

Section 20 Review

DRAFT

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1. Executive Summary

- 1.1 Campbell Tickell (CT) has been commissioned by Tamworth Borough Council (TBC) to review its engagement with leaseholders and its method for planning investment works.
- 1.2 The Section 20 notices for the Qualifying Long-Term Agreement (QLTA) for planned works met the basic statutory requirements but were not customer focused, confusing in places and did not adopt sector good practice. The notices were not supported by general information about the Section 20 process, frequently asked questions, repayment options etc and there was no informal consultation with leaseholders prior to entering the formal Section 20 process. Although the QLTA process is capable of improvement we are satisfied that the approach taken was compliant with statute and regulation.
- 1.3 There is evidence that Section 20 processes have improved, particularly since the First-Tier Tribunal hearing in March 2022 but there is more to do to support the improvement of leasehold knowledge and good practice across TBC.
- 1.4 The lease terms date back to the 1980s so do not include the clauses commonly seen in modern leases i.e. improvement and renewal clauses, ability to charge a management fee. This is problematic in terms of TBC recovering its costs of management and maintenance from leaseholders. CT considers that the cost of roof renewals is recoverable from leaseholders, although we do recommend that determination is obtained from the First-tier Tribunal to confirm this, prior to carrying out any roof renewals.
- 1.5 TBC needs to clarify payment options for leaseholders.
- 1.6 Tamworth's investment planning follows typical sector approaches, based on stock condition information. Tamworth needs to update its stock condition data information and support the survey data with on-site inspections prior to commissioning specific works. It also needs to prepare headline plans for the medium and long term to clarify its investment strategy and enable residents to be aware of the probable timing of works impacting on them.
- 1.7 The Qualifying Long Term Agreement is again a typical practice in the sector and can be a cost effective vehicle to simplify work commissioning and management. It can be confusing for leaseholders and Tamworth should provide more explanation to assist resident understanding.
- 1.8 The QLTA procurement exercise is a competitive open market tender exercise and this mechanism together with the contract pricing structure should provide value. The specific management of programming and contracts will be key to delivering the best value available under the QLTA.
- 1.9 As part of the commission we inspected the roofs of a number of two storey blocks. The roof inspections suggest that the roof tiles will last 10 years,

that a programme of remedial works will postpone replacement and that this approach this should provide value for the council and leaseholders. The council does need to consider future commitments and whether earlier replacement is necessary to align with its financial capacity and other priorities. Early replacement will require leaseholders to be offered a discount to reflect premature renewal. This approach is used to enable building owners to manage the peaks and troughs of expenditure.

- 1.10 Major works billable to leaseholders have no significant impact on long-term financial plans because the costs incurred are fully recovered. Depending on the payment options offered, recovery should predominantly be within 12 months. The balance between recoverable and non-recoverable (i.e. tenanted properties) major works costs should be considered when assessing the financial aspects of planned works programmes.

2. The Commission

- 2.1 Campbell Tickell (CT) has been commissioned by Tamworth Borough Council (TBC) to review its engagement with leaseholders and its method for planning investment works.
- 2.2 The commission requires an assessment of the council's approach to
- Leaseholder engagement
 - Its Section 20 processes
 - The FTT ruling from March 2022
 - Planning its investment in its stock
 - The procurement of its contractor to deliver its investment programme
 - The method of charging leaseholders and payment options
 - The financial impact of its methods on leaseholders and its business plan
- 2.3 It also requires a specific review of a selected group of properties and the necessity for replacing the roofs.
- 2.4 The CT analysis has been undertaken by a combination of document review and meetings with councillors, leaseholders and key staff preparing and delivering investment works. CT has also surveyed a selection of roofs chosen by TBC to ascertain condition and life expectancy.
- 2.5 CT has also attended the Leaseholder Collaborative Working Group as part of its interaction with councillors and leaseholders to explain public sector procurement legislation and typical sector practices around investment, consultation and resident engagement.
- 2.6 CT thanks TBC officers and residents for their assistance in providing information and access.

3. Recommendations

3.1 Following its analysis, CT has the following recommendations:

- a) Revise Section 20 notices so they are more customer friendly and the explanation of works goes beyond statutory requirements.
- b) Ensure Section 20 notices are supported by additional information that explains the Section 20 process and answers questions commonly asked by leaseholders.
- c) Update website to provide leaseholders with more detail on the Section 20 procedure.
- d) Draft Section 20 policy and procedures to ensure Section 20 notices are completed and administered correctly and that officer responsibilities are defined for each stage of the process. Procedures should include some informal consultation with leaseholders before entering the formal Section 20 process.
- e) TBC should clearly save the original, dated Section 20 consultation notices to ensure no ambiguity when subsequent queries are raised.
- f) Notices should be addressed to the leaseholder at the correspondence address.
- g) Develop a Repayment Options policy that gives leaseholders repayment options for the cost of major works.
- h) Review all lease agreements to ensure officers understand the terms of each, in particular the extent of the demise of the property.
- i) Improve knowledge of leasehold legislation and practice across TBC by engaging a retained leasehold consultant to advise on leasehold matters.
- j) Modernise lease agreements terms in order that leases issued moving forwards:
 - Review RTB lease for new RTB sales to include renewal and improvement clauses and the ability to collect a management fee to deliver the leasehold service.

- Review approach to lease extensions for existing leaseholders. Consider offering leaseholders a non-statutory route to lease extensions with incentives such as reduced premium costs, legal costs etc. if renewal, improvement and management fee clauses are included in the new lease.
 - Explore whether legally it would be possible to introduce a management fee to existing leaseholders to pay for the delivery of the leasehold service. There is case law (Brent v Hamilton 2006) that suggests that this may be possible.
- k) Update the stock condition survey information with the outcomes of the roof inspections to provide a current data base to inform investment.
- l) Use repairs, void and other recent feedback information to update the stock condition data base with regular operational information.
- m) Undertake on site sample inspections to validate the life cycle projections to inform the investment programme for imminent planned or major works
- n) Identify the specific blocks that are likely to be in the following year's programme and identify the number of leaseholders likely to be affected to assist with both consultation and cost and income analysis
- o) Prepare 5 year and 30 year investment plans to clarify potential investment decisions and financial impact.
- p) Publish indicative 5 year investment plans annually and ensure leaseholders are aware when works are planned for their building.
- q) Following the recommendations in the roof report, assess the costs for each block for the remedial works to prolong the life of the roof for approximately 10 years and ensure this provides value in delaying roof works.
- r) On an 'asset by asset' basis, either undertake the remedial works or replace the roof.
- s) If remedial works are progressed, TBC should consider if other works can be undertaken while the access equipment is in place.
- t) Advise residents of the proposed remedial works programme and likely timescale for roof renewal.
- u) Review the condition of the roofs in five to seven years to assess the point renewal will be needed.

4. Leaseholder Consultation

Background

- 4.1 Tamworth BC (TBC) manages around 4200 homes, of which 428 of the flats are held on a leasehold basis. TBC believes that around 193 (45 per cent) of these flats are sublet by the leaseholder as it holds correspondence addresses for these properties.
- 4.2 The leaseholder consultation concerned the replacement of roofs to 21 buildings, comprising four flats in each building. One of the buildings contains four leasehold properties, while the others are mixed tenure. In total forty-four leaseholders are impacted by the consultation regarding the roof replacement.

Section 20 Consultation

- 4.3 The Section 20 consultation with leaseholders concerned TBC putting in place a Qualifying Long-Term Agreement (QLTA) for long term planned contract works to its housing stock. A QLTA is an agreement a landlord enters into with an independent contractor for a period of more than 12 months. The landlord must consult on the QLTA with all leaseholders if the amount any one leaseholder must pay would be more than £100 in any one year. This includes VAT and any associated management or administrative costs which arise specifically from the proposed agreement. If the landlord does not consult leaseholders, they will not be able to collect service charges over £100 per leaseholder, per year. TBC asked interested contractors to quote rates that would apply to any works undertaken under the QLTA. The contract was awarded to Wates in January 2020 to commence on 1st April 2020 for all the properties owned by TBC for a 10-year period. The total value of the contract was estimated at £43m.
- 4.4 There is no written Section 20 procedure but CT was provided with copies of the template Section 20 consultation notices that related to the QLTA for the long term planned contract works. Officers were unable to provide us with the original copies that were sent to leaseholders.
- 4.5 Due to the value of the contract, it had to be advertised publicly and the leaseholders did not have the right to nominate a contractor for this contract. The contract was covered by Schedule 2 of the 2003 service charge regulations and TBC was required to serve consultation notices on leaseholders:
- Before the tender was offered (the pre-tender stage), TBC was required to serve a 'Notice of Intention'.
 - During the tender (the tender stage), TBC was required to serve 'Notice of its Proposals' (estimates)
- 4.6 Our observations on the notices provided are as follows:

- For both the Notice of Intention and Notice of Proposals, CT was advised by officers that they were unable to provide exact dates of issue for the Notices since whenever the copy notices are shared they update with the current date. We understand that this is the reason why when, in November 2019, leaseholders requested copies of the Section 20 notices originally issued in April and June 2019, the copies provided were dated November 2019. When Section 20 notices are issued to leaseholders, original copies should always be saved as PDF files so that they cannot be altered and the date of issue is clear.
- The notices meet the basic statutory requirements but they are poorly drafted and confusing in places. For instance, the different stages of the process are shown incorrectly on the notices. The notice of intention advises that the planned works being tendered for include 'improvements' and 'upgrading', the cost of which cannot be recovered under the terms of the leases we have reviewed. This fact is not made clear for leaseholders in the notice.
- We understand from leaseholders that all notices were sent only to the leasehold property and addressed to the 'owner' rather than the name(s) of the leaseholder(s). It is good practice to ensure that notices are addressed to the leaseholder by name and also sent to their correspondence address to ensure effective communication, particularly given the high proportion of leaseholders that sublet. We understand that TBC now has a process in place to ensure that a database of leaseholder correspondence addresses is maintained, where these are known. These are now used for all communications with leaseholders i.e. Section 20 notices, service charge invoices etc.
- The notice of intention gave leaseholders the statutory 30 days to make observations but it is good practice to allow 35 days to allow delivery time for the notice.
- The notice of proposals does not include an example of the pricing schedule from the chosen contractor, which it is good practice to include. There is no mention in the notice of when and where a copy of the proposal can be inspected by leaseholders, although we understand from a leaseholder that it was possible to inspect the detailed proposal at TBC's offices.
- The notices do not give information on the next steps once the QLTA is in place. For instance, there is no mention that a further notice will be issued when TBC intends to carry out works under the contract. No general explanatory information on the Section 20 process, frequently asked questions etc. was given to leaseholders.

Lease Agreements

- 4.7 We reviewed the template lease agreement issued by TBC. We are advised by officers that all leaseholders have the same lease agreement, although this seems unlikely given that leases will have been issued at various times since the 1980s. It was beyond the scope of this commission to check all or a sample of lease wordings.
- 4.8 The lease provided to us requires the leaseholders to pay TBC a service charge for keeping their building in repair. The amounts actually spent on repairs must be certified by TBC. Bills are then issued to leaseholders, which the lease requires are paid by the leaseholder within 28 days. We understand from the Senior Revenues Income Assistant that some leases require payment within 14 days of a demand being issued.
- 4.9 The lease agreement only places a responsibility on TBC to 'repair' the building and does not refer to TBC being able to charge for the 'renewal' or 'improvement' of building components. The definition of a 'renewal' is not the same as a 'improvement' and in our view if a component, such as a roof has reached the end of its life, it would be uneconomic and ineffective for TBC to continue to carry out repairs to the roof and a renewal would be required, the cost of which can be recovered from the leaseholders. Where future roof renewals are required we recommend that TBC makes an application for a determination at the First-tier Tribunal (FTT) that it is reasonable to renew the roof given the cost of historic patch repairs, the cost of scaffolding and evidence from independent surveyors. TBC should also meet with the impacted leaseholders to communicate its plans and explain the reasoning behind the necessary replacement of the roof. Hopefully this consultation will get the leaseholders 'on board' with TBC's approach, they will not present a counter argument to the FTT and the case can be heard 'on paper' rather than in person, which will reduce the timescales.
- 4.10 The lease agreement does not specifically allow TBC to charge leaseholders a management fee to cover its costs of delivering day to day building management services. We understand that TBC has received legal advice that it could charge a management fee to cover its cost of managing major works.
- 4.11 Although the lease does not allow TBC to charge leaseholders a management fee for the cost of delivering day to day building management costs, there is case law that suggests that it may still be possible to charge a fee. In *Brent v Hamilton* (2006) Court of Appeal, it was held that the landlord was entitled to imply a term requiring leaseholders to pay a fair proportion of management costs to avoid subsidisation from Brent BC's general housing revenue account funds.

Impact Assessment - HRA Business Plan

- 4.12 To date, it is understood that TBC has not fully recovered the costs of works on leaseholder homes, either through design or accident. The QLTA gives TBC the opportunity to recover the costs of works to leaseholders properties, assuming that the Sc 20 consultation is appropriately executed. This should improve the levels of recovery and ensure that both residents and leaseholders are treated equitably when planning asset investment. CT has set out leaseholder payment options in ###. There will be a delay between expenditure and cost recovery depending on the option(s) chosen. In most cases, recovery will be within 12 months which should not have a significant financial impact. TBC will know of any applications for extended payment and can factor this into financial planning. It should also allow for a small percentage of non-recovery. It needs to consider the cost balance of the legal costs of recovery against the sums owed. It is always a good plan to demonstrate recovery will be pursued to encourage all to pay and not assume that default is an option.
- 4.13 Premature renewal will have an adverse impact on the Business Plan as it will reduce the recovery from leaseholders. This is because costs passed on to leaseholders will need to be discounted to take in to account the roof's early renewal. This shortfall will need to be funded through tenant rents, which will reduce the volume of works that can be funded and will result in other works being deferred. If overall recovery improves by closer management of Sc 20 notification and seeking appropriate payments from leaseholders, this could be financially positive by removing the inherent subsidy applied to date.
- 4.14 It may be expedient for works to be undertaken before the end of the component life if this is clearly to avoid repairs cost that will otherwise result or if TBC's financial capacity requires works to be brought forward to smooth expenditure. If smoothing costs, it is preferable to bring forward works that do not affect leaseholders to avoid the potential under recovery.
- 4.15 At the moment, TBC officers have not been able to provide projected expenditure for the next few years and leaseholder impact. Overall, CT advises that leaseholder charges and recovery should have no impact on the 30 year financial plan as, if consultation is correct, TBC should fully recover any expenditure.

Impact Assessment Leaseholders

- 4.16 The principal financial issue for leaseholders at the moment is the lack of notice of works and costs. The QLTA is general and not sufficiently specific to enable an individual lessee to know the likely timing and cost of works to their home. Leaseholders only become aware of the timing of works and

likely costs when served with a Qualifying Works Notice prior to the works being executed, when TBC provides an estimate of costs. This does not enable them to plan their finances to meet the costs levied.

- 4.17 If TBC prepares longer term forward investment plans and identifies the leaseholders likely to be impacted, this will enable earlier notice to be provided.
- 4.18 The notification of the QLTA should enable TBC to fully recover the costs of works to leaseholder premises. CT understands that this has not always happened previously and this improvement in procedures will result in additional costs for leaseholders, albeit correctly levied. CT has set out payment options for TBC to consider.
- 4.19 CT has explained in Section 7 below that the costs to leaseholders may be higher than they may expect using a small local contractor and the reasons for this. However, TBC is bound by public sector procurement legislation which, while providing competition to deliver value, may not provide the cheapest solution, but should provide a good quality solution that adheres to current regulations, with warranties.
- 4.20 CT is recommending that remedial works be undertaken to prolong the lives of the roofs. Leaseholders will be liable for their due proportion of these costs. While these will be in addition to the future roof renewal costs, if the works delay renewal by seven to ten years they should provide value and enable leaseholders to budget for the future renewal costs.
- 4.21 Timely renewal of key components is important to maintain the leaseholders' asset value. As stated in the survey report, most of the surveyed buildings have minor works required which should not significantly affect the estimated value of the homes. Similarly, if the costs of roof renewal are not anticipated for ten years, rather than imminently, this should have a positive impact on asset value.

Statement of Means

- 4.22 Invoices for leaseholder service charges are raised by the Business Support team and the Revenues and Income team is responsible for ensuring that the invoices are paid. Invoices must be paid within 28 or 14 days, depending on the terms of the individual lease agreement. If any leaseholder cannot pay within this timescale, they are permitted to pay in instalments over (up to) 12 months with no interest.
- 4.23 If leaseholders advise that they cannot pay within 12 months and are unable to obtain a personal loan etc, they are sent a 'Statement of Means' form to complete. This form is used to detail the leaseholder's income and expenditure so that TBC can understand the financial situation of the leaseholder and what they might be able to pay. We were advised that few 'Statement of Means' forms are returned by leaseholders, but where they

are, it is at the Revenue Manager's discretion to offer other repayment options. There is no TBC guidance on where alternative repayment options might be offered or a methodology for officers to follow to make these decisions. In view of this, there is a danger that individual leaseholders may not all receive the same advice/options.

- 4.24 There is no written advice available for leaseholders i.e. in a leaflet or on the website etc. regarding repayment options, should leaseholders be unable to pay invoices when due.
- 4.25 As part of this review we have drafted a Repayment Options Policy for consideration. Please see Appendix 1.

Review of FTT Ruling

- 4.26 In March 2022 TBC was challenged by some leaseholders at the FTT on their liability to pay for works to replace the roof to their buildings and the reasonableness of the proposed charge for these works. The key outcomes from the Tribunal hearing were:
- The Section 20 notice for Qualifying Works under a QLTA was flawed as it did not invite leaseholders to make observations on the qualifying works and did not include TBC's estimated cost for carrying out these works under the QLTA in place. Due to this, TBC sought dispensation from Section 20 from the Tribunal, which was granted.
 - Leaseholders were concerned that the Notices of Intention for the QLTA were only sent to the property address and not to the leaseholder correspondence addresses. The notices were also addressed to the 'owner', rather than to the named addressee. Although this approach to the service of notices is permitted under the terms of the lease, it is good practice to send notices to correspondence addresses and name the addressee. We understand that TBC now ensures that a database of leaseholder correspondence addresses is maintained and these are used when there are any communications with leaseholders.
 - The Tribunal had no issue with the cost of the works but held that the roof tile covering had been replaced fourteen years too soon, due to the remaining life of the roof covering. To acknowledge this, service charge costs to the leaseholders were reduced by 14.29 per cent. This outcome is reflected in our advice regarding future roof replacement works and is discussed in paragraphs 8.6 and 8.7 below.

Knowledge of Leasehold Legislation and Good Practice

- 4.27 From our review it appears that generally officers have a limited knowledge of leasehold legislation and good practice, particularly in respect of administration and record keeping. We were provided with examples from

leaseholders where they had been advised to carry out works themselves to building components that were the responsibility of TBC i.e. roof replacement and guttering replacement.

- 4.28 Officer knowledge of imminent future works was also reported to be lacking. One leaseholder reported that when they were purchasing their flat, TBC responded to their solicitor's enquiries regarding works planned in the next five years, that works were 'not applicable'. Three months after they bought their flat they were advised by TBC that roof works would be carried out. Officers have advised that as budgets are prepared annually, five-year predictions are not available. This is standard information that solicitors will require as part of a conveyancing transaction so must be made available by TBC. If accurate estimates of future works are not provided this may impact on the ability of leaseholders to sell their properties and on the ability of TBC to recover the cost of future works from leaseholders.
- 4.29 There is evidence that leasehold practices have improved in recent years, particularly since the 2022 FTT hearing. For instance, the introduction of a database of leaseholder correspondence addresses and improving Section 20 notices to ensure that they meet statutory requirements. However, we recommend that a retained leasehold consultant is engaged to advise TBC officers on leasehold matters, as required.

5. Tamworth Investment Planning

- 5.1 Tamworth officers have acknowledged that the data used to provide life cycle information is aged. The primary source is the Michael Dyson (MD) stock condition survey from 2018. A new survey is planned imminently to refresh the information. While the use of stock survey data is common practice in social landlords, it is typical to keep this data refreshed with more regular survey updates. It is usual to survey 20% of the stock each year to ensure that all information is within the last five years.
- 5.2 While the MD stock condition data is not current, it is still likely to be valid in most cases to project when items are likely to fail and can still be a valid source of information.
- 5.3 The use of the life cycle information to plan future investment needs to be supplemented with on-site inspections to validate the proposed works. It is reasonable to use life cycles as indicators of replacement dates, but they will not always work, particularly for components' with long lives, like roofs.
- 5.4 The principle of replacing elements just ahead of the lifecycle expiry date is sound as it reduces the chance of component failure and resulting repairs. This is common practice among social landlords. This has become less common in recent years as the financial challenges are leading to a more pragmatic approach to only replace/ renew items when essential. This can

be after items have started to fail. Both approaches have merit but there needs to be clarity on the preferred approach to enable this to be explained to residents as part of the engagement process. Either process needs to be supported with on-site inspections to validate current condition and life expectancy and options for remedial works to extend life.

Programme impact on leaseholders

- 5.5 Currently there is no consideration of the number of leaseholders impacted by specific works programmes. Officers could not advise on the number of leaseholders likely to be affected by the 2024/25 programme. While this means that priorities are not influenced by the number of leaseholders in particular blocks, it also means that the practicality of programme delivery is not considered. There are additional consultation stages to execute to meet Sc 20 obligations where leaseholders are involved, if the council wishes to recover costs. This will delay the start on site date. There will also be financial implications arising from the inclusion of leaseholders within schemes and the timing of cost recovery. This is covered in 4.12 – 4.15 above.
- 5.6 There needs to be more transparency of future investment plans and clear resident involvement in planning. This is a requirement of the new Consumer Standards which TBC needs to meet with effect from April 2024.

6. Works Procurement & Contract

- 6.1 TBC must comply with UK Procurement legislation. This requires a contract of this value to be advertised to enable open competition. The procurement legislation is designed to provide open competition and prevent public sector organisations offering work to favoured companies. Large contracts cannot be broken down into smaller packages to enable them to be under the value guidelines. TBC must advertise its major investment contracts to ensure fair competition. This will tend to preclude small, local contractors competing.
- 6.2 TBC has opted to enter into a Qualifying Long Term Agreement for its asset investment works on a 5 year plus 5 year basis, to provide a contractor to deliver its investment programmes. This is a common route used in the public sector.
- 6.3 This route has the advantages of a single procurement exercise to cover multiple trades and work streams. It gives the client a single point of contact for all works, which should reduce administration, compared to managing multiple contractors. The work volumes offered to the contractor should also bring economies of scale and a competitive price. The value for money *may* be adversely impacted by the timing and competition for the contract. CT is not aware of any adverse factors affecting Tamworth's procurement.

- 6.4 This single point contract also enables the consultation required with leaseholders as part of Sc 20 of the Landlord & Tenant Act to be covered for a single procurement rather than being undertaken several times for several procurements.
- 6.5 There are elements of the single procurement which are challenging. The high contract value, believed to be in excess of £40m for TBC, significantly reduces the number of contractors with the capacity and resources to meet the pre-qualification tender criteria. It excludes local SMEs as primary contractors, although they may be able to work for the winning bidder within a sub-contractor framework. The contract also includes conditions, such as the Social Value criteria and reporting criteria, which are likely to preclude some contractors from applying, or qualifying if they do apply. It is unlikely that any contractor will have the inhouse resource to provide all services through directly employed staff so there is inevitably sub-contracting. This is likely to make the method of delivery, at least in part, a management contract, co-ordinating various sub-contractors. This may be seen as adding additional management costs.
- 6.6 While overall the procurement process tests the market and should give good value, it is inevitable that a contractor will have areas of work that it is able to deliver more economically than others. This pricing mechanism results in a competitive average cost and a levelling of prices across all work streams. Some may be more expensive than a trade specific procurement and some may be cheaper.
- 6.7 Leaseholder consultation on a QLTA precludes the leaseholders from nominating contractors as the local contractors likely to be familiar to leaseholders will not meet the pre-qualification criteria. The council-wide, multi-works nature of the contract can also make it difficult for leaseholders to comment on the proposals as the consultation must be very general to cover all the work types and many may not be relevant to the individual. This complexity can be mitigated with additional explanatory information. The inference that CT has gained from attending meetings with leaseholders is that the consultation for this QLTA was confusing for leaseholders and meant some leaseholders felt unable to comment.
- 6.8 CT's comments on the process and leaseholder reaction are covered separately in **Section 4 - Leaseholder Consultation**.

7. Contract Prices & Management

- 7.1 The procurement exercise tested the market and should result in a competitive pricing structure for the full range of works. However, as stated in 6.6, by amalgamating a variety of trades into a wide ranging contract, the rates offered will be an average across trades and individual trades may be more or less competitive than a trade specific procurement as a result.

- 7.2 Comparative roof pricing – CT has been advised that leaseholders have sought comparative costs from local roofing suppliers who appear to be offering much better value than the Wates price. It is often the case that a small local trader will apparently offer a more competitive price than the one obtained through the Council’s main procurement process. This can be for several reasons;
- a) It is likely that the local contractor is **working to a simpler specification** than the one required by the council. It is unlikely that the leaseholder seeking the price will include all the conditions required by the council. This will typically include additional health and safety and working condition requirements. The council’s conditions are likely to be more stringent than those generally used by small traders for materials handling, disposal, working practices, supervision and quality control.
 - b) The small local contractor will not need to consider for example adding social value or having apprenticeship programmes. While these may not individually add value to the job, they are an integral part of the council’s considerations and the method of operation it expects. These add cost.
 - c) The local contractor will have a simpler set up and lower overheads enabling a lower price to be offered. The large contractors need the administration to enable them to compete in the procurement market for these large contracts. This comes at a cost. The administration will probably include more rigorous health and safety requirements, social value employees, and more support staff, such as resident liaison.
 - d) The larger contractor will usually have better reporting mechanisms to provide performance information on the contract delivery. Most large public sector contracts will have performance management information requirements within the contract. Again, these come at a cost.
 - e) A smaller local contractor is more likely to have ad hoc employment arrangements for operatives to meet peak demand. This is a potential risk in relation to H&S and delivery practices.
 - f) A large contractor, such as Wates, should be able to offer insurance backed guarantees for the roof renewal which should give leaseholders some comfort. This is less likely to be available from a smaller contractor. This guarantee also has a cost which will be included in the rates.
 - g) The overarching point is that a price from a small independent contractor does not contain many elements included in the price from the large contractor. Many small contractors are not able to compete for the larger contracts because they can not comply with those requirements. Moreover, those extra elements are not unreasonable.

- h) It is more relevant to ask: Has the QLTA been procured, and are its terms in compliance with regulation? Our view is that the answer to both questions is: Yes.
- 7.3 Leaseholders have commented that they have been confused by letters from Wates around the extent of works shortly following the contract award. This appears to have been sent ahead of the formal contract agreement. Officers have not been able to clarify why these letters were sent by Wates. It is thought to relate to a previous contract. CT has sought but has not yet received clarity on this point.
- 7.4 The Council needs to set out the specific requirements for works covered within the procurement, such as remedial works or roof renewal. Wates will then prepare a cost for the works identified. It is important that this specification is site appropriate and does not allow the contractor to inflate the works and add to the cost. This will be key in estimating the cost of remedial works as there are a different sets of works to each roof. This will impact on the costs passed to leaseholders. Similarly, actual delivery must be closely managed to ensure that any variations from the specification are closely managed and costed.

Inflation

- 7.5 Officers and leaseholders have both raised the price impact of work now as opposed to work in 10 years. TBC has advised that the Wates contract has a CPI factor to increase rates. In principle, with this in place spend now or spend later should be cost neutral on a Net Present Value basis. Although the actual cost will be higher later, if it aligns with inflation and TBC income it will be no different in real terms. If rents go up above CPI, TBC may be better off to defer based on the current Wates contract. It will impact differently for some leaseholders whose income may not align with moves in inflation.
- 7.6 CT considers that the main issue for TBC is its financial capacity. Spending will need to be smoothed to deal with peaks and troughs. This will mean that some works will be earlier than the life cycle replacement. TBC can plan which elements are replaced early. In practice something with a long life, such as a roof is less impacted in terms of its condition by a delay of a few years rather than something like heating systems and electrics which have a shorter life and may benefit from being brought forward. Also, items such as boilers and in-dwelling electrics do not have a leaseholder impact and there is no requirement to consider a discount for premature renewal.

8. Roof Inspections

- 8.1 TBC identified 39 homes in B78 and B79 post codes. These homes are typically four flats, two upstairs and two down, covered by a pitched roof with hip ends. The roof is shared although there are separate loft spaces on either side of the party wall. CT commissioned its partner surveying practice, Faithorn Farrell Timms (FFT), to undertake the roof inspections, including the loft space where access was provided.
- 8.2 Letters were sent to all homes and CT thanks TBC residents for assisting with door knocking to secure appointments for roof and loft inspections. We were able to gain access to 22 of the properties. The remaining properties were surveyed externally.
- 8.3 The full report is enclosed as Appendix 2 with the detail of each roof and recommended remedial works in Appendix 3. The headline position is that the existing roof coverings have circa 10 years life left in them. The roof coverings have reached the end of their estimated life expectancy, but there were no obvious signs of leaks and the roof coverings are in the main in good order. Other elements of some of the roofs, such as the sarking felt, the fascia's and soffits have either perished or are in need of replacement.

Remedial Works

- 8.4 The tile coverings to the roofs do not appear to need immediate replacement (there is one exception to this). Various remedial works have been identified to extend the life of the roofs and to provide an estimated 10 year life. CT recommends that TBC assesses the costs of the remedial works to each, using its QLTA, to enable a decision to be made on the value of progressing with the remedial works rather than full replacement. Access equipment will be needed to undertake roof repairs. TBC should consider if other works are appropriate to be undertaken while access is in place.

Further surveys

- 8.5 If remedial works are implemented, CT recommends that the roofs are inspected again in five to seven years to re assess the roof life and timing of renewal.

Timing of full replacement

- 8.6 While the roof life can be extended, the council may decide that it is more economically beneficial to them to replace all the roofs as part of a single wider programme of replacements as opposed to replacing them on a more ad-hoc basis. It may be that the council has funding now but cannot guarantee future finances or has other works identified in future years that will preclude funding roof replacement. The council may therefore feel it is

beneficial to replace all the roofs sooner. There is also the possible benefit that undertaking the works now, will mean they will be completed at a cheaper cost than in 10 years time. The relative real time costs will depend on inflation and the contract conditions.

Premature renewal

- 8.7 If the roofs are replaced imminently, CT recommends that leaseholders should be offered a discount to reflect premature renewal of the roofs. The size of the discount will depend on the timing but if it is assumed that the roofs are renewed now, it is approximately 8 to 10 years ahead of the end of life date. Assuming the revised life is 80 years, the eight year early renewal is a 10% reduction in the roof life and a 10% discount could be offered. It must be remembered that the actual cost of the roof is not reduced and the discount will be funded from tenant's rents. CT would not recommend replacing the roofs early as TBC will use rent income to subsidise leaseholders rather than waiting to the end of the component lifespan and fully recovering all qualifying costs.

Sarking Felt

- 8.8 There has been discussion over the function of and need to replace the sarking felt as it is in poor condition on many roofs. It is not normal practice to retrofit sarking felt, as it would mean stripping the roof off. The felt would also end up getting replaced again when the roofs are renewed, which is likely significantly ahead of the felt's life. Sarking felt is not an essential for pitched roofs and there will be many older properties without it. If the roof covering is in good order and there are no leaks the omission of sarking felt is not an issue, as it is basically a secondary measure to prevent any water ingress if the roof covering fails. It does prevent wind and dust entering the loft space, but its main function is to prevent water ingress. Sarking felt can also have a negative impact if it's not breathable. It can create condensation in a loft space during cold spells. The retrofitting of sarking felt is likely to be complicated and not cost effective if the roof covering itself is not being replaced. It is therefore recommended to only deal with sarking felt failure when the roof is replaced in its entirety.

Proposed Works

- 8.9 There is likely to be a benefit in undertaking remedial works costing no more than several thousand pounds per roof, rather than the estimated renewal cost of £40,000. This will extend roof life although the precise life extension cannot be guaranteed. It will give leaseholders a prolonged opportunity to plan for the expenditure.

9. Conclusions

- 9.1 Tamworth Borough Council has followed common practice in the sector to seek a multi-works, multi-million pound contract to deliver its investment in its housing stock. This type of Qualifying Long Term Agreement (QLTA) contract must conform to the procurement regulations, which will usually exclude small, local contractors from applying. The procurement is compliant from the evidence CT has seen.
- 9.2 Although the process is generally compliant, the information passed to leaseholders was confusing. The consultation would have benefitted from additional explanatory information to make it more relevant.
- 9.3 TBC's record keeping has been poor and has on occasion caused confusion when supplementary information has been sent to leaseholders with incorrect dates.
- 9.4 TBC would also benefit from having a clear policy on payment options for leaseholders.
- 9.5 TBC would also benefit from updating its lease conditions and having retained specialist advice.
- 9.6 Officers acknowledge that stock condition information is aged and it is understood that there is a commission in place to rectify this. This does not preclude the use of this data to prepare investment plans. TBC's method of using life cycle information and stock data to formulate its investment decisions is typical in the sector.
- 9.7 The investment plans appear to be over reliant on life cycle information and would benefit from on-site surveys to validate proposed investment.
- 9.8 Works programme planning and consequent financial planning appears to be short-term and is not published making it hard for tenants and leaseholders to know when works are planned to their homes. Better information needs to be disseminated to residents.
- 9.9 The QLTA agreement may result in price differences to what leaseholders may expect from local contractors, but TBC has followed a typical route and there are clear reasons for cost differences as set out in section 7. above.
- 9.10 The survey of the sample roofs suggest that, with minor remedial works, the roofs can expect to last another 10 years. TBC needs to assess the costs of these remedial works to validate their medium term value.
- 9.11 TBC may still wish to replace the roofs ahead of the end of life if this is necessary to smooth overall investment. Earlier renewal will result in the need to offer leaseholders a discount for premature renewal. TBC may also need to seek a determination from the Tribunal to progress the works and confirm that the level of discount offered is reasonable.

- 9.12 TBC should inspect the loft interiors in five to seven years to check on condition and review the roofs life expectancy.
- 9.13 TBC has clearly tried to comply with legislation in procuring works and consulting leaseholders on timing and costing. While generally compliant, there is room for improvement in its processes, its investment planning and leaseholder consultation in ways we have outlined in the body of this report.

Appendix 1: Repayment Options Policy

Attached Separately

Appendix 2: Roof Condition Report

Attached Separately

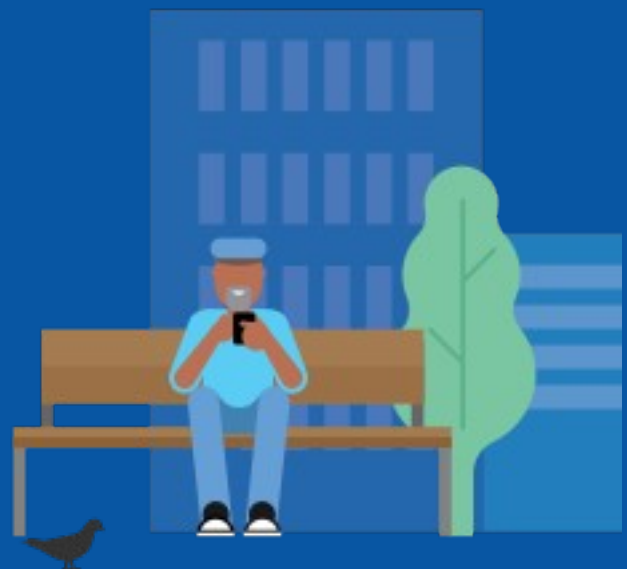
Appendix 3: Schedule of Roof Survey data

Attached Separately

CAMPBELL TICKELL

Telephone +44 (0)20 8830 6777
Recruitment +44 (0)20 3434 0990

info@campbelltickell.com
www.campbelltickell.com
[@CampbellTickel1](https://www.instagram.com/CampbellTickel1)



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