

## Briefing Paper to Audit Sub-Committee - 9 April 2019

### Contract Management in Housing Services

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#### 1. Introduction and Purpose

1.1 The purpose of this report is to provide a summary on contract management procedures following a request at the last meeting, and reflected in minute item 6.5. This report relates to risk management, with regards to contracts.

1.2 Housing Services has let a number of long term contracts, to fulfill the core needs to ensure the housing stock is maintained in a suitable condition. There are 9no. of these, and the majority of the spend is incurred under Contract 1; a framework for carrying out external works, and kitchen and bathroom renewals. In addition, several short term contracts exist for defined pieces of work; these include contracts to complete works to Cherbury Court, and installation of heat meters.

1.3 There are, therefore, a wide range of contract management procedures, and this report will focus on those used under the long term contracts, being those of greatest spend.

#### 2. Summary of Contracts

2.1 As mentioned in the introduction, most capital works are delivered via 9no. long term contracts. Key details of these are summarised below. They were all let in 2015.

No	Contract Title	Duration (years)	Estimated Value £m (entire contract period)
1.	General Building and Services	4	£55 - £130m (per contract)
2.	Reactive General Building works/ repairs, including minor voids	9 (5years initial term, with up to two 2-year extensions thereafter)	£23 - £35m
3.	Communal Works Contract		£9 - £14m
4.	Electrical Specialist Works		£18 - £50m
5.	CCTV	9 (5years initial term, with up to two 2-year extensions thereafter)	£2 - £5m
6.	Installation and maintenance of Controlled Access Doors to blocks		£3 - £8m

7.	Installation and inspection of Lighting Protection to blocks		£4 - £6m
8.	Digital TV aerial maintenance		£1m
9.	Lift renewals, major components, servicing and repairs	10 (proposed break clause at 5 and 7y)	£35 - £40m

The contract management procedures utilised are summarised in this report under the following key headings:

- internal governance
- contract management
- valuations
- quality inspections

### 3. Internal Governance

3.1 The table below summarises the key internal governance processes relating to contract management, and notes when they were put in place. Significant new procedures have been put in place in the past year, and further plans to enhance these are in place. These are noted in commentary in the table below.

3.2 The capital spend in the 18/19 financial year is expected to be lower than the year before. One reason for this is that the additional procedures have extended the time to develop projects, however, the reduced spend is a necessary consequence to ensure that the new management and governance arrangements are embedded.

Procedure	Comment on Purpose	Date Instigated
Annual commission approved by Cabinet	As of April 2018, an annual commission of proposed works to each block has been approved by Cabinet. The benefit is to ensure greater oversight and transparency of decisions to commence projects at particular blocks.  The recently approved Housing Asset Management Strategy formalises this procedure (See Section 5.6 of that document) as it is noted as a key work stage for the development of all capital schemes.  It also presents a long term programme for capital works, based on a stock condition survey.	April 2018
Capital Monitoring Board	A monthly capital monitoring board has been established chaired by the Group Director, Neighbourhoods and Housing and attended by the	Summer 2018

	<p>Lead Member for Housing and other senior Officers.</p> <p>This board: monitors progress on capital delivery, approves schemes of work to be let to contractors (known as Sectional Commencement Agreements or SCAs), approves inclusion of additional schemes of works where there is arising immediate need.</p> <p>An SCA Checklist is in place to present schemes to this board; this summarises the outcomes of key pre-construction procedures to demonstrate they have been completed. These include resident and leaseholder consultation, planning and evidencing of the need for works.</p> <p>The work of the board is being reviewed for the 19/20 financial year to develop its remit, notably to focus more on benefits realisation and the outcomes of capital investment. This Board has been instrumental in putting in place better oversight and grip of capital processes, spend and delivery</p>	
<p>Contract Management Board</p>	<p>This board is chaired by the Director, Housing Services and monitors contracts in use across Housing Services, and how they are managed. Key actions include maintaining a comprehensive contracts register so that reprocurement can be planned, engaging in early discussions around potential contract extension decisions, reviewing KPIs, and approving new internal contract management procedures. This Board has been crucial to formalising and understanding better the contract structure and client function.</p>	<p>September 2018</p>
<p>Asset Management Strategy</p>	<p>A long term Housing Asset Management Strategy has been approved at March cabinet. This sets out a decision making process for capital investment, long term delivery plans and an asset review process.</p>	<p>March 2019</p>
<p>Internal Performance Indicators</p>	<p>An annual review of performance and management indicators has been carried out across Housing Services. There have been substantial revisions proposed to those used by Property and Asset Management to better capture the benefits of capital investment.</p> <p>A register of key details of all SCAs is being</p>	<p>April 2019</p>

	<p>established to ensure greater ease of reporting and support a number of the new performance and management indicators, as well as ensuring greater interrogation of key project details such as cost control and programme management.</p> <p>These systems are planned to be in place as of April 2019.</p>	
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## 4 Contract Management

4.1 The table below summarises the key contract management procedures as set out in the various contracts. All have been in place as of the date of letting the contract though in some cases efforts have been made more recently to ensure these are more robustly managed and these are noted in the commentary.

Procedure	Comment on Purpose
KPIs	<p>All the long term contracts have KPIs, which vary per contract and which are managed by the contract manager. Apart from Contracts 1 and 4, the work is primarily of a repair nature, meaning that KPIs are focussed on items such as response time and missed appointments.</p> <p>At the time of writing the report the year end KPIs are still in preparation.</p> <p>The Contract 1 KPIs are monitored by contractors, though the formal core group meetings to review these have not always been taking place. These have now been formally reinstated to take place on a quarterly basis chaired by the Head of Property and Asset Management.</p> <p>In order to ensure greater clarity of KPI reporting, and ensure consistency with contract procedures, a full-day workshop is being established for May to include representatives from the three contractors and Hackney Council. This will ensure that any clarifications and adjustments to the KPIs can be made to utilise for the 19/20 financial year to ensure the reporting is more meaningful.</p>
Core Group Meetings	<p>For each contract there are monthly operational core group meetings, where contract-wide issues are discussed. These could be strategic items individual to the contract or items which have not been resolved at project level. These meetings are chaired by a Contract Manager from within the Planned and Asset Management Service (PAM).</p>
Project Level Procedures; site meetings and change	<p>On a project or SCA level, the contract management procedures are formally managed via regular site meetings. An agenda will typically review scope of works and change instructions, financial forecasts, health</p>

control	<p>and safety figures, progress and programme, and quality of works.</p> <p>It includes a wide attendance including the project manager, Quantity Surveyor and Clerk of Works from the client side, as well as key contractor staff.</p> <p>We employ contract administrators to formally handle the change control documentation such as change instructions. It is important to note that all maintenance works will be expected to incur a large volume of change instructions due to the need to make significant cost estimates (known as provisional sums and quantities), and the high change of discovering additional works on site, particularly where access scaffold is used or where renewal works are done, as there is a limit to the extent of surveys that can reasonably be undertaken prior to commencing works.</p>
Escalation Actions	<p>In all contracts, there are escalation procedures in place for resolution of disputes or matters arising which may affect the contract. These are raised via an Early Warning Notice, which triggers a Core Group Meeting, where potential resolutions are discussed. There are named representatives in the contract</p> <p>The nature of the long term partnering contracts used is that remedies to particular situations are less prescriptive, and reliant on the various parties to agree a way forward collaboratively.</p> <p>Such procedures have been utilised several times by various contract staff.</p>
Options in event of poor performance	<p>In the Contract 1 framework, the client may award less work to a contractor who has not performed well. As an ultimate decision the client can terminate the contract, though this is a very serious course of action, and in most cases it is possible to resolve issues via the Early Warning Notice procedure.</p> <p>In Contracts 2-9 which are let to a single contractor, the contracts are let initially for 5 years with potential extensions (see summary table in 4.1). The client can elect not to extend the contract in event of poor performance.</p>

## 5 Quality of Works

5.1 On all contracts Hackney Council uses clerk of works to inspect and sign off that the quality of the works is in line with the specifications. There are three specialisms; building clerks, mechanical clerks and electrical clerks. The notes below comment on the work of each of these.

Clerk of Works	Comment on Inspection Regime
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Type	
Building Clerk of Works	<p>The contract makes reference to the clerk of works but in limited detail. In the past 18 months, a separate Clerk of Works team has been established in PAM, led by Senior Clerk of Works. He has implemented a rigorous inspection regime for all works. A schedule of required inspections has been developed and implemented. All records of inspections are centrally logged and recorded.</p> <p>A previous but retired Senior Clerk of Works with over 40 years experience in the borough, has been retained on 1 day a week for succession planning, supporting the team lead in developing formal procedures, and training and development of new staff.</p> <p>Where required on kitchen and bathroom installations, there are additional inspections by the electrical and mechanical inspectors as required.</p>
Electrical & Mechanical Works	<p>The mechanical and electrical inspectors carry out:</p> <ul style="list-style-type: none"> <li>- 100% inspections to all planned work installs (examples of work include lateral mains, door entry and boiler installs).</li> <li>- 10% inspections to all repairs.</li> </ul>

## 6 Valuations & Payments

Procedure	Comment on Process
Valuation Process - SCA Contracts	<p>A commercial manager within the PAM service leads on all valuation processes. There are two other in-house quantity surveyors and they are supported by additional external quantity surveyors.</p> <p>Each month the contractor applies for payment for the work done that month. These applications are scrutinised both on site and via regular commercial meetings, with reference to quality control inspections carried out.</p> <p>When being internally approved, a formal list of documents is supplied with the interim certificate so that approver's have appropriate sight of how the valuation has been calculated.</p>
Valuation Process - Capital Works	<p>Repairs which are raised on UH are processed via that system. These are smaller items of work, and contractors are usually paid on a monthly basis for all jobs completed that month. An internal process is</p>

under UH	in place so that monthly payments to such contractors are accompanied by a list of all job tickets undertaken and the completed inspections. For works inside residents' homes (for example disabled adaptations), there is also evidence that they have signed that the works were done and they are satisfied with them.
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