

	Housing Scrutiny Committee 12 July 2018
	Report from the Strategic Director of Community and Wellbeing
Capital Programme Overruns	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One: <ul style="list-style-type: none"> • Capital Programme Overruns Action Plan
Background Papers:	None
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1.0 Introduction

1.1 The purpose of this paper is to inform the committee's understanding of why overruns occurred in the Capital Programme, the impact of these and the ongoing work to reduce them.

1.2 The report is set out as follows:-

- A brief overview of the Capital Programme - including its purpose, key objectives, desired outcomes, performance indicators.
- Outlines large overruns in the programme and where leaseholder charges have been capped – the reasons why, cost to the council, impact on residents.
- Outlines the overrun impacts on future planned capital works.
- Outline plans in place to mitigate this risk.
- Provides details of communications with tenants/leaseholders on work progress and costs.
- Outlines steps undertaken to sustain the proposed approach

1.4 We believe actions already introduced since Housing Management service was brought back into the Council, have started to slowly bear fruit, as was evidenced in the report presented to the Housing Transformation Board on 14 June 2018. We also accept there is some distance to go before we can say we have turned the corner. Having said that, the trajectory suggests we are doing the right things.

2.0 Recommendations

The Panel members are asked to note the following:-

2.1 The reason for overruns in the capital programme leading to capping for leaseholder bills.

2.2 Note the improvements made since Brent Housing Partnership was taken In-house to mitigate this risk.

2.3 Note that, as there is almost an 18 month gap between works completed on site and billing to leaseholders, the capping of bills for works carried out in the past may still lead to further capping of leaseholder bills for at least a further two years, due to the reasons outlined in the report.

2.4 Due to the reasons outlined in 2.3, there may not be a noticeable improvement noted due to the improvements implemented for at least 18 months.

3.0 Report

3.1 Overview of the capital programme

3.1.1 The key objectives of the capital programme are to:-

- carry out works to maintain the Council's housing stock,
- comply with legal regulations as well as landlord's responsibilities,
- maintain the value of the asset
- achieve value for money;
- achieve maximum life expectancy;
- meet end user expectations;
- reduce maintenance costs;
- to ensure residents health and safety as well as well-being is protected.
- increase consistency;
- achieve standardisation of product;
- be innovative;
- contribute to bettering the environment around our buildings

- 3.2 The desired outcomes are that the Council's housing assets are well maintained and are suitable for residents' needs. For Leaseholders, this will also mean that their asset maintains or increases in value.
- 3.3 We are currently undertaking a comprehensive stock condition survey which will allow us to develop an Asset Management Strategy. This strategy will enable financial modelling of the expenditure required to maintain our stock for the next 30 years. It will help identify properties where it would not be prudent to spend money on maintaining them, and therefore carry out an option appraisal for their future use, i.e. dispose of the property, maintain or redevelop the site, for example.
- 3.4 We will continue to capture additional information on the condition of our stock and will use the information to establish planned maintenance programmes to ensure that the stock is well maintained and in lettable condition. The business plan will include financial provision to implement that programme.
- 3.5 Our aim is to develop a 3 year rolling programme, which will allow Cabinet to approve capital funding in advance allowing the Planned team to draw up rolling 5 year programmes, which can be published for residents to be consulted on and give advance notice of impending bills for leaseholders.

4.0 Overrun in programme

- 4.1 Under the Landlord and Tenant Act 1987, leaseholders have to be served with a Section 20 notice setting out the works, the costs and invited to make observations. There is a statutory 30 day period when no works can commence until the notice has expired and any observations responded to.
- 4.2 There have been instances where the work has exceeded the original specification of works, which was served under the Section 20 notice. A further Section 20 notice should have been served if the works exceeded 25% of the original contract value. In instances where we failed to issue this notice, we have not been able to bill leaseholders for the full amount of the works, or have had to cap the bills.
- 4.3 In the last year, we have carried out works and final bills have been prepared for 11 blocks at a cost of £2,360,752. We were however only able to bill leaseholders in the sum of £1,840,964, leaving a shortfall of £ 622,824.
- 4.4 Unfortunately, records kept by BHP have not been sufficient for us to establish the exact reasons why this has occurred. This has made it difficult to defend the Council's position or provide adequate explanations when Leaseholders ask.
- 4.5 However, looking through historic information, gleaning from complaints and leaseholder correspondence and speaking to the Leaseholder Team and Wates staff, the shortfall can be attributed to the following reasons:-

- Lack of detailed survey notes and pictures leading to leaseholder challenges almost two years after works completed, which are difficult for staff to respond to.
- Extra works discovered once scaffolding was erected. Failure of the Project Manager (in particular) or Wates Living Space contractor to inform the Leaseholder team to issue a further supplementary Section 20 notice if the sum exceeded 25% of the original sum.
- Lack of clear procedures on how the contractor should be instructed on extra works, how the effect of the variation should be calculated and communicated to the Leaseholder Team to decide whether a further Section 20 notice should be served.
- As the Section 20 notice has to be served for a period of 30 days and any observations received answered, it can take up to 6 weeks before works can commence. In some cases due to prolonged hire of the scaffold and the works stopped on site, staff took the decision not to serve a notice and carry out the works. This meant that leaseholders cannot be charged for works not covered under the original Section 20 notice.
- Works carried out, for example, on large flat roofs where the long term warranty was voided due to works carried out by roofing contractors not approved by the manufacturer. Repeat failures to inform the manufacturer, or maintain the roof as laid out under the warranty conditions
- Failure of key components where the original contractor has gone into liquidation or refused to return to rectify the works – this was a problem where small contractors were used in the past, especially for reroofing projects before the Wates Living Space partnering contract commenced.

Lessons have been learnt from all of the above, and these lessons have informed changes which we believe will ensure these issues do not reoccur in future.

5.0 Overrun impacts on future planned capital works

- 5.1 The impact of the overruns on future capital works is that the Council has to find the money to fund the works, which would otherwise have been funded from the revenue from the leaseholder contribution, and is a loss to the Housing Revenue Account.
- 5.2 It should be noted that leaseholders have up to ten years to settle their bills, and that there is a time lag between the works being carried out and the bills been sent out of at least 18 months. This may have an impact on future capital budget but we will continue to monitor the situation and act appropriately to mitigate any impact.

6.0 Plans in place to mitigate this risk

- 6.1 A number of changes to procedures have been put in place to mitigate the risk of overruns in future years. As stated earlier, the changes will take up to eighteen months to feed through. Therefore changes highlighted in these section will only impact on works designed and Section 20 Notices sent out from January 2018.
- 6.2 Officers became aware of these issues in November 2017, following BHP being brought back into the Council. We immediately stopped all Section 20 notices and set out to review all of them. A pre-consultation phase was introduced, where residents have an opportunity to feed into the specification of works. This is followed by a further meeting with leaseholders only, when the Section 20 notice are issued, giving leaseholders the opportunity to look at the specification and survey report in detail, and ask questions on their contribution as well as payment options. This action ensured all new Section 20 notices issued will not have any of the previous issues.
- 6.3 We now routinely take photographic evidence of defects and the works carried out to correct them. These, along with survey notes, are held in one place digitally and accessible via iCloud. Our intention is to make this available for Leaseholders to access using their own device and in their own time. This will help in robustly answering leaseholder challenges on works undertaken, even if the staff who ran the contract no longer work for the Council. It will also introduce an openness which leaseholders in particular feel BHP did not demonstrate in the past.
- 6.4 There is now better joined up working between the Planned team, the Leasehold team and Wates. These ensures all relevant parties agree on what works are to be carried out, agree on the cost of those works and the timescale to which they will be carried out. Records of agreed actions are kept and monitored to ensure they are delivered to timescales. It also ensures communication sent out to Leaseholders are clear and consistent.
- 6.5 By starting engagement early and improving the process, Leaseholders are given more time to raise observations on proposed works, as it is their right. As a result, we will be able to address issues raised before works start and they do not therefore become an issue when invoices are raised.
- 6.6 Drones are now used to assist the survey process for works at height or difficult to access areas. This therefore helps draw up accurate specifications and reduces the possibility for variations and therefore serving further Section 20 notices once the scaffold is erected. The detailed surveys now include pictures of each element to be worked on. Team meetings are then held to validate the works. Where there is disagreement, a joint site visit is held. This procedure means that validation is taking weeks rather than months and there is a clear audit trail.
- 6.7 This approach will address a major source of complaint from leaseholders and tenants regarding roofing works. The previous process would not reveal the

true condition of the roof until after the site scaffold was erected. At this point a further Section 20 notice had to be issued. This would inevitably delay the work with the scaffold left standing for longer. The approach will also make it easier to resolve disputes when future bills are issued from 2019 onwards for completed major works.

- 6.8 Where the specification cannot be firmed up in the way described above, for example when a roof cannot be fully assessed until scaffolding is up, or where further opening works are required, the Section 20 notice will have both options i.e. showing repair as well as renewal, with a note informing the leaseholders that the appropriate action will be taken. Brent Project Managers issue the appropriate instruction once the area is accessed.
- 6.9 Procedures are now in place to ensure that all variations are issued in writing and the cost implication impact carried out. Where the cost will exceed 25% of the original contract sum, the leasehold team are instructed to issue a further Section 20 Notice. Due to earlier and better engagement with Leaseholders, the implication is that this will not come as a surprise to them.
- 6.10 BHP did not effectively monitor and manage long term warranties, for example flat roof warranties which can be for a period of up to 20 years. We have now asked manufacturers to provide a list of all roof renewals they have carried out over the last 20 years for Brent. This list will enable us to ensure that the yearly maintenance schedule is carried out routinely, and approved subcontractors are used, thereby reducing the risk of invalidating the warranties. The manufacturers have also indicated that they will offer a longer warranty period, so 25 years instead of 20 years.
- 6.11 The contractor will not be paid for scaffolding erected before a TCO (Task Commencement Order) is issued. This was the problem in the last financial year where Wates were given the programme list and proceeded to erect scaffolding before the works were ready to be issued due to Section 20 procedure.
- 6.12 We have recently introduced inviting all residents to handovers when works are completed to their block. We believe this will increase understanding of works to be carried and why they are needed. It will also help reduce complaints and in particular challenges to major works bills.
- 6.13 Complaints are addressed in a more timely fashion, all concerns are addressed and any learning from the complaint is actioned immediately to reduce the likelihood of the situation arising again. In the past, not dealing with the complaints or queries in a timely or robust manner, has led to some of the reduction of leaseholder bills, contributing to the overrun outlined earlier in the report.
- 6.14 As a quick reference, the issues and actions taken as set out briefly in Appendix 1.

7.0 Communication and consultation with Leaseholders and tenants

- 7.1 As described above, this was an area of weakness with BHP but we believe actions we have now taken to strengthen engagement, consultation, relationship management and communication with Leaseholders have made this better.
- 7.2 To address complaints from non-resident Leaseholders, communications like newsletters, progress of works updates, letters giving advice on parking bay suspensions, especially from contractors on site when works are being carried out, are now sent both to the property as well as the leaseholders' forwarding address.
- 7.3 We are introducing handover meetings to all residents in the block when works are completed to their block. This should help reduce the complaints and challenges to major works bills. However, to be successful, this is will be resource intensive as the handovers are likely to be held after normal working hours during the summer months and on Saturdays in the autumn and winter months to ensure residents who work are not excluded from taking part. We are also exploring using electronic media to accommodate residents who cannot attend, by inviting them to leave their comments online before the inspection so that they may be addressed on the day of inspection.

8.0 Conclusion

- 8.1 There were a number of issues with managing capital programmes under BHP, as set out in section 4 above.
- 8.2 We have taken and will continue to take actions to address these issues. We have set out these actions and the impact they are having and will have, in section 6 of this report.
- 8.3 We are confident that any works notice issued from January 2018, will not have these problems.
- 8.4 However, because of an 18 month delay in issuing invoices for works, we will still see some historic issues coming through as complaints. Having said that, because we are aware of the issues, we are setting up surgeries and encouraging Leaseholders to contact us, should they have any queries, before they become major issues.

Report sign off:

PHIL PORTER

Strategic Director of Community and Wellbeing