

## HOUSING TASK GROUP (WHQS) – 12TH SEPTEMBER 2012

**SUBJECT: THE WHQS INVESTMENT STRATEGY**

**REPORT BY: DEPUTY CHIEF EXECUTIVE**

---

### 1. PURPOSE OF REPORT

- 1.1 To outline the development of the investment strategy and the proposals for achieving the Welsh Housing Quality Standard by 2019/20.

### 2. LINKS TO STRATEGY

- 2.1 The Welsh Housing Quality Standard (WHQS) is intended to ensure that all local authority and housing association homes are improved and maintained to achieve specified standards.
- 2.2 Relevant policy documents are the National Housing Strategy “Sustainable Homes” WAG; the Council’s Community Strategy; Corporate Improvement Plan; Safer Caerphilly Community Safety Plan; Regeneration Strategy; and Children and Young People’s Plan.
- 2.3 The Council’s Local Housing Strategy “People, Property, and Places” has the following aim:  
“To provide good quality, well managed houses in communities where people want to live, and offer people housing choices which meet their needs and aspirations.”

### 3. THE REPORT

#### 3.1 Background

The Council approved a retention business plan in October 2011 that demonstrated it could afford the necessary borrowing to deliver the WHQS by 2019/20. The business plan was based on the Savill’s stock condition survey undertaken in 2008 which provided a 30 year cost plan for the improvement to the stock to bring it up to standard together with the continued maintenance thereafter.

- 3.2 The Council has spent around £30m between 2009 and 2012 on WHQS improvement works. These works have to be taken into account to establish a new baseline in 2012 before projecting forward to 2019/20. The detailed analysis has shown that the Council will need to budget around £200m from 2012 to 2019/20 and in excess of £800m over the life of the 30 year business plan but these levels of expenditure are within the limits of affordability set in the retention business plan.

- 3.3 A tenants consultation group, Repairs and improvement Group, has been established to work alongside the Investment Programme work stream (part of the WHQS Programme Structure). Early discussion with the Group explored the elements of work that need to be undertaken e.g. kitchens and bathrooms, and the different combinations of renewals required in different properties. A series of options were then developed for works packages and the pros and

cons discussed with the tenants.

3.4 Two conclusions resulted from this dialogue. The tenants group felt it would be sensible to undertake internal improvements to properties in a single package of work. This would result in one period of disruption inside the tenant's home and there should be economies in the contract arrangements. The other key requirement arising from the tenant consultation is that there should be concurrent work within the three housing areas – Eastern Valley; Lower Rhymney Valley; and Upper Rhymney Valley.

3.5 Due to the way work has been undertaken in previous years the stock exhibits a complex picture of partial improvements. Analysis of the stock shows there are just over 4,000 homes that require renewal of all four internal components (kitchens, bathrooms, rewiring, and heating). There are over 9,500 homes that require a new kitchen and around 8,500 homes that require a new bathroom. Significantly more has been done externally than internally. The stock is distributed widely through 91 communities. It is therefore a complex exercise to plan the most appropriate way of structuring new contracts and the area-based approach adds a further layer of complexity.

### 3.6 **Strategy Framework**

In order to provide a framework for developing the investment strategy and contract structure ten propositions have been established.

#### Proposition 1

The contracts will be categorised as follows:

DLO works

Internal works contracts

External works contracts (including fencing, footpaths within curtilage)

Environmental programme contracts

#### Proposition 2

There will be concurrent contracts in all three housing areas within the groups outlined above.

#### Proposition 3

The DLO will be allocated approximately 50% of the bathroom and kitchen work. This will be organised on the basis of three area teams and a 7-year forward work programme commencing April 2013. Precise numbers will be based on both area allocations and a workable plan on the ground.

#### Proposition 4

Three internal works contracts will be awarded to incorporate kitchens, bathrooms, central heating and rewires, one contract for each housing area. These will be six-year contracts from 2014 and will focus on those properties where all four internal components are required, but not exclusively as properties need to be allocated on a sensible basis for effective contract management. These contracts will incorporate wider community benefits.

#### Proposition 5

Some of the properties allocated to the DLO in respect of kitchens and bathrooms may require a rewire, or central heating or both. The DLO may require the support of sub-contractors in each of the three housing areas although there will be an intention to undertake as much work as possible in house. Where sub-contractor support is needed the DLO will be responsible for coordination to meet the tenant requirements of internal works being packaged together.

### Proposition 6

Lower numbers of properties require roofs, windows and doors and there will be a series of external works contracts again operating concurrently within each of the three housing areas. Curtilage works (fences, paths etc) should be incorporated within these contracts. Phasing of the external works programme will be on a different sequence to the internal works. Separate contracts may be required for some non-traditional properties and communal works on an estate based approach, although wherever possible they will be integrated with the external works programme. The planned maintenance works cycle (revenue) will be suspended in 2013/14 and be subsumed in the external works programme from 2014.

### Proposition 7

Within each housing area a sequential approach will be adopted to both the internal and external works so there is a logical progression community by community but planned in such a way that the internal and external works do not overlap.

### Proposition 8

The environmental works programme will adopt a community-based approach and will be subject to prior community engagement, including owners/occupiers of RTBs or other private housing. These will be estate-based schemes with bespoke proposals.

### Proposition 9

A procurement plan will need to be developed for the investment strategy, including the supply chain. Staff resources need to be aligned with the investment strategy, supplemented where necessary. There will need to be a single point of coordination for procurement, and for the overall programme management.

### Proposition 10

Profiling of internal and external works will form the basis of a full implementation plan for each housing area which will show which communities will be allocated each year for the respective works programmes. The respective property allocations to contractors and the DLO on an annual basis will be pre determined and survey schedules will be forward planned. The DLO and contractors will be given discrete areas to works in.

## 3.7 **Investment Plan**

The propositions have been used to evolve a workable plan on the ground. The total value of the internal works is £93m and this would split £43.2m to the DLO and £49.8m to contractors. The work would split down across the three housing areas. The DLO programme would be over 7 years from 2013. Three main contractors will be appointed one for each housing area and the contractors' programme will be over 6 years from 2014. The works will be sequenced by communities for both the DLO and contractors resulting in an average annual spend for the DLO of between £5m and £6m, and for the contractors of between £8m and £9m.

3.8 A similar approach has been adopted for the external works, which is inclusive of work on the non-traditional properties. The external works programme has a total value of £53.8m and will be split £16m to the DLO and £37.8m to contractors. In respect of external works the DLO will primarily be working in the Lower Rhymney Valley and the contractors will be working in the other two housing areas. Due to the location of the non-traditional properties there is a peak of expenditure in 2017/18 which will have a particular impact on the DLO work programme. The external works programme will incorporate any works that would normally have been part of the planned maintenance cycle. The external works will be completed over 5 years from 2014 to 2018. A new 5 year planned maintenance cycle will then commence in 2019.

- 3.9 The sequence of internal and external works has been identified on a community basis for each of the three housing areas through to 2019/20. From this a full implementation plan will be developed identifying which works will be undertaken to individual properties in which years and by which contractor, when appointed. Priority is currently being given to detail the schedule of works for those properties that will be in the interim programme for 2013/14.
- 3.10 At this stage there are no proposals for the environmental works programme. This will be developed separately due to the need for prior engagement with residents on the estates. This will be the subject of a future report.

### 3.11 **Procurement**

The investment programme has to be supported by a comprehensive procurement plan. Current supplier arrangements have developed incrementally. There are a large number of framework contracts with different expiry dates and other ad hoc contracts in use for the DLO. External contractors utilise their own supplier arrangements. The current arrangements can be adapted to meet the needs of the interim programme in 2013/14. However new, more streamlined arrangements will be required to meet the needs of the investment programme from 2014 onwards.

It would be possible to continue with framework agreements for key components such as kitchens and bathrooms. However, this approach is not considered to offer the all round benefits sought by the Council. It is therefore proposed to procure a single source supply partner. A managed service arrangement over 10 years would enable a long-term relationship to be developed, helping to sustain local jobs and deliver wider community benefits. A single supplier would ensure standardisation of products and the administration will be simpler with just one contract and one monthly invoice. There would be particular benefits for the DLO in only having one supplier for WHQS works. Delivery arrangements direct to site would be part of the negotiations. There could be the opportunity to extend the arrangement to the response repairs work of the DLO as a future option.

Work contracts will be tendered on the basis of labour and materials. However, the Council's supply partner will be the nominated supplier for major components (e.g. kitchens, bathrooms, boilers). External contractors will have a direct relationship with suppliers.

All contract arrangements carry risks which have to be managed. Contract terms and conditions will need to be carefully drafted. The Council has to achieve a balance between a number of different objectives and the overall combination of supply and works contracts has to be affordable, manageable, and capable of delivering the required outcomes of achieving WHQS by 2019-20, together with the wider community benefits.

### 3.12 **Contract Structure**

The contract structure to implement the investment plan is outlined below:

#### Supply Chain

Single source supplier – 10-year arrangement  
(All materials for DLO and nominated supplier for external contractors for major components)

#### Works Contracts

##### *2013/14 Interim Programme*

1 DLO internal works (possible sub-contract support)  
2 Cornish non-trads. (Phase 2, 26 houses) external and internal works  
Single tender due to specialised repair

3 DLO non-trads. (16 Hawksley, 15 Unity, 1 BISF) external and internal works

*2014/15 to 2019/20 Internal Works Programme (6 years)*

1 DLO (possible sub-contract support) all three housing areas

2 Eastern Valleys contract

3 Lower Rhymney Valley contract

4 Upper Rhymney Valley contract

*2014/15 to 2018/19 External Works Programme (5 years)*

1 DLO (possible sub-contract support) Lower Rhymney Valley

2 Eastern Valleys – 3 contracts (but see below re. small lots)

3 Upper Rhymney Valley – 3 contracts

*2014/15 to 2019/20 Environmental Programme (6 years)*

To be developed in consultation with residents

3.13 The Public Contracts Regulations 2006 have a provision called the small lots exemption. This provides that the aggregation rules do not apply to contracts worth less than

- a) £69,574 in the case of goods and services
- b) £869,670 in the case of works

and the total aggregate value of all such contracts is less than 20% of the single requirement. The single requirement is the total value of internal and external works that will be subject to external tender (i.e. it excludes the work allocated to the DLO). The value of the work that could be awarded under the small lots amounts to £17.5m. It is considered that this should be applied to the external works as they would be attractive to local building companies. The value of external works in the Eastern Valleys is £17.1m. There would therefore be scope to award up to 20 smaller contracts on a more limited tender basis. There are different ways in which this might be applied, but the offer to the market does need to be clear. Furthermore, given tenants' concerns about effective contract management, there needs to be a limit on the overall numbers of contracts that are awarded having regard to the staff resources available. Nevertheless, it is considered that use of the small lots exemption will be a valuable way of ensuring smaller local businesses get the opportunity to tender for the WHQS work.

- 3.14 The contract structure has to be a sensible balance that manages the risks, obtains good value, provides additional significant work for the DLO and delivers community benefits. The strategy must be deliverable and manageable on the ground.
- 3.15 The plan outlined in this report will be the basis on which progress can be measured as it sets out what has to be achieved between 2012 and 2019/20. Reality on the ground is unlikely to exactly match the plan and there will need to be flexibility to make adjustments to reflect circumstances as they arise. This could include tenants' refusals, or following surveys more or less work being identified with individual properties.
- 3.16 Critical to managing the programme is the Keystone asset management system. This is the database which contains the information from the Savills stock condition survey which has been used to develop the investment plan. It will also be used to manage all the contracts and monitor works that are completed. The WHQS Delivery Team will be required to only use Keystone as the management system.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 An EqIA screening has been completed in accordance with the Council's Equalities Consultation and Monitoring Guidance and no potential for unlawful discrimination and for low level or minor negative impact have been identified, therefore a full EqIA has not been carried out.
- 4.2 The implementation of the WHQS programme will ensure compliance where appropriate with current Building Regulations and DDA requirements. The Council's procurement processes include equalities requirements and compliance by third party contractors undertaking WHQS work.

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 The retention business plan to achieve the WHQS by 2019/20 was approved at the Council meeting on 11<sup>th</sup> October 2011 when the financial implications for the Council were explained. The business plan will be funded through a combination of:
- £22m General Fund capital resources
  - £39.3m Prudential Borrowing by HRA
  - £1.5m HRA reserves
  - £58.4m MRA (£7.3m per annum from WG)
  - £88.8m HRA revenue contribution to capital (equates to an average of £11.1m per annum)
- 5.2 The investment strategy will enable a funding/borrowing profile to be developed to match the works expenditure.

#### **6. PERSONNEL IMPLICATIONS**

- 6.1 A number of management changes have been agreed associated with the programme structure (see separate report). It is proposed to establish a WHQS Delivery Team, which will bring together staff from planned maintenance and heating and electrical teams, and DLO contracting. However, the staff resources will need to be re-organised around the delivery of the investment strategy and contract arrangements set out in this report. There will be a number of secondments to the team to ensure the necessary skills and expertise are available, and it is likely that additional resources will be required to effectively manage the scale of the investment programme. Consultations are being undertaken with staff and a further report will be presented in due course outlining the WHQS Delivery Team structure.
- 6.2 Accommodation for the team is under review. Suitable accommodation is essential for the necessary physical integration of staff currently located within different buildings. The accommodation is an integral part of the re-organisation.

#### **7. CONSULTATIONS**

- 7.1 Comments received from consultees have been incorporated within the report.

## **8. RECOMMENDATIONS**

- 8.1 The investment strategy outlined in the report is endorsed by the Housing Task Group and recommended to the Cabinet Sub-Committee for approval.
- 8.2 The Council's proposal to procure a single source supply partner and the works contract structure is noted.
- 8.3 Works contracts will be tendered on the basis of labour and materials, but the Council's supply partner will be the nominated supplier for major components.
- 8.4 The small lots exemption is applied to the external works contracts and the Project Board is authorised to determine the most appropriate way in which the exemption is applied having regard to the procurement and contract management resource implications.
- 8.5 A further report is presented on the WHQS Delivery Team structure.

## **9. REASONS FOR THE RECOMMENDATIONS**

- 9.1 To agree the proposals to achieve the WHQS by 2019/20.

## **10. STATUTORY POWER**

- 10.1 Housing Acts 1985, 1996 and 2004. This is a Cabinet Sub-Committee function.

Author: P.G. Davy, Head of Programmes.  
(Tel: 01443 864208 – E.mail: [davypg@caerphilly.gov.uk](mailto:davypg@caerphilly.gov.uk))

Consultees: Councillor Gerald Jones, Deputy Leader & Cabinet Member for Housing.  
Nigel Barnett, Deputy Chief Executive.  
Shaun Couzens, Chief Housing Officer.  
Nicole Scammell, Head of Corporate Finance.  
Dan Perkins, Head of Legal Services.  
Gareth Hardacre, Head of People Management & Development.