

Swindon Borough Council

Civic Offices, Euclid Street, Swindon, SN1 2JH

Swindon Internal Audit Services

Memorandum to: Gerry O'Connor Head of Property Maintenance

Copies to: Bernie Brannan Board Director: Service Delivery
Sue Mendham Head of Infrastructure Assets
Michael Ash Head of Housing Services
Paul Smith Head of Finance, Housing, Treasury and Growth
Brian Skeffington Capital and External Contracts Manager

From: Nick Hobbs Head of Internal Audit

Date: 30th January 2015

Your Reference:

Our Reference: SD/HCP/LS

Telephone: 01793 463940

Fax: 01793 464603

Internal Audit Housing Capital Programme Follow-up review – Final report

Introduction

An Internal Audit review of the Housing Capital Programme was completed in October 2013. The audit opinion was that '*significant improvements*' were required resulting in an overall 'Of Concern' risk assessment to the Council.

Audit Committee selected the report to be presented to their April 2014 meeting. The Head of Property Maintenance attended the meeting and updated Members with progress in implementing agreed recommendations. Members requested that a further update on progress be brought back to Audit Committee towards the end of the financial year.

Since the issue of the original Internal Audit report a decision to reintegrate the majority of services provided by Swindon Commercial Services (SCS) back in to the Council was made. This included services provided by the Housing Maintenance and Repairs and Voids Team now managed by the Head of Property Maintenance.

This reintegration has had a significant impact on the nature of some of the recommendations made in the original audit report and on the timescales for implementation agreed at that time.

This follow-up review has been carried out by Lorraine Sarson.

Action since last audit

The auditor has tested relevant documentation and processes to establish progress made in implementing agreed recommendations.

It is pleasing to report that considerable efforts have been made to implement the recommendations made in the initial report. Although the implementation of some audit recommendations are still in progress, given the reintegration of SCS the auditor is of the view that significant progress and improvement has been made.

A summary of findings is set out in the table below:

Priority of recommendations	Total	Implemented	In Progress	Not Implemented
High	11	6	5	0
Medium	0	n/a	n/a	n/a
Low	0	n/a	n/a	n/a
Total	11	6	5	0

Housing Capital Programme – current status

Following the reintegration of Swindon Commercial Services Limited (SCS) significant progress has been made in actioning the recommendations from the last Housing Capital Programme review. This has, and continues to be, a period of significant change to which the service has responded positively to the challenges this brings. Of the eleven high priority recommendations made, six are fully implemented and the remaining five are in progress.

Improvements have been made through the comprehensive draft Swindon Housing Strategy refresh which has been subject to wide consultation. A programme of capital investment initiatives linked to corporate objectives has been produced and the proposed budget set in the Medium Term Finance Plan is due to be presented to Cabinet in March 2015.

The procurement of Housing Capital Programme works during 2014/15 will amount to approximately £17.5m of works, consisting of some 38 contracts for repairs and maintenance. Short-term contracts have been secured with existing suppliers using existing rates. New long term contracts have been put to market using the on-line 'Supplying the South West' portal. Standard contract documentation has been developed and shared with partners to ensure good practice and a consistent standard is adhered to.

The service has sought to implement good practice, mitigate risks and utilise in-house expertise for delivery of programmes of work including achievement of the Decent Homes Standard.

A large IT project is also being undertaken at this time to accommodate service delivery needs with the switching off of the former SCS TASK job system at 31st March 2015. New modules to the Open Housing IT System have been (and others are still being) installed during 2014/15 to enable the service to manage the 10,400 property asset base. This will include ordering, management, costing and payment of jobs and updating the asset record with details of works completed on each property, which will assist in performance monitoring and management of agreed initiatives.

Contract management and performance are areas acknowledged by the service as needing further development and work is evolving to address these.

An up to date service risk register is currently not in place to identify, assess and address any risks to delivering the Housing capital programmes of work. However, it is evident that risks have been discussed from actions of monitoring meetings.

The detailed action plan from the last review of the Housing Capital Programme is attached at **Appendix A** including the current status of recommendations.

New recommendations

The following 'medium priority' recommendations are made to enhance existing controls. The designated responsible officer for these is the Head of Housing Property with an agreed implementation date of August 2015.

- Establish clear links, 'the golden thread', from the Housing Strategy to the Medium Term Finance Plan and Housing Capital Programme.
- A robust Contract Management process, staff training and relevant performance monitoring is required to ensure delivery of the Housing Capital Programme to time, cost and quality.

- Produce and maintain an up to date risk register for the service.

Audit Opinion

(a) Opinion on system controls: Satisfactory i.e. the Auditor completing the review concluded that most of the significant controls are now in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.

(b) Overall assessment of risk: The combination of the **high impact** of the system, along with the opinion on the system controls gives an overall risk assessment to the Council that remains as being **moderate**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Minimal	Minimal	Minimal
2	Satisfactory	Moderate	Minimal	Minimal
3	Significant improvements required	Of concern	Moderate	Minimal
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

It is pleasing to report that significant efforts have been made to implement the recommendations made in the initial report. The auditor is of the view that sufficient progress has been made for the audit opinion on system controls to be 'Satisfactory' resulting in a 'Moderate' risk to the Council. This is an improvement on the previous audit opinion which was that 'significant improvements' were required in the system controls resulting in an 'Of concern' audit opinion.

The Head of Property Maintenance has agreed this audit report including the status of recommendations made in last review together with new recommendations made as part of this follow-up audit.

We would like to thank the management and staff from the service for their time and co-operation during the course of the audit, especially given the pressures on the service.

If you have any queries regarding the above please do not hesitate to contact Lorraine Sarson, who carried out the audit, or me.

Many thanks,

INTERNAL AUDIT FOLLOW-UP FORM

Original Internal Audit recommendations are set out below following the October 2013 review. The Head of Property Maintenance has agreed the status of recommendations from the last review together with new recommendations made as part of this review.

1 Risk: Alignment with One Swindon priorities, Corporate Strategy and future Housing Strategy

Recommendations made in the audit report 28th October 2013:

- 1.1 The Council's Corporate Strategy should recognise the role that improvements to social housing make to achieving its priorities, reflecting the priorities in the draft Health and Wellbeing Strategy.
- 1.2 The capital programme for housing repairs should also highlight the contribution that it makes to wider priorities within the Council and its partners, and should use it as a possible means of obtaining additional funding and as a determinant in allocating funding between projects within the programme.
- 1.3 In recognising the interaction resulting from 'self-financing' between rent levels, repayment of debt, and future investment, the updated Housing Strategy should address the wider effects of investment in reducing fuel poverty, reducing crime, local employment, and health and wellbeing. In particular, it should highlight the contribution that these factors make to the priorities in the Health and Wellbeing Strategy, the Corporate Strategy, and One Swindon. As an example of good practice evaluate the principle set out the Nottingham City Homes – Health and Wellbeing outcomes from the Secure Warm Modern improvement programme (see Appendix B).

Priority: High

Responsible officers: Head of Housing Services in conjunction with the Board Director of Service Delivery, Board Director for Resources, and Supporting People and Housing Strategy Manager.

Current finding(s), any further recommendation(s) and revised timescales as at January 2015

1.1 Housing Strategy

The reviewed Housing Strategy (2015 – 2026), was submitted to Cabinet on 10th September 2014. At this meeting Cabinet approved commencement of the Draft Strategy consultation exercise with interested parties, including the Housing Advisory Forum. The strategy is supported by an extensive evidence base and 'Delivering the Vision' which outlines actions over the next five years for each of the strategic aims. Following the consultation process the draft strategy, which is due to be brought to a close on the 26th February 2015, is expected to be put in place during March 2015. This will follow issue of a Cabinet Member Briefing Note.

Audit recommendation status – Implemented

1.2. Medium Term Resources Plan

On 18th March 2015 the Medium Term Resources Plan (MRTP) for the Housing Revenue Account, which underpins the draft Housing Strategy, is to be presented to Cabinet for approval. The draft Housing Strategy sets out the Council's overall aims and objectives for the housing service, as landlord for over 10,400 homes. The balance of investment shown in the headline figures from the MRTP over the next five years totals £89.3m with annual allocations of £16.8m (2015/16), £16.9m (2016/17), £17.5m (2017/18), £18.3m (2018/19) and £19.8m (2019/20).

The 2015/16 Capital Programme has been drafted and provides links to both the Housing Strategy, the Health and Well Being Strategy and ultimately to the corporate objectives, these are set out below:

- Responding to the changing housing market – improving standard in private rented housing
- Affordability – improving the offer
- Managing demand – promoting and maintaining independence
- Supporting further economic growth – increasing the quality and diversity of our housing.

The key investments for the Housing Capital Programme are linked to the Housing Strategy, and include new affordable housing, maintenance of housing stock above the decent homes standard and also a remodelling of sheltered housing. A costed Housing Capital Programme is in place for each of the financial years between 2014/15 and 2017/18 and the value of investment is commensurate with that in the Medium Term Resource Plan.

Audit recommendation status – Implemented

1.3 Self-Financing

As part of 'self-financing, rent levels, repayment of debt and future investment, much work has been conducted to ensure the Housing Capital Programme is affordable which is linked directly to the Housing Revenue Account 30-year Business Plan. Details of this are set out in the Housing Revenue Account report which is due to be presented to Cabinet on 18th March 2015. The contribution which the Housing Capital programme makes towards achievement of the priorities needs to be highlighted in the Health and Wellbeing Strategy, the Corporate Strategy, and One Swindon i.e. reducing fuel poverty, reducing crime, local employment, and health and wellbeing.

Audit recommendation status – In progress

2 Risk: Delivery of the capital programme

Recommendations made in the audit report 28th October 2013:

- 2.1 Housing Services should seek assurance from the Contract Manager at SCS, responsible for the Housing Capital Programme, that there is a robust performance and quality assurance process in place and operating for reporting, monitoring and managing delivery. Any emerging issues/risks that may arise from performance below contract requirements should be discussed and resolved through regular client/contractor meetings. These should be recorded in an issues log/risk register including an action plan which is subject to regular review to ensure actions are implemented satisfactorily.
- 2.2 In evaluating tenders for capital works projects, it should be ensured that all known items and management fees are included in costing so as to minimise the possible levels of subsequent variations and identify any tenders that have been reduced in value by excluding items likely to be required at a later stage.
- 2.3 Evaluate trialling a three month pilot project with the Contact Centre to help mitigate the cost of reactive repairs by bringing forward or reprioritising planned repairs. As part of the pilot provide a detailed copy of the 2013/14 Capital Programme of works to the Contact Centre so that staff can refer more significant reactive jobs to Housing Services for consideration of delivery under a relevant Capital Programme contract.
- 2.4 Housing Services should ensure that the timeliness of repairs are delivered in accordance with targets set out in the tenants' handbook. To support this

pilot, Housing Services should provide guidance and ensure that any queries are resolved on a timely basis by dedicated officers.

2.5 Review the value of the pilot project after three months to see if there is benefit in continuing the arrangement.

2.6 Completed capital programme repair jobs should be mapped to relevant properties on the Open Housing data base and used to effectively monitor achievement of the Decent Homes Standard.

Priority: High

Responsible officers: Head of Housing Property in conjunction with the Capital Repairs and Maintenance Programme Manager

Current finding(s), any further recommendation(s) and revised timescales as at January 2015

Swindon Commercial Services (SCS) operational delivery for Housing Capital repairs was reintegrated back into the Council from 1st November 2013. A report was submitted to the Housing Advisory Forum on 9th October 2013 to provide an update on the proposed integration of building maintenance services. An interim structure was put in place and a consultation document was published in January 2014. Following this process a new structure was actioned during April 2014 with recruitment from May/June 2014 to increase capacity, i.e. including a new procurement team to manage the procurement and contract administration of the Housing capital work programme. The delivery team was also mobilised to administer delivery.

As part of the SCS reintegration a review of existing arrangements was conducted. These identified limited contracts were in place to support delivery of programmes of work. To address this situation a Service Delivery Plan was compiled with two key objectives, these were:

1. To put formal contracts in place where current contractors were able to perform and deliver programmes of work at existing rates; and
2. To produce new specifications and contract documentation.

Contracts were also put to the open market for new programmes of works with the aim of increasing capacity to deliver work.

The Cabinet Member was consulted on proposed management and administration of works and a Cabinet Member Briefing Note was signed-off on 3rd April 2014 supporting the above mentioned approach.

Following the reintegration of SCS, significant improvements in contracting practices have been put in place to deliver the Housing Capital Programme of works, these include:

- standardisation of contract documentation
- open market tendering undertaken using 'Supplying the South West' portal
- tenders now include a quality submission evaluation criteria i.e. 70%/30% split between price and quality
- benchmarking has been put in place and is developing to assess rates/process prior to award of works
- as part of the tender evaluation process, both tenants and officers have been involved in the selection of contractors

A weekly progress meeting is held by Property Maintenance managers to monitor progress against each category of work, which helps to identify any issues and put in place actions to mitigate delays with delivery. These are supported by notes of meetings and action to be taken. Actions are followed up each meeting to ensure these are implemented.

Monthly meetings have been held with members of the corporate procurement team, legal services and internal audit. The purpose of the meetings has been to review progress with letting contracts and to provide support to identify any significant risks and/or issues and agree mitigating actions and evolve best practice. Notes and actions of meetings are recorded and followed up at each meeting for implementation.

After the demise of Swindon Commercial Services as a contractor to the Council, the recommendation relating to management fees is no longer applicable and this represents a saving to the Council following reintegration. However, the control required to ensure that all tender submissions are fully costed to minimise the risk of unforeseen contract variations is now in place. Through the application of Housing contract best practice all works, including those previously contracted directly by Swindon Commercial Services, are subject to a rigorous tender evaluation process. This demonstrates good practice including segregation of duties and independent check.

Since the last Internal Audit review programmed works are now recorded on the Open Housing IT System. This is aimed at avoiding short-term revenue repairs being carried out where part of a property is beyond economic repair and needs to be replaced. Examples of where this practice is now being applied include roof renewal works. Leaking roofs are being included in the planned capital replacement roofing programme where it is identified that the roof is failing. This mitigates the risk of unforeseen revenue repair costs in the short term and by replacing roofs under the capital programme the investment is made at the most economic point. There are further examples of this best practice being applied to works including central heating, kitchen and bathroom replacement represented under the capital programme of works.

Repairs are being delivered in accordance with service standards for emergency, urgent and routine repairs. For 2014/15 there has been an increase of 11% for appointments made and kept. Also, 88% of repairs for the period were completed within the agreed time, slightly up on the previous year. Housing Services acknowledge that work needs to be planned more effectively for routine repairs. Housing Services commissioned a tenant satisfaction survey for the Housing Repairs service in November 2013, called the STAR survey. From the 5,000 tenants selected at random, 79% were fairly or very satisfied with the repairs service.

From a sample of satisfaction forms reviewed it is noted that these are not being received consistently for all contracts, hence it is not possible to effectively monitor overall performance by contract/contractor. **This is an area requiring further monitoring and improvement (medium priority recommendation).**

Mapping of completed repairs to individual properties is due to be implemented early in 2015/16 following implementation of the Open Housing Asset Management IT system module. This will provide the basis for monitoring compliance for the Decent Homes standard.

The overall progress of delivering Decent Homes work is reported to Local Performance Action Review (LPAR) meetings on a quarterly basis. These works are each given a RAG performance status of actual compared to target and any performance variances escalated to the Delivery Leadership Team for action. Performance categories identified as either amber or red rating are reviewed to identify the cause of any delays. Actions are then agreed to address performance.

For the period April 2014 to 31st December 2014 the Decent Homes Works achieved 1,293 completions of works, against the annual target to 31st March 2015 of 2,546. However, it is noted that no works were achieved in the first quarter due to service reintegration. Overall performance to date is 50.7% against target. Within this headline figure performance is stronger for central heating, kitchen and bathroom works than the areas of roofing, electrical upgrades and PVCU windows and doors. To date, no work has been completed for encapsulation works against a target of 60. The Head of Housing Property Service advised that he anticipates a high delivery of Decent Homes works in the last quarter of 2014/15 to bring performance close to the annual target.

During 2014/15 Housing Services will have let Housing Capital Programme of works contracts in excess of £17.5m, consisting of 38 contracts repairs and maintenance works contracts. In addition to this, contracts have also been put in place to service the Housing Revenue Account. These contracts have put the

Council on a good contracting practice and legal footing.

Audit recommendation status: Recommendation 2.2, 2.3, 2.4 and 2.5 – implemented; Recommendations 2.1 and 2.6 are in progress.

3 Risk: Value for money

Recommendations made in the audit report 28th October 2013:

3.1 A procurement strategy should be developed within the Council for property-related services that reflects:

- Forthcoming tendering of the current SCS 'basket of works'
- Re-tendering of the roofing contract, currently with Apollo Group
- Resourcing of projects within future capital programmes that do not hold back works because of lengthy procurement cycles.

With the latter in mind, tendering for a range of trades and professions within a framework agreement should be considered.

3.2 Housing Services and Property Services should benchmark with others, exchange of best practice, and being able to demonstrate value for money. Options are:

- Voluntary adoption of the Value for Money standard within the HCA economic regulation framework (this would still require benchmarking with other housing providers including any local authorities who have also voluntarily adopted the standard).
- Formation of a benchmarking club with other local authorities and housing providers
- Payment for benchmarking through HQN, Housemark, or other consultancies.

Priority: High

Responsible officers: Head of Housing Property in conjunction with the Board Director of Resources, Head of Commercial Services and the Capital Repairs and Maintenance Programme Manager.

Current finding(s), any further recommendation(s) and revised timescales as at January 2015.

Following the reintegration of Swindon Commercial Services (SCS) the focus has been on putting in place short and interim contracts to deliver planned maintenance and improvement work, an approach which has been endorsed by the Cabinet Member. Phasing the contracting of works has been essential to enable Housing Services to establish a viable means to co-ordinate a prioritised and manageable programme. This is a very challenging in terms of the supplier arrangements inherited by Housing Services from SCS and also in terms of service capacity and capability. Housing Services contracting officers have worked to ensure procurements are compliant with the EU Procurement Regulations, Council's Contract Standing Orders and procurement process. At this time, given the procurement priorities for delivering the Housing Capital Programme of works, it is not realistic to have developed and implemented a procurement strategy and depth of benchmarking. However, the service has endeavoured to put in place effective short term measures which have been consulted on with interested parties including the Cabinet Member, Housing Advisory Forum and Tenants.

Examples of contract arrangements entered into by Housing Services since reintegration are:

- Short term extensions to existing SCS contracts, including external decorations to the Railway Village Housing properties applying existing rates and where the supplier, previously a subcontractor to SCS became the principal contractor to the Council.

- Interim contracts issued for up to 18 months to deliver Decent Homes works including kitchens, bathrooms, windows and roofs. These contracts have been procured using the on-line 'Supplying the South West' portal.

In the long term a procurement strategy is to be developed to let long-term contracts for delivery of Decent Homes work and structural repairs to non-traditional housing stock. The new strategy is intended to include the option to increase Social Value and take into account the opportunity to secure any available grant finding to extend or support energy efficiency programmes. The means of delivering future programmes of work by going to the market, using the in house service or a mix will be evaluated as part of the strategy.

Housing Services have contributed to the One Swindon Partnership project to develop a standardised 'Request for Quotation' (RFQ) document to enable suppliers to have a common form of documentation for the submission of prices for projects valued up to £100,000. This is to provide a quicker and simplified standard approach for potential suppliers to submit prices to the Council, and where used, to partners.

Where possible local benchmarking of Registered Social Landlords, using comparable contract specifications, has been conducted to compare unit price costs for elements of work. Social Registered Landlords in the South West of England have been found to use a range of different specifications and as such there is limited opportunity to benchmark across a regular 'family' group. Benchmarking conducted to date include the following:

- Gas Central Heating systems – a condensing boiler and pressurised hot water system is specified to provide heating and hot water to ensure a minimum 15 years lifecycle for this component. Rates for this compare as follows, Swindon £2,715, Bristol City Council £3,000 and Exeter City Council £3,400.
- Roof renewal work – a high quality roof tile, felt eaves tray and PVCu fascia/soffit and down pipes/gutters are specified to ensure repairs are mitigated to a minimum following replacement works. Direct comparison of specification are Swindon £5,341 and South Oxfordshire Housing Association £6,523 (this does not include guttering, fascia's and downpipes).

Housing Services acknowledge that further work is required to determine value for money benchmarking for costs going forward and this will also be evaluated as part of the long term strategy. However, there is considerable input at the commissioning stage to ensure specifications reflect the most economically advantageous price on purchase but also seek to mitigate the life cost of servicing and maintaining installations.

Audit recommendation status – recommendations 3.1 and 3.2 in progress

Revised action date for implementation of a Procurement Strategy and further value for money benchmarking – April 2016