

Audit Committee

Council Housing Capital Programme – Hala Flats Pebbledashing Project

15th February 2012

Report of Internal Audit Manager and Head of Environmental Services

PURPOSE OF REPORT

Following a request by Cabinet, to provide the Committee a detailed report into the conduct of the Hala Flats Pebbledashing contract with particular reference to the costs of the work and the value or money obtained.

This report is public. Appendices B, C and D are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.

RECOMMENDATIONS

(1) That the Committee considers:

- a) the extent to which this report provides the Committee with sufficient assurance regarding the RMS partnering contract and the conduct/outcome of the Hala Flats Pebbledashing project; and**
- b) whether the Committee wishes to recommend any further action or analysis to Cabinet.**

1.0 Introduction

- 1.1** 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 (HTF) was appointed as the council's partner to deliver the Council Housing 5 year Capital Programme, commencing on 1st April 2010.
- 1.2** The Head of Environmental Services requested that Internal Audit undertake a review of the partnering contract in order to provide him with assurance and confidence in the ongoing management of the contract.
- 1.3** The audit review was carried out and in October 2011 the Internal Audit Report was produced, resulting in an opinion rating of "substantial". A copy of the report and action plan is attached for information at Appendix A. Reference to the report is also included in the "Results of Internal Audit Work" report elsewhere on this agenda.
- 1.4** In the meantime, at the request of a member of Cabinet, HoES presented a report to Cabinet on 6th December 2011, which provided information on the Planned Maintenance Partnering arrangement. At this meeting Cabinet resolved to request that Audit Committee look more closely at the Hala project with a view to providing assurance that costs are appropriate and represent good value for money.
- 1.5** The Planned Maintenance partnering contract and more specifically the Hala flats rendering project have been the subject of a number of articles and letters published

in the local press. At its meeting on 29th November 2011, the Budget and Performance Panel (BPP) was requested by one of its members to include the Planned Maintenance of Council Housing on its work programme. The BPP resolved that a decision to include the matter on the Panel's work programme should be deferred until after the issue had been considered by Audit Committee and that the member in question should refer his questions to the Internal Audit Manager.

- 1.6 This report has been prepared with a view to addressing questions raised by Cabinet, and Budget and Performance Members, along with points raised by other Councillors following the issuing of the internal audit report.
- 1.7 Under each of the following sections, the main text is the Internal Audit Manager's report; additional comments by the Head of Environmental Services are appended in a greyed box.

1.8 Head of Environmental Services' Comments:

- 1.9 Immediately prior to my actually taking responsibility for RMS concerns were raised with regard to the operation of the Forrest partnership.
- 1.10 In conjunction with the Head of Health and Housing (who was responsible for RMS at the time) we brought these concerns to the attention of the Internal Audit Manager (IAM) and requested an assurance audit be undertaken on the operation of the Forrest partnership.
- 1.11 The Forrest partnership is just one part of the Council's RMS operation. Some planned maintenance is delivered through other partnerships. Some planned maintenance is delivered by an in-house team. The majority of the responsive repairs operation is delivered in-house.
- 1.12 At the point of transfer of the service area there was a consensus that it was a service in need of review. Since May 2011 I have set to work on that. As is to be expected there is still much work to be done but progress is being made.
- 1.13 Internal Audit's work on the Forrest partnership was commissioned because it provided an independent assessment of the strengths and weaknesses of the arrangement. It has given the Council the clear sense of direction necessary for that element of the service.
- 1.14 The internal audit report which is attached at Appendix A provided assurance as to the partnership arrangement. This further report has been prepared to provide answers to additional questions raised by Members since the internal audit report was published. Essentially these questions boil down to:-
 - a) what is the best way of delivering planned maintenance; and
 - b) how do we know we are getting value for money?
- 1.15 The intention of this report is to provide the evidence to respond to the questions that have been asked and provide assurance that arrangements are being managed appropriately

2.0 The Partnering Contract

- 2.1 The council selected the PPC2000 (partnering project contract) for the partnership as this form of contract was already in use by RMS for other programmes (Rota Painting and Gas Servicing).
- 2.2 Questions have been raised by a Member of B&PP regarding:
 - whether this is the most appropriate form of contract to use, and more specifically whether a 'simpler framework contract' would be more appropriate for the type of work covered.

- whether HTF are being paid for pre-construction work.
 - the integration of client and contractor roles.
 - whether there is scope to terminate the arrangement
- 2.3 The PPC2000 contract is designed to be able to cope with complex project based and multi-party arrangements by bringing client, constructor, consultants and specialists under a single contract. Nevertheless, this does not make the format unsuited to a more simple client and constructor relationship. Internal Audit have not found any evidence to suggest that the PPC2000 contract is inappropriate for the partnership arrangement with HTF.
- 2.4 The PPC2000 in itself provides a framework for the partnership and is suitable for this purpose. The alternatives to this arrangement would be the previous, more traditional individual job tendering or establishing a range of framework contracts. A framework contract would be needed for each element of the capital programme, e.g. rendering, external refurbishments, kitchen and bathroom replacements, etc, each contract requiring individual management. In this regard, key advantages of the partnering contract is that work in tendering individual jobs is reduced and that there is a single relationship to manage, with one “partner” organisation.
- 2.5 HTF have not been required to carry out, and have not been paid for, any pre-construction work.
- 2.6 As stated in the Internal Audit report, one of the main advantages of this type of arrangement is that it is based on a non-adversarial approach to problem solving as issues should be addressed at an earlier stage. It is essential therefore that strong working relationships are developed with the partner. A key feature claimed of the PPC 2000 contract relates to the integration of all members of the partnership with a view to encouraging a team based approach to the project. This is perhaps most significant where the contract is being used for complex projects involving a wide variety of partners, including client, constructor, sub-contractors and specialists. Given the context of the RMS contract, which is essentially a client and constructor relationship, it is unrealistic to expect there to be high levels of mixing or sharing of roles. Nevertheless, the conclusions drawn from the Audit review suggest that officers have worked hard to develop and maintain good working relationships with HTF with each team member having clearly defined roles and responsibilities. Discussions held with members of the RMS team during the course of the audit, and more recently, indicate that following some initial concerns, trust is now building between the Council and Herbert T Forrest. In Internal Audit’s view, appropriate attention is being given to managing the partnership and no evidence has been found to suggest anything extraordinary about the development of, or the current state of the relationship.

- 2.7 Under the terms of the contract (section 26), the agreement may be terminated by the client (i.e. the Council) under the following circumstances:
- Bankruptcy or insolvency of a partner;
 - Unremedied constructor breach, being:
 - Ceasing or suspending all or a significant part of the implementation of the project or does not fulfil its responsibilities under the Partnering Contract in accordance with the partnering timetable or project timetable.
 - Failure to comply with a client instruction issued under the terms of the contract.
 - Breach of sub-contracting /assignment clauses
 - Non-compliance with national statutory and other legally binding requirements
- 2.8 These are clearly extreme circumstances and Internal Audit has found no evidence of any of the above applying. Section 27 of the PPC2000 contract sets out the arrangements for problem solving and dispute avoidance or resolution, which builds on the establishment of a clear hierarchy of responsibilities and relationships between partners. This arrangement is clearly understood and established and has been followed in appropriate circumstances.
- 2.9 The Council's Procurement Manager has made the following comments with regard to the contract.

"The form of contract applied to the Council Housing Capital Programme contract is PPC2000. This contract was adopted as it has been used widely within the public sector for similar projects. Within the contract there are specific termination clauses. These include for both client and contractor organisations and the termination of an individual from within the partnering Team. However the contract is explicit that within the Roles and Responsibilities 1.3:

'The Partnering Team members shall work together and individually in the spirit of trust, fairness and mutual cooperation for the benefit of the project, ...'

Should the contract not be administered under such terms the contract sets out a hierarchy of problem resolution which would need to be followed before any formal legal proceedings could take place. Formal legal proceedings are only initiated in exceptional circumstances and there would need to be indisputable evidence to substantiate such action and be proportionate to the actions taken."

2.10 Head of Environmental Services' Comments:

- 2.11 Prior to entering into the partnering arrangement with Forrest the Council had already had experience of operating successful partnering arrangements for the delivery of painting and gas servicing. The partnership with Forrest covers a greater range of works but the principles that underpin the operation of successful partnerships were already understood.
- 2.12 The partnership with Forrest is underpinned by a standard form of contract PPC2000. The guiding principle of this is that the Council and Forrest will work together and individually in the spirit of trust, fairness and mutual cooperation for the benefit of the project.
- 2.13 Working in this way represents a significant shift from the previous way of operating in a traditional client / contractor tender per job basis. Most significant is the requirement for a change of mindset and working methods from all involved to ensure that the maximum benefits are derived from the partnership.
- 2.14 Essentially therefore the entry into the partnership with Forrest represented significant change for all involved. Managing change requires a lot more than giving people a new form of contract to work to.

- 2.15 The fact is that PPC2000 is a suitable form of contract for this partnership
- 2.16 Whether successful outcomes are delivered depends more on the skills, abilities and competencies of the people who are involved in delivering the partnership and also on the way that the change to a different way of working is managed. I shall develop this important point in subsequent comments.

3.0 Pricing and Payment Mechanisms

- 3.1 Members have raised questions regarding the pricing mechanism for the partnership. Clause 13.2 of the PPC2000 contract deals with shared savings, added value and pain/gain incentives. The clause states *“The Partnering Team members shall implement any shared savings, shared added value and pain/gain incentives described in the Project Partnering Agreement and otherwise recommended by the Core Group and approved by the Client.”*
- 3.2 The Project Partnering Agreement on setting up the partnership specified a shared savings basis that *“Any annual savings on the guaranteed maximum sums submitted by Herbert T Forrest shall be shared equally between Lancaster City Council and Herbert T Forrest.”* This arrangement involves the Council agreeing with the partner a maximum price for the work prior to the commencement of each project. Subject to this maximum price, payment is based on actual costs incurred by HTF plus an agreed overhead and profit element. Any savings which arise from innovation or agreement to a change in specification after the maximum price has been agreed are shared equally between the parties. Should the cost of the works exceed the agreed maximum price (+/- any agreed variations) the partner (HTF) stands the loss.
- 3.3 The original bid made by HTF to enter into the partnering contract with the council referred to open book accounting and Cost Value Reconciliation sheets (CVR). CVRs detail both estimated and actual costs for each project, plus the agreed overhead (7.5%) and profit (5%) element. Therefore, RMS considered that payment would be made on a ‘cost plus’ basis (actual costs plus overhead and profit).
- 3.4 The Caton External Refurbishment project was entered into on this basis. During the Caton contract it became apparent that CVRs weren’t being received, so they were requested. The Quantity Surveyor for HTF then queried why they were being requested, as her understanding was that the agreed maximum price would be paid, subject to any variations. In the meantime CVRs were being received for the Newton re-rendering contract.
- 3.5 To clarify matters, a meeting was held with HTF to discuss payment arrangements and agree a way forward. Arrangements have been reviewed and revised over the last few months and are now agreed and in place. This process, involving the Core Group has been in accordance with the standard terms of the PPC2000 contract as mentioned in §3.1 and does not constitute a variation to or departure from the contract. The revised arrangements were agreed by the Repair and Maintenance Manager as an operational issue and endorsed by the HoES.
- 3.6 Payment arrangements are as follows:
- an Agreed Maximum Price for each job is developed which is made up of agreed rates, and a timescale for the job.
 - valuations will be received on a periodic basis and will be based on these agreed rates.
 - payments will be made according to these rates and will be supported by invoices etc, as necessary.
- 3.7 Arrangements remain on an open book basis and RMS are still to be provided with a CVR.

- 3.8 If HTF cost the agreed maximum price incorrectly and/or a project is delayed due to adverse weather or non-performance of the supply chain, any additional cost is borne by HTF and not passed to the Council.
- 3.9 If any savings on the agreed price are generated through innovation or agreement to a change in specification after the maximum price has been agreed the savings will be shared on an equal basis. Other savings are passed entirely to the Council.
- 3.10 An analysis of payment arrangements for jobs completed to date is attached at Appendix B. This demonstrates how any savings/underspends are analysed and shared. In each case the final cost has come in below the Agreed Maximum Price.
- 3.11 In Cabinet's request to Audit Committee to consider the Hala project in more depth, a suggestion was made that audit might need the advice of an independent expert to look at the pricing of the project.
- 3.12 Whilst I accept that Internal Audit does not possess the professional skills to ascertain the validity of contract measurements and pricing, we have not encountered any evidence to suggest that there are any difficulties or shortcomings as regards the Hala re-rendering project. We have seen sufficient evidence to conclude that the RMS officers' management of these projects demonstrate appropriate levels of diligence and professionalism to protect the Council's interests and secure value for money.
- 3.13 Notwithstanding these conclusions, Audit Committee may, in considering the overall report and level of assurance gained, wish to consider whether to recommend any further independent review of the project pricing.

3.14 Head of Environmental Services' Comments:

- 3.15 The detail of the payment mechanism is something that can be properly agreed on a project by project basis at an operational level.
- 3.16 The first major project undertaken was the one at Caton. This yielded an overall saving of £4900 which was properly split as agreed between the Council and Forrest.
- 3.17 The next project was the one undertaken on Newton where it became apparent that clarification of payment arrangements was required.
- 3.18 As provided for in the terms of the partnership key staff met and agreed the terms of the payment arrangements which were then applied.
- 3.19 Dependent on the type of work being undertaken it may well be appropriate to apply differing payment agreements.
- 3.20 It will always be appropriate to ensure all involved in the delivery of a defined project clarify and understand the payment agreement.
- 3.21 Prior to the delivery of the project Council officers scrutinise and challenge estimated costs. During the course of the project Council officers scrutinise and challenge costs incurred to date. At the end of the project Council officers scrutinise and challenge actual costs.
- 3.22 All of this goes towards ensuring that the Council's interests are protected and value for money is provided.

4.0 Hala Flats Pebbledashing Project and Leaseholder charges

- 4.1 The scope of the project was for re-rendering, dry dashing and re-pointing 60 properties, plus outbuildings, on the Hala Estate. The work included the hacking off of existing render and removal away from the site; the site being made up of 5 blocks. Concrete repairs were also carried out where necessary.
- 4.2 As part of Council Housing's consultation exercise, letters were sent to leaseholders in March 2011, advising them that the work was planned and of the total estimated cost for the project (£250,000).

- 4.3 Letters were sent to each leaseholder on 1st August 2011 advising them of the “guaranteed maximum sum” for the project (£341,819) and indicating the level of recharge that this would equate to for their property.
- 4.4 Work was completed on site in January 2012, and letters have now been sent to the relevant leaseholders setting out the actual amount they will be charged for the pebble dashing work. The costs will be included in annual leaseholder statements to be issued in June 2012. Leaseholders are given a short time period to check the statements and are then issued with an invoice. Leaseholders can pay the invoice over 12 months, or can make an arrangement to pay over a longer period if the charge is considered significant.
- 4.5 In the event of an unresolved dispute, leaseholders are entitled to make use of the council’s complaints procedure, and in extreme cases referral to an independent valuation tribunal may be appropriate.
- 4.6 The finally revised and agreed maximum price for the work was £325,338, this having been reduced from the original tender sum of £442,939. The revisions to the original sum, and the reasons for them, are shown in the timeline at Appendix C.
- 4.7 In order to accurately recharge leaseholders, costs have been broken down per block. The figures used in calculating both the estimated costs as notified to leaseholders in August 2011 and the final charge, are set out in Appendix D. Costs included in the final recharge comprise:
- Scope of the works (rendering/dashing costs)
 - Scaffolding
 - BT charges (removal and reconnection of cables)
- 4.8 The cost per block is then divided by the number of units within that block, the resulting final recharges per property ranging from £3,020 to £3,836. These calculations are based on a provisional final cost for the project of £302,000. The final account is yet to be agreed but any variation from this figure will not have any impact on leaseholder costs.
- 4.9 The reduction in leaseholder recharges is accounted for by:
- The final recharge not including the preliminary costs. Preliminary costs were included in the calculations used when notifying leaseholders in August 2011 but have been excluded in accordance with previously established practices; and
 - Further cost reductions to the works achieved after August 2011.
- 4.10 With a view to providing a comparison, Members have requested information regarding costs per property for work carried out on the Kingsway Estate as part of the 2009/10 programme of works. This work was carried out by VMC Developments Ltd.
- 4.11 The specification for the rendering on both contracts was the same apart from the thickness of the render (15mm for Kingsway and 16mm on Hala). This has minimal impact on the price.
- 4.12 Three Kingsway leaseholders were charged £3,030 each (not including preliminary costs) in relation to the rendering element of the work carried out.
- 4.13 Although a similar number of properties were involved in the Kingsway contract (64), the scope of the works was wider and comprised a full external refurbishment which included replacing windows, doors, fascias and gutters, in addition to rendering. The properties on the Hala Estate are also larger; some of them being three storeys with high gable ends and a larger surface area to cover. This needs to be taken into account in drawing comparisons between the two contracts.

- 4.14 It should be noted that, if the final cost of the works is below the agreed maximum price, leaseholders generally benefit from the reduction. This of course depends on the reason for the reduction. If, for example, the price is reduced due to work being completed in less time than the agreed contract period and a saving is made on preliminary costs, this would not be passed to leaseholders if their recharge does not include preliminary costs.
- 4.15 As suggested above, practice to date has been to exclude preliminary costs when calculating recharges to leaseholders, although this has not been set out as a formally established policy. These circumstances have highlighted the need for the treatment of preliminary costs to be reviewed and a clear policy established for the future. Options are currently being reviewed by the Repairs and Maintenance Manager.
- 4.16 In conclusion, the inclusion of preliminary costs in the initial indicative costs notified to leaseholders in August 2011 may be regarded as the main factor in raising concern regarding the level of recharge. Once excluded, in accordance with precedence, and taken alongside further cost reductions, the charges to leaseholders are clearly more in line with those made on the Kingsway contract.

4.17 Head of Environmental Services' Comments:

The Project

- 4.18 The timeline set out in Appendix C highlights the key stages in commissioning the Hala works.
- 4.19 The flexibilities provided by the partnering arrangement meant that there was scope to work with our partner to amend the specification and reduce the delivery period thus reducing the overall cost of the works.
- 4.20 The fact that an initial tender sum of £443K was submitted does not imply that either the Council would have paid that amount or that Forrest had somehow inflated their price.
- 4.21 The evidence in Appendix C shows clearly how that original tender price was arrived at and what steps Council officers and Forrest took to deliver a suitable product for considerably less money.
- 4.22 All the component costs of the Hala project were provided by Forrest in fine detail. Council Officers scrutinised these costs. Direct costs compare favourably with market rates and those of our in-house planned maintenance team. Costs for management, supervision, transport etc compare favourably with in-house costs. Comparing the costs of this project with others does not provide like for like comparisons because Hala flats are not comparable with semi detached houses. However, the report highlights that the costs are broadly comparable.

Leaseholders

- 4.23 Leaseholders enter in a legal agreement and should be well aware of the liabilities that accompany that.
- 4.24 Prior to embarking on work the Council and Forrest undertook a comprehensive consultation exercise with all leaseholders at which point we also let them know what the maximum amount they would have to pay would be. At that stage no formal complaints were made to the Council and no leaseholder made direct contact with me to discuss further. One leaseholder made contact with the Repairs and Maintenance Manager who offered to meet with the leaseholder to explain further details but this offer was not taken up. Concerns were also raised by the same leaseholder via Elected Members. I responded to the leaseholder and offered a meeting, which could also involve ward councillors. This offer was not taken up.

- 4.25 In this case leaseholders benefitted in that their final bill was less than had been expected at the consultation stage. The final bill was further reduced in that the portion of preliminary costs of the works was not passed onto leaseholders. This was done on the basis of precedence.
- 4.26 When I wrote to all eleven leaseholders informing them of the actual amount they would be charged I offered to meet with them and provide further detail on how the costs were made up. One leaseholder rang up to express satisfaction with the job and told me they were fed up of stories in the local newspaper and that leaseholders know what they are entering into when they sign the lease. One leaseholder rang up to request a further breakdown of cost and to complain about how it had been apportioned and then added a complaint about the standard of work at his property. This complaint is being dealt with. One leaseholder rang Council Housing who then asked me to send a more detailed breakdown, which I did. Therefore, I have had direct contact with one satisfied leaseholder and one dissatisfied leaseholder. I have had indirect contact with another leaseholder and no contact at all from the other eight leaseholders.
- 4.27 There is an argument though that in line with common practice (in as an example private flats) leaseholders should be expected to pay an apportionment of all the costs incurred in delivering the project, including prelims. The policy is currently being reviewed in consideration of this.

5.0 Training

- 5.1 Managers have taken the view that the principles in managing a PPC2000 contract are the same as those applied to JCT contracts, with which officers were already very familiar. The Service has also been operating two other PPC2000 partnering contracts for rota painting and gas servicing, although it is true to say that the delivery of works under these is more straightforward and repetitive.
- 5.2 Given this background, and whilst recognising that there would be a learning curve for Contract Managers in moving to a partnership arrangement, it was not felt necessary to address this with formal training in the terms and conditions of this type of contract. The view taken was that officers would benefit more from on the job training, coaching and support as necessary.
- 5.3 The audit review identified an initial lack of confidence within the team, rather than a lack of training, as officers were not fully familiar with the aims and objectives of the partnership, or any specific terms and conditions of the contract. This has improved as officers have become more familiar and confident with the 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.
- 5.4 Officers perform a range of tasks including the preparation of plans, specifications, Health and Safety plans and contract documentation. Various technical skills are required and officers need to be knowledgeable in relation to site waste management, methods of safe working and Building Regulations. Knowledge and understanding of standard forms of contract and contractual procedures is essential. This includes the evaluation and processing of tender submissions for acceptance and agreeing valuations for payment. Officers are also required to be organised, maintain regular contact with the contractors in order to monitor progress and workmanship, and monitor the costs of works.

- 5.5 Whilst it is acknowledged that for more complex contracts the council may need to employ external consultants, such as Quantity Surveyors, management feel confident that the technical officers at RMS have the necessary experience, skills and qualifications to manage the routine planned maintenance programmes such as kitchen/bathroom refurbishments, window and door replacements, re-rendering etc. Findings of the audit review support this view.
- 5.6 Actions agreed following the review include:
- 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.
 - 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.
 - 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.
- 5.7 A workshop session has also been arranged for LCC and HTF staff (at HTF's expense) on working within a PPC 2000 contract. This is to take place in February 2012 and will consist of a mixture of presentations, discussions and group working.

5.8 Head of Environmental Services' Comments:

- 5.9 The Officers employed by the Council to deliver the planned maintenance works are professional, suitably qualified and competent. Within the team there is a range of specific skills and abilities to be able to adequately cope with the range of building services that the Council provides to its housing stock.
- 5.10 The skills that these Officers have are augmented through ongoing corporate and personal development in a wide range of subject areas.
- 5.11 The decision to introduce partnering arrangements for the delivery of the planned maintenance programme represented a significant change for the Council and the staff involved.
- 5.12 The successful implementation of change depends upon many factors. It has always been clear to me that more work needed to be done in terms of managing this change. The internal audit report and its action plan identified that to be the case. This includes ensuring that all relevant staff understand and appreciate how the partnering arrangement with Forrest works and are thus in a position to maximise the advantages of such an arrangement.
- 5.13 Since assuming responsibility for the RMS service in May 2011 I have been reviewing the operation of the service. As part of the review I have clearly identified that there is a need for better communication at all levels as well as there being a need to ensure that all staff have clear responsibilities and accountabilities. To help with this, restructuring is taking place at a managerial / line management level.
- 5.14 Once this has been completed work will take place to further improve the way the RMS service is delivered.
- 5.15 The aim is to completely modernise the service and have in place a clear and agreed strategy for delivering the different elements of the service that RMS provide.
- 5.16 This strategy needs to be in place by the end of the 2012/13 financial year.

6.0 Quality of work

- 6.1 The Contract Manager has reported some issues with the quality of the rendering on the Hala project, for example where sub-contractors have not removed pipes etc. The view is that these issues are essentially cosmetic in nature and that the rendering/pebbledashing is fit for purpose in protecting the building.

- 6.2 These issues have arisen due to the size of the areas being pebbledashed, particularly the large gable ends, it being preferable to apply dashing in one go to avoid patchiness. The contractor was verbally informed of these issues on site at every site visit, this being documented in site meeting minutes.
- 6.3 A Contract Manager was on site on average three days per week during the contract period. One of the duties, allied to site meetings was to walk the site with a representative from HTF to identify and address any issues. The contractor was formally informed of issues through the production of snagging sheets and various emails.
- 6.4 At the time of writing, the Contract Manager was withholding approx £18,000 from HTF's final request for payment until all snagging work is complete and some re-measure issues have been resolved. At this point a final inspection will be made.
- 6.5 It is our conclusion that appropriate arrangements are in place to monitor the quality of work and liaise with the constructor to identify and remedy any defects.

6.6 Head of Environmental Services' Comments:

- 6.7 The issues raised are being dealt with in an appropriate way.

7.0 Preliminary costs

- 7.1 Questions have been raised regarding preliminary costs and labour rates charged by HTF; whether they are considered reasonable by RMS, and whether they were established as part of the tendering exercise.
- 7.2 The Repairs and Maintenance Manager has explained that during the tender process tenderers were not asked to provide this information as contractors are not always consistent in what they consider to be preliminary costs. For example, HTF include scaffolding costs in their preliminary costs, whilst other contractors do not. Therefore, costs are not always comparable.
- 7.3 When evaluating tenders to enter into the five year partnering agreement, the competitiveness of the overhead and profit percentages of each tender was considered during the evaluation and selection process.
- 7.4 With regard to whether preliminary costs are reasonable, HTF do provide a detailed breakdown of all their preliminary costs, which is reviewed and can be challenged by the Contract Managers at RMS as necessary.
- 7.5 As delivery of the repairs programme is split between the in-house RMS workforce and HTF, contract managers are able to effectively compare details of costs provided by both contractors and, as stated above, if deemed necessary can challenge these costs.
- 7.6 Given the nature of these costs and the absence of readily available comparative data, it is difficult for Internal Audit to form a conclusion on the reasonableness of and value derived from preliminary costs. Internal Audit can however, provide assurance that Contract Managers are actively reviewing, and have challenged HTF over, the level of preliminary costs included on individual projects.

7.7 Head of Environmental Services' Comments:

- 7.8 Council Officers scrutinise all the costs and challenge them if appropriate.
- 7.9 The arrangements the Council have for delivering planned maintenance has an inbuilt comparison in that half the planned maintenance programme is delivered in-house and half by Forrest.

8.0 Benefits of the Partnership

- 8.1 As concluded in the original audit report, it is Internal Audit's view that arrangements are in place to ensure that work is completed on time, within agreed budgets and to the required standard.
- 8.2 The capital programme is delivered on time with very little slippage of costs at year end, and tenant satisfaction is high.
- 8.3 The initial internal audit report indicated that some of the potential opportunities and benefits put forward for the partnership had not yet been realised, for example the sharing of good practice, development of innovation and savings/efficiencies from not having to separately tender each project.
- 8.4 Following the Personnel Committee's approval in October 2011 for a revised line management structure for the Repairs and Maintenance function, a second stage is underway to review working practices which will aim to ensure that future arrangements are as efficient and effective as possible and also enable the Council to take advantage of opportunities offered by the partnership. This is scheduled for implementation by June 2012.

8.5 Head of Environmental Services' Comments:

- 8.6 The report highlights benefits achieved already.
- 8.7 There are many more benefits that can be realised. As an example we are currently working on a scheme with Forrest that will provide a number of apprenticeships within this District.
- 8.8 In order to realise the benefits it is essential that Officers can focus positively on the development of the partnership.
- 8.9 As has been stated in previous comments to realise this needs time and effort. Currently much time and effort is being devoted to responding to dealing with misinformation and subjective views on the operation of the partnership.
- 8.10 There is already much evidence that demonstrates that the partnership has a sound base on which we can build and ensure the intended consequences continue to be delivered during the remaining life of the agreement.

9.0 Options and Options Analysis (including risk assessment)

- 9.1 There is essentially one option available to Audit Committee, as follows:
- To consider the extent to which this report provides the Committee with sufficient assurance regarding the RMS partnering contract and the conduct/outcome of the Hala Flats Pebbledashing project and whether the Committee wishes to recommend any further action or analysis to Cabinet.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None identified

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no comments to add.

LEGAL IMPLICATIONS

None directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Contract documents (exempt from publication)

Contact Officer: Derek Whiteway

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Ref: aud/audcomm/120215/RMSW