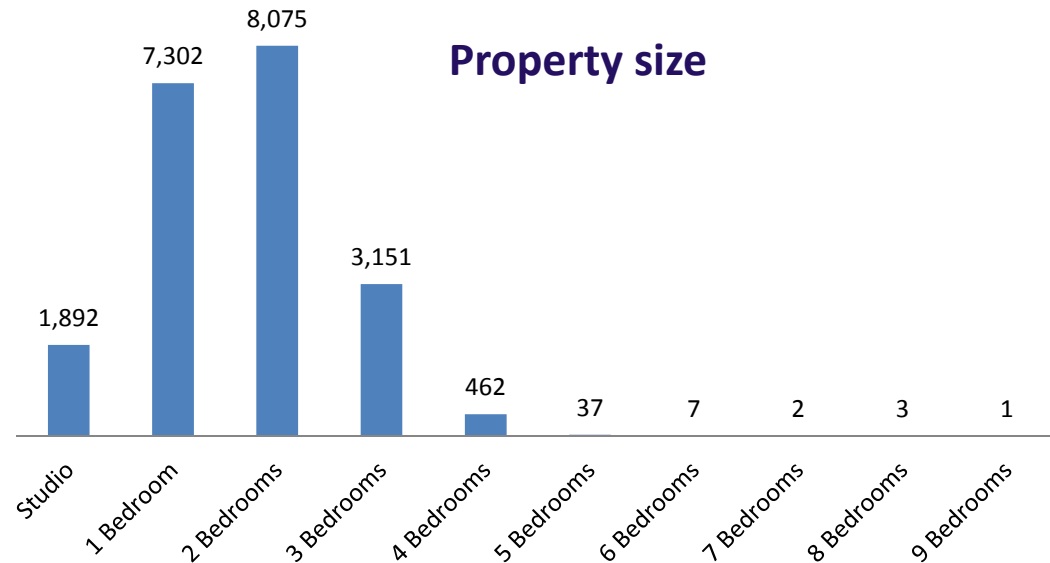
CWH manage:

- c.730 houses and c.600 blocks
- 1,259 garages & 3,171 sheds
- 23 community halls
- 45 playgrounds

Property age



Property size



- 43% of the stock is in a Conservation Area
- 17% are Listed (c.3,500 units)

Creating places where people are proud to live



CITYWEST HOMES

# Context / Background (cont.)

- The Task Group will be aware that CWH has recently changed the way it engages contractors – and so also residents – when undertaking ‘Major Works’ to the Council’s housing stock.
- The reasons for this change have been widely consulted upon, and are summarised below:
  - Previously, each project was individually tendered; which was inefficient, costly and time consuming; and often led to poor service and regular contractor disputes. Few positive long term relationships were able to be built, and conversely, the regulations also meant that the Council was not able to exclude some contractors who had previously performed badly;
  - To overcome this, it was agreed with the Council that 10-year ‘Term Partnering Contracts’ (TPCs) would be established for Major Works. The intention being to:
    - Avoid successive tendering, procurements and waste across the programme; thereby
    - Reduce the combined procurement and contract administration costs to below 12% (from circa 16%);
    - Improve accuracy of programming & cost management;
    - Establish relationships with contractors, driving consistent high performance;
    - Exploit operational and practical expertise from the supply chain;
    - Create a strategic environment with all providers focussed on mutual improvements and benefits;
    - Maintain transparency with leaseholders over the development of projects;
    - Build long term relationships to provide opportunities for staff & residents to invest in training & experience; and
    - Over time, see cost savings for the HRA – and therefore leaseholders.
- It should be noted that, with the new Term Partnering Contracts only having been finalised at the end of 2017, CWH is still in a transition phase, with a number of projects coming to / on-site still being delivered via the ‘old’ way of working.

# Cost Recovery (on-costs)

- CWH is funded to manage the Council's housing stock by way of a 'management fee' (on-going revenue) and, for certain types of service, reimbursement of costs that are 'capitalised'. International accountancy principles define what services can / cannot be capitalised, and apply equally for tenants and leaseholders.
- The basic principle for all Leaseholder service charges (including Major Works) is to ensure that the HRA is not adversely impacted by Leaseholder activity. We have an obligation to ensure that Tenant rental income is not used to subsidise Leaseholders (and *vice versa*). Under the terms of the leases, leaseholders are required to pay their lease percentage of the block costs, including management and capital costs. Therefore, the Major Works costs are more explicitly identified on a project-by-project basis (whereas only the global costs of undertaking works across the entire tenanted stock is captured for the HRA).
- CWH's management fee and other revenue costs paid by WCC through the HRA are recovered from leaseholders via the general service charges. However, when undertaking Major Works, the HRA – and so leaseholders – pay for both revenue-based services, as well as capitalised services. The costs can be summarised in three elements:
  - **Contractor Fees** (capitalised) – The Contractor fulfils the role of 'designer', producing the schedules of proposed works based upon physical surveys, quantifying and obtain prices. The Contractor also fulfils the role of "Principal Designer" under the Construction (Design and Management) Regulations 2015;
  - **CWH Professional Fees** (capitalised) – Acting as both 'Client Representative' and 'Client', CWH has express obligations to fulfil under each of the contracts, together with regulatory and statutory duties it must fulfil in law. Moreover, CWH must ensure that works are undertaken to an acceptable standard; are completed safely and on time; appropriately evidenced with guarantees and warranties; quantified and valued; and comply with CWH's and the Council's policies and governance; and
  - **CWH Major Works 'On-costs'** (revenue) – These costs relate to non-capitalised staff time, which cannot be allocated to specific schemes. The bulk of this work involves the Asset Strategy team (in the formulation of the capital programme and planned works); the Resident Engagement team (running consultation events / briefings); the Finance team (in paying invoices, financial reporting); and the Leasehold Operations team (in carrying out major works billing, section 20 consultation and reporting).

# Cost Recovery (on-costs) (cont.)

Commenting on each component:

- Contractor Fees (capitalised):
  - The Price Framework within the Term Contracts includes two different types of fee for fulfilling these duties, applied based upon the complexity of the design and value of that item of work – described as either: ‘Design’ or ‘Product’:
    - For ‘Design’ services, the Contractor is expected to engage the services of an appropriately qualified designer, and the work will include any necessary planning applications or detailed coordination with other services / components. The fees typically range from 1.25% to 1.75%;
    - For ‘Product’ services, a Contractor should rely on a product manufacturer’s design guidance but, whilst the Contractor may not need to appoint a separate designer, they still remain responsible for ensuring the right choice and interaction of products, and adherence to the guides. As such, fees range from 0.50% to 1.00%.
- CWH Professional Fees (capitalised):
  - These fees are generally dictated by the length of time the Contractor needs to deliver the works. The obligations and duties of the Client Representative are often consistent and cyclical, irrespective of the works cost and vary only based upon the number of weeks employed in managing the project. This can sometimes mean the costs are disproportionate for smaller projects.
  - A reduction in average Professional Fees (from c.16%) was a stated objective for introducing the two Major Works term contracts. CWH’s target to reduce Major Works costs to less than an average of 12% arose from the Council-commissioned “Altair Report” (2015), which suggested this was a representative benchmark for the sector.
- CWH Major Works ‘On-costs’ (revenue):
  - This represents the proportion of peoples’ time spent on Major Works activity, divide by the overall Major Works actual cost. It is added to Major Works costs that have been incurred during the financial year when billing, and so fluctuates depending on levels of spend. In 2017/18, revenue costs were £1.65m across a global spend of £31.76m, leading to a 5.2% on-cost applied to those bills.

# Cost Recovery (on-costs) (cont.)

- This table compares CWH's costs against some other providers / Councils.
- However, a direct comparison is very difficult / could be inaccurate, given:
  - The different stock profiles (size, age, complexity (e.g. % listed buildings));
  - The different proportion of tenants & leaseholders;
  - Differing expectations as to stakeholder engagement;
  - We are aware that some organisations are limited to a set percentage as defined by their leases i.e. they may not be able to recover the true cost; and
  - It may be that what some organisations class as 'professional fees' is not capturing the same data as another organisation's definition.

Organisation	Professional Fees	Management Fee	Combined
Tower Hamlets	9-14%	10%	19-24%
Greenwich	0% - 7.5%	13%	13-20.5%
CWH	12% (av.)	5%	17%
Southwark	6.44% (av.)	10%	16.44%
Barnet	Variable	16% for first £1,000 then 5.6% thereafter	> 5.6-16%
Harrow	8%	5%	13.00%
Lewisham	Variable	10%	> 10%
Camden	Variable	8%	> 8%
Waltham Forest			12%
Islington			11%
Brent	6.50%	4%	10.50%
Clarion Housing			10%
Havering			10%
Thurrock			3.5%-10%
Hillingdon	8.20%	N/A	8%
Welwyn Hatfield			0%

# Developing the Major Works Programme

There are five ways in which the long term Major Works programme is prepared / influenced:

## 1. Strategic “Estate Planning”

- Having been introduced in 2017, CWH and the Council are undertaking high-level reviews for each estate / groups of buildings, with the intention of concluding the first reviews over a 3-4 year period. The work considers a number of key metrics to establish a strategic view as to appropriate capital investment plans, considering financial, quality, and the Council’s “corporate” objectives (e.g. City for All);
- The Plans have started to guide investment decisions around: approaching inherent design issues on estates (e.g. that contribute to ASB); whether some buildings perhaps need to be re-purposed; whether some buildings may be reaching the end of their ‘economic’ life in the next 10-20 years (so driving a different investment strategy); and whether some buildings or areas on estates should be considered more immediately for development;
- This process will increasingly start to influence at least part of the Major Works programme.

## 2. Active Asset Management

- **Data capture & review** – Each block (and a proportion of homes) has a non-invasive stock condition survey carried out by an independent building surveyor every three years, reviewing the key components and assessing the life expectancy (being either repair or replacement) of each component. There are ‘norms’ in terms of assumed component life-cycle replacement (e.g. 30 years for flat roofs, 40 years for window replacements), and the independent surveyor also considers statutory & best practice standards e.g. HHSRS and Decent Homes. CWH utilise an industry-recognised asset management database (Keystone) to collect and store data on all of the Council’s housing stock, which is then used to inform the indicative 5 and 30 year capital works programme;
- **Preparing a Client Brief** – From the indicative 5 year programme, CWH will begin to develop a ‘Client Brief’ for a specific project 18 months prior to a proposed start on site date.
  - A detailed building survey will be commissioned by a third party to ensure that it is independent;
  - (...continued over-leaf...)



# Developing the MW Programme (cont.)

- The team also consider:
  - Strategic Estate Plans (as noted above)
  - Operations & maintenance manuals and Health & Safety files for the block(s)
  - Repairs history of each block and estate area
  - Planned maintenance schedules for the block/estate
  - Maintenance inspections and history of key components e.g. electrics and heating
  - Fire risk assessment reports and any other fire assessment report
  - Asbestos management surveys
  - Site-specific risk registers
  - Previous stakeholder consultation and communication
  - Major works history
  - Assessment of budget against indicative lessee liabilities
- Engagement is then had with CWH colleagues (e.g. local repairs and housing teams), as well as residents and Ward councillors [see later slides on resident engagement] to ensure that a comprehensive picture of need is developed;
- Finally, for certain elements and situations, the team carry out 'net present value' calculations (considering the whole life cost of replacement versus repair over a 30 year period). In doing so, the team also consider product specifications i.e. different levels of quality and type of material (e.g. uPVC windows vs powder-coated aluminium windows).
- The Client Brief is then handed over to one of the Term Partnering Contractors for implementation.

### 3. Planned Preventative Maintenance

- CWH is in the process of developing further planned maintenance schedules for specific blocks and estates. These will include, for example, regular clearing out of roof gully's and inspection of rainwater pipework; the aim being to move from more of a reactive maintenance regime to a proactive regime. This process may, depending on the size of certain works packages, lead to some projects falling into the 'Major Works' programme.

# Developing the MW Programme (cont.)

4. Stock-wide projects e.g. fire safety works or condensation works
    - There can be certain projects / themes that emerge, requiring alignment with the Major Works programme. Obvious examples are the current focus on fire-safety improvements and tackling condensation & mould (a City for All target);
    - These packages of works are reviewed alongside the stock condition surveys and existing projects within the programme, but often these works are urgent (e.g. impacting the health and safety of those occupying or visiting the blocks), and so are pulled out from the more cyclical nature of the Major Works programme. In other words, unless a Major Works project to a block is imminent e.g. within 6-12 months, there is often little benefit / ability to hold-off these specific works until such time as major works start;
    - A programme of works is then packaged up for delivery ( e.g. fitting extract / ventilation fans to tackle condensation, or the implementation of fire-doors).
  5. Out-of-cycle Component Replacement
    - Whilst CWH look to plan all capital expenditure in advance, there are situations when components fail outside of the usual cyclical programme, and cannot be economically repaired. CWH has recently implemented a referral system, whereby larger projects are passed to the Asset Strategy team for consideration.
    - The referral is reviewed alongside the programmed works to the estate, also assessing the justification for the works and whether they are of an urgent nature. If they are required, and pre-programmed works cannot be brought forward, then an individual project will be created. A Client Brief is prepared for hand-over to one of the Term Contractors.
- The in-year Major Works programme is reviewed on a monthly basis, monitored and reported to the Council's Finance and Housing teams, and compared against the approved HRA Business Plan. Spend is also reported monthly to the Cabinet Member, with quarterly Cabinet Member meetings.
  - The above reviews also feed in to the Council's annual HRA Business Plan cycle, and the 5-year Major Works programme is published on CWH's website.

# Resident (including Leaseholder) Engagement for Major Works

There are five stages to CWH's engagement with all residents (be they leaseholders or tenants), with specific elements for leaseholders e.g. around the billing process. **Appendix 1** has a 1-page summary of the process; and **Appendix 2** expands upon the process further, and is available for residents as a 'FAQ' guide.

## 1. Published 5 Year Programme

- Once the HRA Business Plan has been approved by the Council, CWH extracts the 5 year programme and **publishes it on the website**; it is also noted in the CWH resident newsletter (CityVoice) and in the leaseholder up-date letters. The information sets out the projects that are scheduled to take place, to give all residents a 'look-ahead';
- CWH plan to develop what we termed a 'Cost Calculator', allowing leaseholders to get a better understanding as to their individual lease liabilities for projects scheduled in the next 3 years. However, the development of that tool has not progressed sufficiently to roll-out City-wide.

## 2. "Initial Planning"

- As noted above, in the 12-18 months prior to major works being scheduled, the Asset Strategy team will start preparatory work on the Client Briefs. As part of this work, we write to all residents affected to outline the proposed works and timetable. Depending on the size of the project, an introductory meeting may also be held for residents. Once the Client Brief has been approved, it is published on our website.
- For leaseholders, this initial planning phase involved us preparing our budget estimates, to enable us to share them with leaseholders much earlier than in the past. In the February of the calendar year we expect to start the major works, we will send details of how the major works will be billed. In April, we will include our estimate costs in the service charge bill, together with the payment options. This gives leaseholders the chance to start monthly instalments earlier (if they wish to do so) or defer payment until the Section 20 Notice, or when the works start on site, or after the works have completed at final account. The estimate is based on the anticipated spend in each financial year, taking the overall scheme budget and dividing it over the expected months of the project. The estimate will be adjusted each October.

# Resident (including Leaseholder) Engagement for Major Works (cont.)

## 3. Detailed Design & Approvals

- Once the Client Brief is agreed, it is formally issued to the major works contractor for that area. The contractor is then responsible for developing a detailed plan to deliver the works, summarised in a “Project Execution Plan” (PEP). Following scrutiny of the PEP, CityWest Homes will issue a pre- commencement order (PCO) giving the contractor permission to move forward with the final design details of the project. Any resident ballots required will be carried out at this stage, as well as any planning approvals sought. Following this, the contractor will prepare a “Service Provider Proposal” (SPP), which we will publish on our website;
- Leaseholders will then be sent a Section 20 Notice of Estimate. The notice sets out the description and reasons for each aspect of the works. It details the project costs, and estimated individual leaseholder liabilities. Leaseholders have 37 days to make written observations, to which we will give due regard. Depending on the size of leaseholder liabilities, we will also offer 1-2-1 surgeries, to discuss the payment options available;
- Once the detailed design is agreed by CityWest Homes, the contractor will receive a commencement order which allows them to begin mobilisation. However, before work starts on-site, the contractor will write to residents to introduce their on-site team; their contact details; and invite residents to a “meet the contractor” event. This event is an opportunity to meet the team and ask any questions about the works being carried out.

## 4. “On-site” Phase

- Once on-site, the contractor is responsible for all aspects of work, from delivery, quality and communication with residents. Any issues or queries about the work, should ideally be referred to the contractor in the first instance.
- All projects will have a dedicated “Resident Liaison Officer” (RLO), who is responsible for keeping residents up-dated and informed throughout.
- As the works near completion, the contractor will invite residents to attend an end-of-works inspection with the site team to ensure all issues have been addressed.

# Resident (including Leaseholder) Engagement for Major Works (cont.)

## 3. “Completion” Phase

- Once the works are complete and approved by CityWest Homes, we will write to residents confirming the project is moving into the 12 month “defects” period. The defects period means that any issues that occur with the works during the next 12 months can be referred back to the contractor to address at no additional cost.
  - The nature of the defect reported will affect how quickly this is attended to. For example, if there is a roof leak to a new roof, we will call the contractor back as soon as possible to rectify. If the issue relates to something like failing paint work however, we will log this and pick this up at the end of the defect period.
  - Large items such as roof replacements and window replacements will come with specific manufacturer guarantees. Any issues with these items will be covered by those guarantees for a longer timeframe.
- Once works are ‘on-site’, the contractor’s RLO should be the first point of contact for residents. However, throughout the Major Works process, any issues can also be reported via our Customer Services team.
  - Finally, it is worth noting that, following the Council’s adoption of the new 10-year Term Partnering Contracts, the Council no longer issue “Notice of Intentions” for individual projects, and instead simply issue a single “Notice of Estimate” at the Detailed Design phase. This change means that a phase of leaseholder engagement has stopped, and leaseholders no longer have an opportunity to nominate a desired contractor to tender for work.

# Choosing Major Works Contractors (inc. use of Specialist Contractors)

- For the reasons set out above, the Council chose to adopt 10-year Term Partnering Contracts for all Major Works, as it had done in the previous 10 year Repairs contract with Wates. However, lessons were learnt from the previous contract, which resulted in a total of seven Term Contracts being tendered.
- The Council was obliged to follow European procurement rules (OJEU) in the selection of its contractors, and leaseholders were consulted at key stages during that 2 year process. Notice of Intention letters were issued to leaseholders at the appropriate points, which gave them the opportunity to alert their preferred contractors to the opportunity to tender. Residents were on the evaluation panels for resident engagement elements of both the PQQs and the tender submissions. At the Notice of Proposal stage, the recommended bidders' submissions were made available for leaseholders to review and make their observations on. The successful parties were:
  - Communal electrical repairs – Oakray
  - Lift repairs – Precision Lifts
  - Domestic heating repairs – Morgan Sindall
  - Mechanical services – GEM
  - General repairs and voids contract (inc. in-flat electrical repairs) – Morgan Sindall
  - Major Works (North) – Axis Europe
  - Major Works (South) – United Living
- In terms of which contractor is used for what project, this is part-defined by the description used in the OJEU notice to which the contractors were evaluated against i.e. we can only use a contractor if the scope of works falls within the description originally set. Some choices are straight-forward e.g. the use of Precision Lifts for works to lifts.

# Choosing Major Works Contractors (inc. use of Specialist Contractors)

- For Major Works, the decision was taken to appoint two separate contractors, one focussed on the ‘south’ of the Borough and the other, the ‘north’. As noted above, this should not only encourage best practice, quality and value for money throughout all projects, but crucially it should also ensure each provider quickly becomes familiar with their area, to guarantee maximum efficiency and ultimately better customer service.
- It should also be noted that for some smaller projects, Morgan Sindall might also be used, and we are working with them to ensure that the same engagement processes outlined above are followed in these instances.
- CWH were regularly challenged during the previous procurement processes, with leaseholders’ often referencing quotations from local SME’s or (in some instances) national providers. However, these comparisons often did not adequately compare against the service standards and obligations that the Council (and CWH) must fulfil or comply with in law. For example:
  - Listed building consent, conservation and planning often dictate solutions for how works are undertaken e.g. lime render, window installations and roofing, which some quotes provided did not acknowledge;
  - It is an Employer’s duty under the Construction (Design and Management) Regulations 2015 to ensure any nominated service provider has the skills, knowledge, experience and organisational capability (SKEC) to carry out a Task. Often this was not provided or available from contractors proposed by leaseholders;
  - Public Contract Regulations and OJEU dictate the procedure for how any contracting authority advertises and tender projects. All tenderers must follow / abide by the same published process, and many smaller firms were not willing to do so – and many larger firms chose not to tender for these projects (as there was more work elsewhere); *(cont. over-leaf)*

# Choosing Major Works Contractors (inc. use of Specialist Contractors)

- The prime cost of a replacement product is just one factor that influences solutions for a particular component. Other influencing factors include life expectancy, meaningful warranties and guarantees, servicing and repair costs, availability of spare parts for routine maintenance, and capacity of the supply chain. This has to be assessed by CWH for the greater good of the HRA (and all leaseholders);
- Building Control requirements, in particular those relating to fire, were often insufficiently considered e.g. recent testing of fire doors has exposed certain manufacturer products as unsafe, significantly narrowing the market to just a few suppliers, from which all contracting authorities are attempting to source the same product;
- Resident engagement and coordination to allow the works to be completed efficiently, with all residents being adequately informed of works being undertaken on site was often not considered by alternative contractor proposals;
- Multiple contractors undertaking works would also mean that design coordination between different components (including fire mitigation) would be inadequately managed or controlled; and, conversely
- It can be a misconception that awarding larger contracts for component replacements will automatically be cheaper due to ‘economies of scale’. Rather, tendering larger opportunities often narrows the market.
- Thus, in all previous tenders, whilst there had been various nominations for different products or companies to undertake works, none satisfied the required competency tests that the Council had to abide by.
- In terms of the use of ‘specialist contractors’ in the new Term Partnering arrangements, the OJEU notices have been written to allow for all obvious requirements. As such, whilst the Council could still chose to pursue alternative contractors, it would have to follow a more costly and lengthy procurement process. Nevertheless, as part of the Term Partnering process, where the use of sub-contractors are proposed by the ‘Main’ Contractors, residents should have the opportunity to comment on those proposed.



# Summary

- In summary:
  - There are three components to the 'on costs' recovered from both the HRA and leaseholders: contractors fees; CWH professional fees and then 'revenue-based' on-costs. These have steadily been reducing (on average) over the last few years, and the intention from the new Term Partnering Contracts is that they will come down further as the Contracts 'bed-down';
  - The development of the long term repairs programme is multi-faceted, from strategic 30-year reviews of estates, to regular stock condition surveys, and on to detailed reviews of needs 'on-the-ground'. The process is regularly reviewed, and feeds into the Council's annual HRA Business Plan cycle;
  - Resident engagement continues to evolve, with lessons continually being learnt for improving how we liase with stakeholders. The process has recently been comprehensively reviewed as part of the new Term Partnering arrangements, and we are starting to see the benefits of that emerge;
  - Leaseholders are generally given the opportunity to be see what's proposed from at least 3 years out from the likely commencement of projects, and they are specifically consulted on proposed works at least 12-18 months before work commences. They are also now given the opportunity to phase payments, with an advanced billing scenario having recently been introduced;
  - In terms of the use of major works contractors, this has been through extensive public scrutiny via the OJEU process, and residents have had the opportunity to engage in the process as well. The result is a list of seven contractors covering a variety of both specialist and 'main contractor' roles.
- CWH recognises that aspirations behind the new Term Contracts have yet to materialise for residents and the Council, and are often also borne out of frustrations and poor performance from the 'old regime'. To that end, CWH is absolutely striving to ensure that the positive intentions are quickly realised, for all concerned.



CITYWEST HOMES

# **Appendix 1:**

# **Resident Engagement Summary**



CITYWEST HOMES

# **Appendix 2:**

# **Resident Engagement Guide**