

## 11/0821 - Repairs and Maintenance Section - Partnership with Herbert T Forrest

### Assignment Details:

**Report Date:** 27 October 2011

**Lead Auditor:** Lorraine Jeffreys - Senior Auditor

**Supervisor:** Derek Whiteway - Internal Audit Manager

### Scope, Objectives & Approach:

The audit will aim to provide managers with assurance and confidence in arrangements for the ongoing management of the contract by reviewing the following:

- financial and operational performance on the contract;
- the robustness and effectiveness of contract management arrangements within RMS;
- the effectiveness of the partnering contract as a means of delivery.

In considering these, the audit will seek to provide assurance that:

- the form of contract employed is appropriate and effective;
- both parties are fulfilling expectations as partners under the terms of the contract;
- proper arrangements and appropriate levels of capacity have been put in place to manage the contract, responsibilities within RMS being clearly defined and proper procedures, in line with the contract, being followed;
- reporting arrangements are clear and adhered to;
- works awarded are supported by a sound business case;
- the contract is being proactively managed by RMS, performance and quality management arrangements are robust and records show best value is being achieved;
- risks are being managed effectively;
- prices are agreed and sums paid in accordance with the contract and relevant business case; and
- annual savings are correctly calculated and shared.

### Assurance Opinion:

**Level of Assurance Provided:**  **Substantial**

The partnership has now been in place for 18 months of its five year programme. Following the clarification of a number of points regarding its operation, and a review of the RMS staffing structure, the service is in a sound position to develop and increase the benefits from the partnership. Good arrangements are in place to ensure that work carried out under the partnership agreement is completed on time, within budget and to a high standard. Working relationships between the parties have progressed positively, resulting in Planned Maintenance Officers being better positioned to develop efficiency and effectiveness in operating the partnership framework. Building on the revised line management structure, plans to review working practices throughout RMS should further strengthen current arrangements

### Headline Messages:

- Good arrangements are in place for monitoring progress and spend on individual contracts.
- Contracts have been completed within agreed timescales, to a high standard.
- Customer feedback indicates a high level of satisfaction amongst tenants with the work carried out.

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- Payment arrangements have been formalised.
- A revised line management structure is due to be implemented which will clarify roles, responsibilities and lines of accountability.
- Planned Maintenance Officers will continue to receive guidance in the form of support through coaching and/or mentoring.
- Working practices are to be reviewed with a view to making sure that arrangements are as efficient and effective as possible, taking advantage of opportunities offered through the partnership to make savings and/or efficiencies.
- A structured approach is to be taken to ensure effective communication and information sharing.
- A review of competencies is to be carried out to establish any training needs within the team, and any skills/knowledge gaps will be addressed.
- Arrangements are to be put in place to ensure that the Core Group of the partnership meet at least bi-annually

### **Internal Audit Commentary:**

In July 2007, Cabinet gave their approval for Council Housing Services to develop a three to five year partnership with an external partner for the delivery of the Council Housing Capital Programme (the work to be split between the council's in-house Repairs and Maintenance Service and the external partner). Following a competitive tendering exercise, Herbert T Forrest were appointed as the council's partner to deliver the Council Housing 5 year Capital Programme. The partnership commenced on 1st April 2010.

As part of a management restructure, in May 2011 management of the repairs and maintenance function transferred from Environmental Health and Housing to Environmental Services. Since that time the Head of Environmental Services has undertaken a review of the Repairs and Maintenance Service to ensure that it meets the needs of the council and its stakeholders. Proposals for a revised line management structure have recently been approved by the Members of the Personnel Committee and this is due to be implemented by January 2012. The second stage of the review, which is to involve an overhaul of existing systems and processes, is due to be implemented by June 2012.

Shortly after assuming responsibility for the repairs and maintenance function, the Head of Environmental Services requested that Internal Audit undertake a review in order to provide assurance as to the ongoing management of the partnership in place with Herbert T Forrest. Throughout this report, where reference is made to the "council", this is Lancaster City Council's Repair and Maintenance Section, and the "partner" is Herbert T Forrest.

The council decided to use the PPC2000 (partnering project contract) for the partnership with Herbert T Forrest, this form of contract being currently in use for other projects managed by the Repairs and Maintenance Section (RMS). A key feature of the PPC 2000 includes integrating all members of the partnership under a single partnering contract with a view to encouraging a team based approach to the project, with all members of the partnership being required to fulfil their responsibilities in accordance with the contract. One of the main advantages of this type of arrangement is that it should involve a non-adversarial approach to problem solving as issues should be addressed at an earlier stage. However, the partnering approach requires a commitment to achieving the potential improvements that this approach can offer. Strong working relationships need to be developed with the partner before a project can progress and everyone involved needs to fully understand their responsibilities for the arrangement to be successful.

This form of contract is usually used where there are a number of partners involved in the

project, including specialists and consultants. In this case there are only two parties involved. This does not mean that the contract is inappropriate or unsuitable, however for it to be effective it is essential that all parties involved fully understand their responsibilities.

Planned Maintenance Officers were not involved in preparatory work relating to the partnership, the majority of this work being carried out by the then Head of Council Housing, the current Repairs and Maintenance Manager, and the previous Senior Maintenance Officer. Prior to commencing new arrangements some managers felt that more guidance would have been helpful regarding the similarities and differences between the new contract, and those used previously, with which officers felt more familiar. This review identified an initial lack of confidence within the team who felt that they were not fully familiar with the aims and objectives of the partnership, or the specific terms and conditions of the contract. This is improving as officers become more familiar and confident with new arrangements, and it has been agreed that Planned Maintenance Officers will continue to receive support in the form of coaching and/or mentoring to ensure they remain fully aware of their role and responsibilities, and are competent at working within the framework of a project partnering contract.

The partnership was entered into on a shared savings basis on the understanding that any savings made against an 'agreed maximum price' for a contract were to be shared equally between the council and the partner. This is clearly stated in the signed contract. This arrangement involves the council agreeing with the partner a maximum sum for the work prior to the commencement of each project; subject to this maximum sum, payment is based on actual costs plus an agreed overhead and profit element. Any savings between the agreed sum and actual costs are shared equally between the parties. Should the cost of the works exceed the agreed maximum price (+/- any agreed variations) the partner stands the loss. However, there has been a misunderstanding between the parties in relation to these arrangements which has only recently come to light. The partner's view was that the council would pay the agreed maximum sum for the work, subject to agreed variations, irrespective of actual costs. In such circumstances the partner would therefore gain any savings, and stand any losses incurred against the agreed maximum sum for the works. In line with the contract this arrangement would be on an 'open book' basis (the commitment of partners in a contractual relationship to share information on income and expenditure). This allows the council to review and challenge costs as necessary, prior to the approval of the agreed maximum price, by requesting evidence from the partner of appropriate market testing. The council may also request evidence to support actual costs submitted as appropriate. It is essential that officers are fully equipped with the skills necessary to effectively perform this function.

An agreement has now been reached between the parties regarding future payment arrangements and approval has been given by the Head of Environmental Services. Payments made in future will be based on an agreed maximum price, subject to any approved variations, on an open book accounting basis. If the Service is to work on this basis, it is essential that a robust mechanism is in place for Planned Maintenance Officers to be able to satisfy themselves that the terms for individual contracts provide value for money, not only in terms of price and quality, but also in relation to the key performance indicators built into the partnering contract. Planned Maintenance Officers must be confident that the partner has performed satisfactory market testing and that any savings are being passed onto the council.

Progress made and costs incurred on individual projects need to be carefully monitored throughout the period of the contract, with variations being controlled. To assist with this the partner is required to provide periodic 'cost value reconciliation' reports, which detail agreed prices, variations, and actual costs incurred. Any queries arising should be dealt with immediately through consultation with the partner as necessary. Valuations submitted by the partner will also need to be reviewed and payment made once the Planned Maintenance Officer is confident that the value of work claimed is accurate.

Management of the partnership itself could be improved to provide assurance that each party is

fulfilling its expectations under the terms of the contract. The introduction of regular meetings of the partnership's Core Group would help to achieve this. At present this group meets on an ad hoc basis in response to a specific issue or problem which has occurred. However, benefits are to be gained from a regular review of the effectiveness of the arrangement, including an assessment of whether value for money is being achieved, and how to maximise opportunities for sharing good practice and achieving efficiencies through innovation. It has been agreed that arrangements will be put in place to ensure that the Core Group meets at least bi-annually.

Communication with the partner on an operational basis is now considered good following some initial problems at the start of the partnership. However, significant improvements are required in order to achieve more effective communication and information sharing in relation to the in-house team, and a more structured approach is needed to ensure officers feel fully informed and relationships remain strong. More team meetings need to take place offering staff the opportunity to discuss issues arising, address particular concerns they may have, and to share knowledge etc; this is especially important at pre and post contract stages. It has been agreed therefore that a structured approach will be taken in order to ensure effective communication within the in-house team.

Contract ownership is clear with Planned Maintenance Officers feeling that they have the appropriate delegated authority to manage the contracts for which they are responsible. However lines of accountability need to be reinforced, in particular the role and responsibilities of the Senior Maintenance Officer needs to be clarified. Problem solving arrangements need to be communicated to all team members, and those with specific responsibilities per the contract made aware of their role. Implementation of the recently approved line management structure should effectively address these issues. It has also been agreed that a thorough review of competencies will be carried out to establish any training needs within the team, and an action plan will be developed to address any skills/knowledge gaps identified.

Working practices need to be reviewed with a view to taking advantage of the opportunities offered through the partnership to make savings and/or efficiencies. It has already been identified that expected savings in relation to the technical staff input have not been realised. It is intended that the second stage of the Service review, as referred to above, will include a review of current systems and procedures with a view to ensuring that arrangements are as efficient and effective as possible.

Individual Planned Maintenance Officers are responsible for monitoring progress and spend on their own contracts, this being reported to the Senior Maintenance Officer on a monthly basis. Spend is also monitored and reported quarterly by the Repairs and Maintenance Manager as part of corporate capital monitoring arrangements.

Three contracts have so far reached completion during the term of the partnership and all three were completed within agreed timescales. Savings were made against the agreed maximum sums in relation to one of the contracts, the other two going over the agreed maximum price due to agreed additional works carried out.

Testing established that the standard of record keeping was variable with excellent examples being demonstrated for some contract files whilst others were not as comprehensive or complete as they should be. It has been agreed that arrangements will be put in place to ensure consistency in the maintenance of files and record keeping.

Quality and standards are monitored on an ongoing basis during site visits and monthly progress meetings with the partner. Contract files examined also showed evidence of issues highlighted being addressed and improvements made where necessary. Planned Maintenance Officers have concluded that the quality of work provided by the partner is of a high standard, this being supported by the tenant satisfaction survey results for contracts completed during 2010/11 which show a high level of customer satisfaction.

A set of key performance indicators is in place with performance being measured on an annual basis. Reported performance in relation to 2010/11 indicates a high level of customer satisfaction with the work carried out, with high scores being achieved in relation to environmental, equality, diversity and health and safety issues. In relation to the percentage of directly employed staff working on the partnership living locally, a target of 80% has been set to be achieved by the end of 2011/12.

The bid submitted by the partner includes proposals to bring innovation to the partnership with a view to improving service delivery, achieving efficiencies and reducing costs. To date however the council has not pursued these proposals; this is an aspect of the partnership which has been identified for further consideration.

**Managers' Comments:**

This audit is integral to the overall review of the Council's repairs and maintenance service that is currently underway. The purpose of the overall review is to ensure that we deliver the service in such a way as to meet both the needs of our users and the Council. Besides providing assurance and confidence in arrangements this audit has clearly identified the areas in which those involved in day to day management of the partnership arrangement should focus their efforts. Managers are committed to ensuring that the actions identified are implemented. I would like to thank all those involved in the audit.

Head of Environmental Services  
21/10/11


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**Report and Action Plan Agreed By:** Head of Environmental Services and Repairs and Maintenance Manager

**Follow Up Review Due By:** 18 April 2012

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I would like to thank the members of the Service(s) involved in the audit for their contributions and cooperation in the audit.



Derek Whiteway CPFA, Internal Audit Manager

Distribution: Head of Financial Services  
Chief Executive  
Deputy Chief Executive  
Head of Environmental Services  
Head of Health and Housing  
Repairs and Maintenance Manager  
Members of Audit Committee  
Leader of the Council  
Cabinet Member with Responsibility for Housing and Health  
Cabinet Member with Responsibility for Community Safety and Clean & Green  
Audit Manager (External Audit)


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**ROS/1**

**Risk Group: Operational**

**Risk:** The Authority may not be achieving value for money from the partnership if effective arrangements are not in place for managing the contract. (R004399)

**Current Risk Exposure:** Low

**Internal Audit Opinion**  There is scope to improve management of the risk

<b>Agreed Action</b>	<b>Responsibility</b>	<b>Implementation Target Date</b>	<b>Ref</b>
1. To ensure effective compliance with the terms and conditions of the contract with Herbert T Forrest, staff responsible for managing individual contracts within the partnership will be fully briefed in their application.	Repairs and Maintenance Manager	31/12/2011	016244
2. Guidance and/or support will be provided for Planned Maintenance Officers to ensure that they remain fully equipped with the knowledge, skills and confidence required for them to effectively fulfil their role.	Repairs and Maintenance Managers	Ongoing	016419
3. A structured approach will be taken to ensure good communication with the partner, and effective information sharing with the in-house team.	Repairs and Maintenance Manager	31/12/2011	016252
4. As part of the second stage of the Service review, current working practices will be reviewed with a view to taking advantage of opportunities offered through the partnership to make savings and/or efficiencies.	Repairs and Maintenance Manager	31/03/2012	016256
5. A thorough review of competencies will be carried out in order to establish training needs within the team and how they can most effectively be addressed.	Repairs and Maintenance Manager	Ongoing	016257
6. Arrangements will be put in place to ensure that the partnership's Core Group meets at least bi-annually to review the effectiveness of the arrangement, and explore areas where good practice can be shared and/or efficiencies made through innovation. This review will be appropriately informed by the views, opinions and experiences of contract managers.	Repairs and Maintenance Officer	31/12/2011	016265
7. Robust arrangements will be adopted to ensure that Planned Maintenance Officers are able to satisfy themselves that agreed prices for individual contracts are providing value for money and that savings are to be shared between the council and the partner. Procedures will cover areas including: - market testing arrangements - monitoring of progress made and costs incurred on individual projects - variations - consultation and issue resolution - valuations and - payment arrangements	Repairs and Maintenance Manager	18/10/2011	016270