

FROM: Audit and Risk Manager **SUBJECT:** Housing Investment /
Maintenance Programmes

TO: Deputy Chief Executive (BH) **DATE:** 10 January 2019
Interim Asset Manager

C.C. Chief Executive
Head of Finance
Portfolio Holders:
Councillor Phillips
Councillor Mobbs

1 Introduction

- 1.1 In accordance with the Audit Plan for 2018/19, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 The subject programmes are those designed to proactively maintain and improve the condition and safety of the Council's housing stock and entail combined annual revenue and capital expenditure in the region of £7 million (based on the latest official current year budget figures available). This total does not take into account responsive repairs, void repairs and asbestos management.
- 2.2 Since the last audit, reported in September 2015, there have been significant upheavals affecting the structures, processes and priorities in place for delivering the subject programmes. This includes:
- turnover of key staff;
 - service area reorganisation in which the applicable professional and technical resources were separated from the former Housing and Property Services into an asset management team within the Chief Executive's Office;
 - officer restructure within the asset management team (referred to hereafter as the Assets Team);
 - implications of the Grenfell Tower fire;
 - the stock condition survey of 2016 being undertaken and utilised adopting a new approach harnessing mobile data technologies.

- 2.3 At the time of the audit, the new Assets Team structure had only recently been approved with a number of the posts still vacant and the Asset Manager post filled on an interim basis only.
- 2.4 It was also noted that a re-formulated Housing Investment Programme (HIP), with the injection of an additional £3 million of funding, had only recently been approved as an effective culmination of the 2016 stock condition survey.
- 2.5 The approach to the audit and areas focused on were significantly influenced by the above factors with emphasis on 'desktop' working as far as possible.

3 Scope and Objectives of the Audit

- 3.1 The audit examination was undertaken for the purpose of reporting a level of assurance on the adequacy of structures and processes for pro-actively maintaining and improving housing stock to meet legal/regulatory obligations and corporate priority objectives.
- 3.2 The audit was framed as an evidential risk-based examination of the controls in place in relation to the improvement/maintenance programmes for the Council's housing stock in the context of the following areas:
- strategies and policies
 - planning and prioritisation of works
 - procurement
 - performance and financial management.
- 3.3 With regard to the planning and prioritisation of works, the emphasis of the review was primarily on the mechanisms and information flows in relation to the conducting of the 2016 stock condition survey and its translation into the re-formulated (HIP). Data extraction and analysis was used most extensively here.
- 3.4 For the procurement and performance /financial management aspects, four major contracts were selected for review applying a lighter touch variant of the standard contract management audit programme. In selecting the contracts, some emphasis was given on those representing the areas with the highest expenditure levels while also representing a cross-section of diverse profiles and characteristics in the way in which they operate.
- 3.5 The contracts selected were:
- Passive Fire Safety Works to High-Rise Blocks
 - Kitchen & Bathroom Replacements and Repairs
 - Gas Servicing and Heating Replacement
 - Maintenance and Repair of Electrical Appliances and Installations
- 3.6 While the Interim Asset Manager was consulted at the outset of the audit, the officers consulted in the course of the audit were:
- Russell Marsden, Senior Building Surveyor/Project Manager
Simon Hodges, Compliance Team Manager
Matt Hammond, Building Surveyor Team Leader
Tanya Dawson, Maintenance Administrator

4 Findings

4.1 Recommendations from previous report

- 4.1.1 The issues leading to the recommendations in the previous audit report were mainly matters of valuation detail in a specific contract that were addressed at the time. Incidences reported in consultations of lapses in budget meetings between the Asset Manager and Finance also led to a recommendation.
- 4.1.2 Due to the transitional nature of the Assets Team's management position, roles, and responsibilities, the review of budget consultations between the Assets Team and Finance has been conducted within the context of the selected contracts only.

4.2 Strategies and Policies

- 4.2.1 The strategic feed from Fit for the Future (Thematic Priority – Housing) comes across as primarily through the Housing Revenue Account Business Plan 2012-2062. Certain elements of relevance to the subject programmes also emerge from the Housing and Homelessness Strategy 2017-2020, although its main emphasis comes across as being on private sector housing. Although this has been picked up on other audit assignments, it is noted that the development of a new Asset Strategy remains to be completed.
- 4.2.2 Generally, the policy side comes across as bound up in the Council's statutory obligations towards its housing tenants. As part of its adoption of the re-formulated HIP already mentioned, the Council has also re-affirmed its commitment to the Decent Homes Standard and to an energy efficiency goal for all Council stock put forward by the Portfolio Holder.
- 4.2.3 The financial framework around the subject programmes is manifest in the Housing Revenue Account Business Plan which informs the budget setting processes.

4.3 Prioritisation and Planning

- 4.3.1 It had been noted in the previous audit that a stock condition survey was being planned for the following year (2016). While this was performed by the same contractor as the previous survey in 2010, the approach adopted was clearly more innovative this time using mobile data technologies.
- 4.3.2 The survey was undertaken during the summer period of 2016 and the data collected on pre-configured mobile devices populated with housing asset attribute data and 4-band condition rating parameters. The data collected was uploaded to a purpose-built Total Mobile database as the survey progressed and ultimately uploaded into the primary asset database on the MIS ActiveH system in December 2016. This stage entailed the building of an upload interface by ICT Services (a process known as 'smoothing and modelling').
- 4.3.3 With this, the condition survey outcomes are consequently embedded in the MIS asset attribute data to support prioritisation and costing processes for the subject programmes.

- 4.3.4 The Total Mobile database continues to be used for ad-hoc surveys and was accessible to utilise for progression mapping and data retrieval as part of audit testing. Indicative data matches between the two data sources show coverage of the survey and embedding of outcomes to have been comprehensive, although complete surveys could only be performed on around ninety per cent of the stock. Access could not be gained for internal survey at the remainder of the properties (these were still given external surveys as far as side/rear access allowed).
- 4.3.5 It was ascertained from discussions that those 'unaccessed' properties are being addressed piecemeal on a responsive basis whereby the aim is to undertake full surveys on them as and when they become void or subject to a repair matter reported by the tenant.
- 4.3.6 Sample checks on condition ratings between the condition survey web-resource and the MIS asset database did not reveal any anomalies.
- 4.3.7 The information flows supporting the subject programmes that are directly influenced by the stock condition survey typically originate from reports generated in the MIS system to extract attribute condition ratings and corresponding replacement costings (that are also embedded). The output is exported to Excel spreadsheets in which the attributes are priority modelled on condition rating and age criteria to determine funding requirements. A summary level walkthrough review of this progression was undertaken for the overall HIP submission in August 2018 and on a more focused level on kitchen and bathroom replacement as a scheme level example.
- 4.3.8 An important message coming out of consultations during the audit is the recognition that the condition ratings can in some cases not stand up to challenge (e.g. flawed to start with, overtaken by events, etc.). As properties come on stream for imminent attribute replacement under a subject programme, the condition of the attributes in question are re-inspected individually by the contractor prior to the work being carried out.
- 4.3.9 Two noticeable areas under HIP that do not flow from the stock condition survey are the renewal of central heating and electrical installations. These have remained essentially responsive in nature (e.g. tenant request, void assessment, etc.). While it was advised that a programme had been initiated to identify and replace 'back' boilers in properties that still had them, examination of the supporting information showed a high incidence of tenant resistance very few work orders initiated to date.
- 4.3.10 It was also advised that the Council is about to embark on a programme to replace all biomass-fuelled heating installations in the rural areas with electrical heating.
- 4.3.11 The mechanisms for updating the MIS asset data on completion of work were found to vary across the subject programmes, ranging from reliance on individual input to automated updates triggered by contractor input. There is a clear recognition that existing features of the MIS system include the capability to automate work completion updating on a wider basis, but implementing this would require further 'smoothing and modelling' to fit the characteristics of each of the subject programmes.

4.3.12 It has been advised, with reference to recent correspondence, that discussions are ongoing with ICT Services to take this forward.

4.4 **Procurement**

4.4.1 This area was looked at in 'desktop' overview in the context of the four selected review contracts only.

Passive Fire Safety Works to High-Rise Blocks

4.4.2 This contract is a relatively recent award effective from July 2018 and has come about as a clear response to the Grenfell Tower fire, although the risks in question here relate to internal infrastructure and communal area safety within the blocks and not to external cladding.

4.4.3 The contract is a direct award through the Fusion 21 framework, considered the most appropriate approach by the Assets Team and supported by the joint corporate procurement service. In a sense, this contract is a follow-on from a now completed scheme of fire safety works to Radcliffe Gardens.

4.4.4 The contract runs for an initial term of twenty-one months extendable by agreement on annually by review up to 2025 .

Kitchen & Bathroom Replacements and Repairs

4.4.5 This contract was originally awarded on open tender and commenced in 2013 for five-year term, but with an extension agreed for a further five years in the light of transitional elements including organisational restructure and the HIP re-formulation.

Gas Servicing and Heating Replacement

4.4.6 This is also an original award from open tender for five years commencing in 2013 and extended for a further five years on the same considerations as the Kitchen and Bathroom contract.

Maintenance and Repair of Electrical Appliances and Installations

4.4.7 This contract was originally awarded on open tender and commenced in 2016 for a two-year term. Again this was extended for a further five years placing it on the same residual time span as the above two contracts.

4.4.8 It is noted that the predecessor contract, with a different company, had been the subject of a special audit investigation.

4.4.9 It was confirmed that appropriate formal contracts for all the above are in place.

4.5 **Performance and Financial Management**

4.5.1 While there were some diverse characteristics between the four contracts, commonality in the following key areas of effective contract management was evident from the light-touch assessment:

- signed agreements based on sector-standard forms of contract
- clear strategic drivers that can be related to Fit for the Future priorities
- designated responsible officer
- clear expectations and service standards

- key performance indicators (KPIs) built in (except Fire Safety Contract)
 - ongoing monitoring mechanisms including regular meetings with contractors
 - payments on valuations appropriately authorised
 - robust supporting information for payment valuations
 - mechanisms for gauging and reporting on customer satisfaction
 - ongoing budget monitoring
 - requisite contractor insurance in place
- 4.5.2 The Fire Safety Contract was not seen as lending itself to KPIs in their usual sense given the nature of the work and requirements under British Standards and third-party accreditation.
- 4.5.3 As matters of observation, the other most noticeable examples of diversity between the four contracts not already referred to are:
- Relevance of the stock condition survey – only the Kitchen and Bathroom contract services a subject programme that is directly driven by the survey.
 - Profile of the contract – the Passive Fire Safety contract was selected due to its particularly high profile evidenced in the Risk Registers and Service Area Plans. This contract is also subject to an added element of oversight in the form of the Corporate Fire Safety Group. Also, gas and electrical safety are the only subject programmes to have customer measures specific to them in the Service Area Plans.
 - Updating of the MIS system on completion of work – for the inspections under the Gas/Heating and Electrical Maintenance contract this has a certain degree of automation triggered by the uploading of the requisite certificates. Completions of kitchen and bathroom refitting works, on the other hand, have to be manually input against individual work orders.
 - Payment processing – payments for valuations on the Passive Fire Safety contract are processed against a purchase order in the Total FMS. On the other contracts, the valuations are exported to Total from the MIS system via an established interface as detailed tables of individual work order lines.
- 4.5.4 As a final observation, the budget position at the time of the audit was in a state of fluidity with the increased funding from the re-formulated HIP still to be reflected in official budget figures in the Total FMS as well as budget figures for the passive fire safety works. This inhibited any meaningful 'live' review of outturn against budgets in relation to the selected contracts.
- 4.5.5 No other issues of significance emerged from the assessment.

5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the structures and processes in place to deliver the subject programmes economically, efficiently and effectively are appropriate and are working effectively.
- 5.2 The assurance bands are shown overleaf:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with the controls that do exist.

- 5.3 Within the limits of the examination, the findings are seen as demonstrating that the primary systems of control for delivering the subject programmes have been successfully maintained through the structural transition.
- 5.4 There are no recommendations arising from this review.

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