



Northern Ireland  
Assembly

Public Accounts Committee

# OFFICIAL REPORT (Hansard)

Northern Ireland Housing Executive  
Management of Response Maintenance  
Contracts

12 September 2012

# NORTHERN IRELAND ASSEMBLY

## Public Accounts Committee

### Northern Ireland Housing Executive Management of Response Maintenance Contracts

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**Members present for all or part of the proceedings:**

Ms Michaela Boyle (Chairperson)  
Mr John Dallat (Deputy Chairperson)  
Mr Sydney Anderson  
Mr Alex Easton  
Mr Paul Girvan  
Mr Ross Hussey  
Mr Daithí McKay  
Mr Mitchel McLaughlin  
Mr Sean Rogers

**Witnesses:**

Mr Will Haire	Department for Social Development
Mr Jim Wilkinson	Department for Social Development
Mr Gerry Flynn	Northern Ireland Housing Executive
Dr John McPeake	Northern Ireland Housing Executive

**In attendance:**

Ms Fiona Hamill	Department of Finance and Personnel
Mr Kieran Donnelly	Northern Ireland Audit Office

**The Chairperson:** We are considering today the Comptroller and Auditor General's (C&AG) report on NI Housing Executive's (NIHE) management of response maintenance contracts. Does any member wish to express an interest in these matters?

**Mr Anderson:** I am a former member of the housing council. Does that need to be registered?

**The Chairperson:** Yes. I think that we had this discussion briefly last week. As chair of my council, I am also a former member of the housing council. Mr John Dallat?

Mr Will Haire, the accounting officer for the Department for Social Development (DSD), is here to respond to the Committee today. Mr Haire, you are very welcome. Will you introduce your team?

**Mr Will Haire (Department for Social Development):** Thank you very much. I am joined by Gerry Flynn, who is director of housing and regeneration in the Housing Executive; Dr John McPeake, the chief executive of the Housing Executive; and Jim Wilkinson, who is head of the housing division in the Department.

**The Chairperson:** Thank you, Mr Haire. I know that, through their constituents' experiences, many members have considerable knowledge of and interest in this area. That will no doubt inform the discussion. I will begin, and members will want to put their own questions to Mr Haire and the panel in order.

Mr Haire, paragraph 2 of the executive summary of the report lists a number of reviews. Will you outline briefly to the Committee the key findings that are emerging from those reviews and the action that the Department is taking on foot of them?

**Mr Haire:** Yes, and, as you said, a number of issues were arising around 30 months ago when I was relatively new in the Department. You may remember that something to do with land deals and various other issues came around, and that the Housing Executive suspended a senior member of staff at one stage, as it was concerned about that. Those issues, as well as some ongoing investigations into contracts that were taking place even at that time, raised concerns with my then Minister. In discussion with him, I felt that we needed to put in a major governance review to look at the issues of how well the governing structures and the organisation were progressing both at board level and in the senior executive team. There were questions about how well the culture and structure of the organisation were dealing with issues of public value, and, finally, there was a key issue about how contracts were being managed. I asked for advice on that from the Department of Finance and Personnel and got an expert group that we found through the Office of Government Commerce (OGC) to come in to review the response contracts. That group reported in the autumn of 2010 and detailed a range of issues.

My governance review was done by my head of internal audit and a team, including someone from the Department of Environment, who dealt with the HR side, and one of my governance experts from the Department. That review raised some issues that showed us, as the report indicates, that there are strengths in the governance of the organisation and that the process was there but that a lot of things were not being done. The structures were there on paper, but when you got to board level and, more importantly, senior level, a lot of things were not being done correctly and a range of issues were not being addressed properly. The Office of Government Commerce came back and made the point that those contracts were wrong and that they were not fit for purpose. They included contracts coming from the early phase of Egan, which the Audit Office report gives you a sense of. They were not the tight, clear contracts that need to be put in place, and, therefore, a lot of the implementation problems came from those poor contracts. So, a key element and focus was on ensuring that we got a change in the contracts that were written over the past while. That has taken longer than we would have liked, and, as often happens with contracts, we have had contested processes. However, I am glad to say that new, much tighter contracts have been in place since August. Throughout that time, we worked to implement the governance review and to make sure that there were improvements in the organisation.

The review into Red Sky, which started at the request of the Audit Office, concluded in 2011. However, the Housing Executive had also carried out a number of other reviews. In the spring of 2011, the Housing Executive board decided that it had to end the contracts with Red Sky, and that was done.

When my new Minister came in, he was also concerned to look at what the lessons were, whether there were other issues in other contracts and whether there were the same management problems. So, a new piece of work was done for the same company. That is just being completed now, so we have a better sense of all the other contracts.

There has been a wide range of external reviews, but, at the same time, the Housing Executive conducted its own very important repairs inspection unit (RIU) reports. It raised those reports to a much higher status and used them to drive change. I have pursued the Housing Executive to make sure that it best uses those reports to force the change that I think is essential.

I hope that that gives you some background to what was quite a complex structure of reports.

**The Chairperson:** Thank you, Mr Haire. You mentioned tighter contracts being in place, and maybe, at a later stage in the meeting, members might want to discuss those tighter contracts. It would also be helpful if you could provide an insight into the findings of the departmental review that is referred to in paragraph 1.22 of the C&AG's report and inform members when that will be published.

**Mr Haire:** As I said, we received initial responses from the Housing Executive to that report, and we will continue those discussions before it is finalised. I think that it will take some time to do that. We also have to work with the contractors to make sure that it is right.

The report states that the departmental review' findings are "consistent" with the Northern Ireland Audit Office's (NIAO) findings. I think that that is still being borne out.

**The Chairperson:** Thank you, Mr Haire. I want to turn to paragraph 4.5. As members will have read, that depicts what can only be described as a complete breakdown in control at the top of the organisation. Indeed, there are serious questions about a number of points, such as:

*"the nature and quality of information going to the Board",*

the handling of internal audit and repairs inspection unit reports; the over 280 identified breaches of standing orders; and significant issues not being drawn to the attention of the board or being presented in a way that was not appropriate. My question to the panel is: where does the buck stop with this? Did you know about all that and, if so, when? Who has been held to account for this whole debacle? There are a lot of questions, but, finally, is anybody who was responsible for that still in position?

**Mr Haire:** I will pass over to John McPeake in a moment. We became aware of those issues when our governance review found them in 2010, and my head of internal audit reported them to me in late autumn 2010. A range of questions clearly had to be asked about the quality of information that was going to the board. The Housing Executive board has been pursuing the issue of what information it was getting in the process. I have been getting reports from the board on how it has gone through the full range of the issues. The range of areas, for example, where there were breaches in variations in contracts is now being worked through. We have been monitoring that closely, and a system of oversight is in place.

I will ask Dr McPeake to give us some sense of the Housing Executive's perspective.

**Dr John McPeake (Northern Ireland Housing Executive):** Thank you. We accept that mistakes have been made. We are not here to make excuses about that. I was appointed to the post of accounting officer of the Housing Executive last September, and I am here to account for the organisation's actions. I hope that I will have the opportunity to explain that my focus is principally on taking this forward, addressing the shortcomings and making it right. However, I will offer a number of observations on the specific issues that you raised.

We accept that there have been problems in the level and detail of information going to the board. In the past six months, we have conducted a significant review of the reporting of information in various levels of the organisation. As Mr Haire indicated, we accept the governance review's findings, which showed very clearly that we had been reporting information on key things at too superficial a level for the board. We accept that, and we have taken steps to fundamentally change our reporting arrangements.

We have introduced a new risk and performance committee. One of the issues that the Audit Office points out, which we also accept, is that the agendas of the board and the audit committee were very long and detailed. That meant that there were occasions when the right amount of attention was perhaps not given to key issues. With the senior management team's support, the board has restructured the agendas for those important meetings and introduced a new committee structure to give proper time for the scrutiny of those key issues. It does not take away from the fact that mistakes were made in reporting information to the board, but we believe that we have a way forward.

It may be worth explaining breaches of standing orders. To give an easy example, we may have an adaptation scheme where we are going to build an extension on a property. A scheme is designed and has an estimated cost of, let us say, £30,000. When the contractor goes on site to do the work and opens up the ground to put foundations in, he may find that he has a problem with ground conditions. If the on-site supervisor gives him the authority to proceed with that work and supervises it but does not close the circle of approval on the internal system, that would be a breach of our control arrangements. To address those issues, we have conducted a fundamental review of the organisation's standing orders. We have new standing orders, which remove any ambiguity around this. We have put in place training arrangements for our project managers to make sure that they understand exactly what they are supposed to do at each and every stage.

I have introduced a new arrangement for the technical schemes so that the chief executive's business committee, which meets every Monday morning, gets a regular update on breaches of standing orders. In keeping with one of the governance review's recommendations, we will be providing an analysis of breaches to the board. The intention there is to identify whether there is any pattern and whether it is associated with any particular types of schemes, locations, contractors or individuals. At the end of the day, our belief is that if we can put in place a system — I am confident that we can — whereby we can ensure that the officers know what they are supposed to do and are properly equipped to do it, we will take appropriate disciplinary action if they do not do it.

The last point that I wanted to make is about clearing internal audit reports. It is regrettable. I am embarrassed to be here before this Committee, and I can see a couple of examples in the report where audit reports were not dealt with in a timely way. Since becoming chief executive, I have made very clear to my colleagues that although it may be acceptable to challenge a recommendation from inspection or audit, it is not acceptable to use that challenge as a means for not progressing the report to the audit committee. That is one of the important lessons that I think that we have learned from this. I do not offer an excuse, but, as the accounting officer, my focus is to move forward and address those issues.

**The Chairperson:** Thank you, Mr McPeake. Since this situation came to light, a number of people have moved on and retired. However, I will ask the question again: are any of those who were responsible still in position in the Housing Executive?

**Dr McPeake:** Yes. Several people have been disciplined on a number of occasions for different things. In each case where there is wrongdoing or we feel that someone has done something that they should not have, we look at it in the context of whether there should be disciplinary action. As you rightly said, a number of people have left the employ of the organisation in recent years. In fact, we terminated the employment of a senior member of staff for a breach of the code of conduct that related to those sorts of issues.

I have asked my director of human resources to make sure that the Housing Executive adopts a consistent approach when it is addressing these issues and shortcomings on the part of staff. One of the problems that we have is that if the organisation has not provided the appropriate training for employees, it is difficult, in all honesty, to deal with poor performance, because the organisation is partly culpable. As chief executive, my focus is on making sure that we do not put ourselves in that position again, as I said. I will make sure that there is absolute clarity about what is expected from my employees, and they have to be absolutely clear about what they are supposed to do. In those circumstances, there is no place to hide.

**The Chairperson:** You mentioned the fundamental review that is in place, particularly that of the standing orders. You will appreciate that that would not have to happen if things were right and that there would not need to be a fundamental review if things were being carried out properly. The board and the audit committee seem to feel that the wool has been pulled over their eyes for a number of years. You talked about the lessons that can be learned from this. Indeed, I hear that a lot, but the Committee will be looking at the lessons learned and the recommendations that you have put into place.

**Mr Girvan:** Dr McPeake referred to an area that I am concerned about. For argument's sake, if a contractor comes and digs foundations but cannot locate the founds, quite a bit of expense is incurred in trying to go deeper or to pile or put in a raft. Therefore, that is something that was not scheduled for. You mentioned the figure of £30,000. If that £30,000 were the cost of total build and the local manager or whoever is in charge of maintenance comes out and says that they have to do that work to allow them to continue, that is not necessarily followed through. Therefore, the contractor ends up getting the blame for not delivering on the contract, and the local maintenance manager or inspector ends up in trouble because the audit department or your finance department, which is making the final payment, says that it is a breach.

The report states that there was £924,000 of overpayments. When it was investigated, the figure that was stated was £35,000. How can that sort of discrepancy appear after negotiations end up at the point where there is £35,000 as opposed to almost £1 million? That indicates to me that the contractor is not to blame on every occasion but that a reporting process is definitely not working.

**Dr McPeake:** I have to say that I agree. I do not want to give the impression at all that we are saying that, where we have issues with contract management, those are solely down to the contractor. It would be wrong to give that impression. I thought that I had been clear in making the point that, on occasion, our staff have not done what they are supposed to have done.

One of the issues with overpayments comes down to estimating the scale. Whenever we look at a large number like that, what often happens is that a sample is taken, and, on that basis, it is extrapolated to a larger figure. However, our belief and approach to overpayments is simple: in every case where there is an identified overpayment, we seek to analyse it, seek an agreement with the contractor about it and to recover those moneys. We identify those overpayments in a variety of ways, and I have no doubt that, in due course, we will get a chance to explore that. So, I believe that we have a rigorous approach to overpayments, and a number of examples that are quoted in this important audit report illustrate that. We cannot be complacent, however, and when you have bodies before you, they make lots of promises about what they will do. One of the lessons that I have emphasised to my colleagues — the Chair made this point — is that, after we leave here, the key is that you judge us by our actions. We have a programme of work in hand, but we are not naive about it. We realised that solving this problem is not just about initiatives. It is not just about doing this today or something else tomorrow; it is about being vigilant and moving forward. I accept that the Housing Executive has perhaps not put the effort into making sure that it has always remained vigilant to these tasks. My personal belief and philosophy is that that is what I expect from my colleagues. That is what I expect of myself, my colleagues and my team.

I have taken steps to strengthen the corporate assurance arrangements in the Housing Executive. I have made it independent of the operational divisions. So, there is no way in which an operational division can have an issue and try to keep the light from shining on that. We have an independent assurance process that gives me, as the accounting officer, confidence that the job is being done right.

I do not yet have the confidence to say to you that we have got this completely solved, but I have the confidence to say that we are moving in the right direction. We will be subjecting ourselves to further independent scrutiny, and, as I say, I believe that the truth is here. We are committed to solving these issues, but you should judge us by our actions.

**Mr Haire:** In about six months' time, I will be sending my team from the Department in again to check out these issues independently. That is one of the key things, because, being outside the organisation, the Department can help by coming in with an external view and by shining lights on issues. We will do that not only on this issue but on a range of Housing Executive expenditure issues.

**The Chairperson:** Before members come in, I will go back to my question about those responsible still being in position. Is there any way that the Committee can have a memorandum of staff moves and retirements? Is that possible?

**Mr Haire:** We should be able to provide something of that sort. That is no difficulty.

**The Chairperson:** Again, Dr McPeake, I commend you for your honesty in telling the Committee that you do not have the confidence at this point to say that this situation has been completely resolved. From today on, we will judge you by your actions and outcomes.

A number of members have questions. I ask them to keep their supplementaries brief. You have a list of questions to ask.

**Mr Hussey:** Dr McPeake, you made reference to breaches that would be referred up to the board at certain times. How often does the board meet? How often are you aware of breaches? What steps do you take where breaches are recorded? Can you, in effect, reverse a decision where there has been a breach?

**Dr McPeake:** Let me answer that in two ways. Along with our finance colleagues, the first thing that we have done is introduce a new control into the finance system. So, it is no longer possible to pay a contractor any money above the approved contract sum. So, if there were a breach of standing orders that would take the contract expenditure above the approved limit, the payment could not be made until the breach were resolved. That is an important control that has been introduced.

On the frequency with which we know about these things and what happens, breaches of standing orders are required to come through what is called the clearing-house process. The clearing house comprises a group of technical staff at area levels, and the action depends on the value of the scheme. A low value scheme is under £100,000 and is dealt with at area level. Schemes that are above £100,000 come to a central clearing house, which meets once a week. That meeting is chaired either by my colleague here, Mr Flynn, the director of housing regeneration, or by the recently appointed director of design and property services, Siobhan McCauley. They meet weekly to clear all the schemes that are there for approval, including the breaches of standing orders. In addition, I have asked that when there are breaches, we add those to a register that comes forward to the chief executive's business committee on a regular basis for analysis. The intention there, as I mentioned in my previous answer, is to seek to identify whether there are any common themes emerging or any trends that would cause us to change the way in which we do our business or introduce new controls.

I have also asked my operational colleagues, when there is a breach of standing orders involving a Housing Executive contract, to make clear to the director responsible that they have to seek an explanation for that breach from the officers involved. I believe that we now have a much more robust process for challenging officers where there has been a breach of standing orders. In most cases, I have to say, the breach comes about because formal instructions have been offered and work has been supervised on site, but the officer in question has not managed to get the internal approval arrangements to catch up with his decisions. In a lot of cases, there are very good reasons for that happening, because of the urgency of it, but we believe that the internal systems of the Housing Executive are sufficient to ensure that if people follow them absolutely, they can avoid the breaches in the first place. That is my objective in introducing monitoring. I want to make sure that we reduce the number of breaches of standing orders to the lowest number possible.

**Mr Hussey:** How many have there been since you introduced the new rules?

**Dr McPeake:** I do not have the figure off the top of my head, but I can find that out for the Committee and respond. However, the new rules came into effect at the back end of last summer, so they have been in place for about 12 months. There have been a number of breaches since last year, but they are much fewer in number than in previous years. Each one is followed up, and we look for an explanation in each case. The key point we have made to our technical officers is that if we find a pattern where people seem to be making similar mistakes after having been advised about it, there will be consequences.

**Mr Hussey:** Chair, can we ask for a note of how many, and their value, since that was introduced?

**The Chairperson:** Yes. Dr McPeake, will there be disciplinary action for repeat offenders?

**Dr McPeake:** Yes. I have personally given the message to my staff that we have a tolerance for people making mistakes — everybody makes mistakes — but when people make repeated mistakes, particularly having been warned about it and where it has been made clear what the circumstances are, our tolerance is much less. The view is that if people make repeated mistakes on the same issues, there will be disciplinary consequences. We have made that very clear to our officers.

**The Chairperson:** Thank you. I remind members to switch off their mobile phones, as I can hear them interfering in the background.

**Mr McKay:** Just to follow up on a point that the Chair made, how many disciplinary procedures have there been and how many are ongoing?

**Dr McPeake:** I do not know the answer to that. We are a big organisation of 3,000-plus employees. Staff are disciplined for various things at various stages in an organisation of that size, but in the context, for example, of the Red Sky case study, I can tell you that 29 people have been interviewed and assessed through the disciplinary process at various stages, although we have not completed our work on that. I do not know the answer to the broader question because people are disciplined for a variety of different things.

**Mr McKay:** How many in Red Sky have come through the process and been disciplined?

**Dr McPeake:** Twenty nine people were considered. A number of different outcomes arose from that. Some people retired — I think five people retired — and eight people actually received formal disciplinary penalties.

**Mr McKay:** How serious are they?

**Dr McPeake:** The most serious is a final written warning, which means that if an issue happens again within a defined period, there will be an automatic dismissal. In each case, the Housing Executive does not decide the penalty. We identify the cases where we believe that disciplinary action is warranted, the case for disciplinary action is prepared, a panel is convened and hears that case, and the person being disciplined has a right to put their side of the story and offer points of mitigation. The panel will then decide, on the merits of the case, what the appropriate penalty is. There is, of course, a facility for the person being disciplined to appeal, and, ultimately, that could go to what is called a joint appeals board. The Housing Executive does not make the decisions; they are made by the disciplinary panel. That is the normal process. The reason in this case that final written warnings were determined to be the right outcome, as opposed to dismissal, came down to the panel accepting the argument that the Housing Executive, in a number of cases, had not properly trained some of the people involved in delivering the services, which is why I made that point at the very start. Since I took up my job last September, one of my top priorities has been to make sure that we can lock out that argument, to satisfy ourselves that we are doing everything possible to make sure that we have the right staff in the right jobs, that they have the right skills to do the jobs and that they know what is expected of them and that we have trained those people at the appropriate level. Once you have done that — and that is my intention — these issues become much more straightforward to deal with.

**Mr McKay:** I have one final question on that. If the workers on the ground were not trained appropriately, surely someone above them should have been sacked for that. Do you agree?

**Dr McPeake:** Our approach to the disciplinary action taken on Red Sky and on any contractor, when there has been an issue and staff have not done what they were supposed to have done, is to focus, first and foremost, on those people whose job —

**Mr McKay:** Surely it is a failure of management.

**Dr McPeake:** I was just going to make the point. We focus on those people whose job it is to manage the contract. So, in the case of maintenance staff, the disciplinary action is focused on the maintenance officers and their line managers, the district maintenance managers. They are the line management of the maintenance function. We have not yet finished that process. Having completed the work, we want to see whether there are any other further issues for the management tier beyond that. I am very conscious of your point, which is why I said explicitly that we have not completed our process of disciplinary action.

At the end of the day, I want to be in a situation in which people are clear on what is expected of them, are properly trained and skilled to do the job and are held to account. There are no excuses in those circumstances. At the moment, the weakness has been that we have not always maintained the level of training. It is not that there has been no training, but, in some circumstances, we have not maintained the level of skills that we could have or should have.

**The Chairperson:** Just going back on the panel that was there for the disciplinary process, can we have — you know I requested information earlier around staff movements and retirements. Can the Committee request the names of those people who were on the disciplinary panel? Is that possible?

**Dr McPeake:** Do you mean the panel that heard the —

**The Chairperson:** Yes.

**Dr McPeake:** I do not see why not.

**Mr Gerry Flynn (Northern Ireland Housing Executive):** There were a number of panels.

**Dr McPeake:** There was more than one panel; panels were convened for each case. However, I can pull that information.



**The Chairperson:** Typically, what is the composition of those panels?

**Dr McPeake:** Oh, generically? Sorry. I can tell you that now. Normally a senior member of staff from a different division would chair the panel. There would also be a senior person from within the division and a professional representative from human resources. That is the way we do it. Panels include individuals from outside the division of the person who is being disciplined.

**Mr Dallat:** Chairperson, I want to pick up on what Daithí said and, maybe, follow up on a remark that Dr McPeake made earlier. You said that, following the adverse report, you were embarrassed to come before the Committee. I share that with you, but I suspect that there are an awful lot of people in the Housing Executive who share it with you as well. Many of us, particularly those who have been in public life for a long time, remember the achievements of the Housing Executive — the slum clearances of the 1970s and the massive social building programme of the 1980s and 1990s. Those are all fundamentally important and are part of a social history that must be protected.

Are your disciplinary panels aware, not just of their direct jobs but of the fantastic history of the Housing Executive that needs to be protected? Does 29 people being disciplined reflect seriously the number of people who have, in a sense, brought a wonderful organisation into some kind of disrepute and attracted criticism to it that it should not have had? I know that you said that you would not make any, if you like, fundamental promises, but are you really aware of the tradition that you need to protect?

**Dr McPeake:** Yes, I am. I want to make it very clear to the Committee that when I say that 29 people came through the process, eight were given penalties. Therefore, in quite a number of cases, the decision was not to apply a penalty. I want to clarify that.

We are very acutely aware of that. That is one of the reasons why I am embarrassed to be here; there was a case to answer. There are examples in the report that I am embarrassed about because they should not have happened; I believe they are a stain on the record of the Housing Executive.

I have been an employee of the Housing Executive, in a variety of different jobs, since leaving university; I joined as a graduate trainee in 1982. I grew up as a tenant in a Housing Executive house. My parents bought that house and became homeowners, which would not have happened if it had not been for the Housing Executive. I share with you the belief that the Housing Executive has done great things, but I am the chief executive and accounting officer, and I do not believe that any organisation can solely rest on its laurels or its merits. I want to protect the things that we have done well. However, where we have made mistakes, I want the Committee to understand that I as accounting officer, and my management team and board, are absolutely committed to addressing those issues so that we protect what the organisation has done in the past and continue to provide a good service to the tenants we serve.

**Mr Dallat:** Finally, Chairperson, I was not suggesting for a moment that the organisation should rest on its laurels. Perhaps, to some extent, that might be what has happened. However, I am conscious that, down through the years, people have lost their lives working for the Housing Executive; they have been murdered on housing estates, work sites, and so on. I think, for all those people, we need to make sure that this tiny minority of people who have created the adverse elements of the report — and it is not the worst report that I have read. Nevertheless, it creates sensationalism. Are we sure that everybody in the Housing Executive understands that they belong to an organisation with a good history and that if they fail to meet the standards that you now say that you are setting, they know the results?

**Dr McPeake:** Yes. I believe that that is the case. The board, the senior management team and I have been pushing the argument that we need to make sure that we protect the organisation's service delivery record and provide the services that we are obligated to provide for tenants, but make sure that, in doing so, that does not come at the cost of good governance. I am going to promote the principle of personal responsibility, accountability and general good governance, and I believe that we are on the road to doing that.

**Mr Dallat:** That is good.

**Mr Gerry Flynn:** As a supplementary to what John has just said, in leading out that culture, in the past six months, John and I have met every single maintenance officer, maintenance manager, district manager and area manager to completely clarify for them what their role is in providing a maintenance service. We have encouraged all of them to make sure that although their job is to be out inspecting properties, they hold their managers to account. Our managers clearly have to manage the maintenance service. The maintenance officers are there to provide an inspection service, and they have clearly been put in place now to manage the monthly contract meetings with the contractors. Therefore, as we move forward, there is clarity in what is expected from people, and we will expect everybody to hold each other to account.

**Mr Dallat:** That is welcome.

**The Chairperson:** Thank you. It is paramount that public confidence is restored. Taxpayers out there have been asking the question, so it is of paramount importance that, going forward, you relay to the general public the fact that you are willing to work with the public on this also.

**Mr Anderson:** Thank you, gentlemen, for coming before the Committee. Dr McPeake, can we stay on the disciplinary topic? You told us that 29 people were identified. Is that on one contract alone?

**Dr McPeake:** No. It is the Red Sky contracts, so it relates to, I think, six contracts in total.

**Mr Anderson:** There may be other contracts that will need disciplinary action as well.

**Dr McPeake:** Absolutely. I used that simply as an example. Our philosophy here is that if we find that there is wrongdoing on any contract issue and that there are disciplinary matters, we will proceed with those.

**Mr Anderson:** With regard to those who have faced disciplinary action or who have come before the disciplinary board, what about their bosses or senior management who may have left the organisation? Is there any recourse or action that can be taken in relation to those individuals?

**Dr McPeake:** Sadly, no. If an employee leaves the Housing Executive, he is no longer in a contractual relationship with us. There is nothing that we can do about that.

**Mr Anderson:** So some of those people could have left with a big handout and said bye-bye, and we are now left in the position where others below them are facing disciplinary action for actions that those people above them should have taken. Is there fairness in that?

**Dr McPeake:** Let me explain it this way: our belief here is that people have made mistakes. We are looking at each circumstance in which that happened, and I have accepted already, and my colleagues accept, that there have been management failures. We have not completed our disciplinary approach. The organisation — there are people of an age, and if they are entitled to retire, there is nothing we can do to stop that. You could argue, perversely perhaps, that the fact that they have retired has, in a sense, solved the problem. I am not making an observation about any particular person; we are talking generically about it. However, in the Red Sky example, a number of staff who were involved retired, and we believed that there was a disciplinary case to answer. At the end of the day, the problem from the Housing Executive's point of view is resolved. I understand the point you make, but there is nothing I can really do about that.

At a previous time, to do with a different disciplinary matter, we did explore with our pension provider what scope existed if somebody was involved in a very serious issue and escaped a disciplinary penalty simply by retiring. It was made very clear to us that there are only very limited circumstances — treason, I believe, is one of them — where you will not get your pension, and the Northern Ireland Local Government Officers' Superannuation Committee, our pension provider, told me that they have people in prison who have committed serious crimes and who are still getting their pension.

Our belief is that we have to create the right culture where people take personal responsibility for their actions and are held to account for those actions when they go wrong. The organisation has to protect itself and make sure that it does everything it can to put the right people in the right jobs. It trains those people to make sure they can do those jobs, and if they do not do their job, there is nowhere else to go, and there is clearly a case for taking action. The weakness in the past was that we have not been able to properly lock out that issue, and that is my intention moving forward.

I am sure that we will talk about training later but I will make one point. On the maintenance side, we have introduced a new competency-based training arrangement that will be externally accredited by the Chartered Institute of Housing, and we want to make sure that we invest properly in that so that people cannot use an excuse of saying, "Well, I did not do that because I did not know about it", or "I did not do that because you did not skill me up to do it or give me the right training." We have accepted some weaknesses on our side, and we need to address those.

**Mr Anderson:** Just finally, then, what we are saying here is that those who are still in the organisation and those who have left and may have been more responsible than the ones who are now in situ, when they face disciplinary action, will that be taken into consideration? I know that you are not on the disciplinary board, but, surely, as a matter of fairness, if someone has left the organisation with a big handout, someone in a lower position should not carry the can for that person.

**Dr McPeake:** Let me be clear about this: if an officer is brought to the disciplinary panel, that officer is entitled to make their case, including any mitigation they may offer. That mitigation may include those issues. It will then be for the panel to decide what weight to give to those issues.

**Mr Anderson:** Will we see any of that information, if it does happen to come out in the disciplinary process, about who maybe is responsible? Will that be identified, and will we be able to see that?

**Dr McPeake:** I am not sure what the protocol is, but, normally, disciplinary matters are confidential. I do not honestly know the answer to that. I will check.

**Mr Anderson:** Everyone wants to see openness and transparency here in relation to all this.

**The Chairperson:** We can follow that up, Sydney, and try to get that information, if possible.

Members, we will now continue to go through the report. It will maybe be a long session, and I ask members to put their question and be brief. So, first is —

**Mr Anderson:** Number one.

**The Chairperson:** Yes, thank you. Your first question.

**Mr Anderson:** Can we have a look at the assessment of contractors' bids, Dr McPeake? Paragraph 1.3 of the report provides some information on contractors' bids for maintenance contracts and how the Northern Ireland Housing Executive assessed those. It appears to me that the Northern Ireland Housing Executive's schedule of rates is the key to all this. As to the new contracts that came into operation in August, how did the Northern Ireland Housing Executive assess the reasonableness of its schedule of rates? How were these benchmarked?

**Dr McPeake:** I will let my colleague Mr Flynn make a number of points in a moment, but, as a general observation, I would say that the schedule of rates approach, as I am sure that members understand, is basically a very detailed list of all the possible jobs you might do. For example, if you were going to replace a door, there would be a schedule of rates code for that with a price. Those are priced by our quantity surveyors, who reflect the market prices. They do research in the supply chain, engage with the industry and look at the tender results that have come in from other exercises. Also available is the national schedule of rates, which is prepared in GB. That can be used as a point of comparison.

As a general rule, the schedule of rates is prepared locally to reflect local pricing and supply chain issues, and will take account of tender information that is available on the basis of recent competitions. That becomes the basis for the tender. As to the tender itself, the companies that bid against that schedule will offer either a discount or an increase against the schedule. The Housing Executive reserves the right, when evaluating the tenders, to call in any contractor where they believe the tendered price is so low that they could not do the job to the quality required, and they will not be accepted.

At the minute, the market is incredibly keen, so we are getting tender prices that are below those in the schedule of rates. We are not unique in that. We have checked with our colleagues in the housing association movement, and they are finding exactly the same thing. We have also checked with our colleagues in other parts of the public service and with our colleagues across the water and

they are finding exactly the same thing. The issue for us here is that we challenge a contractor to demonstrate how he can deliver the service at the rates that he is offering, and if we are not satisfied with his explanation, we will not accept his tender.

I can give you an example, although it is not a maintenance example; it is to do with grounds activity. Tenders came in and were quite low by our initial assessment, but the tenderer was able to provide extremely comprehensive cash flow modelling for his business, and was able to convince us that his prices were reasonable. Now, we have taken the precaution in moving forward with these new contracts to ensure that they are a framework contract. Not all members of the framework are given what we call work packages, which are groups of districts, to work on at the start. If, under the new contract management arrangements, a tenderer is unable to deliver the service at the level that is required and at the quality required for the price tendered, we can escalate that contract determination in a short period and bring a second framework contractor on board.

We are very conscious of those issues and, at the end of the day, the market is one of the key factors that we consider, but we are not so blind that we decide to accept it without question. I do not know whether Mr Flynn wants to add anything.

**Mr Flynn:** That was the point I was going to make: we had what we thought was an abnormally low price submission so we had it thoroughly checked and the contractor had to demonstrate that he could deliver. The issue for us in managing those contracts on the ground is that if contractors come in with a keen price and the opportunity presents itself, they will look for additional works or try to get additional funds out of the contract and it will be much more difficult for the operatives on the ground to manage that contract. We challenge them at the very beginning as best we can to try to ensure that we have reasonable contracts in place with reasonable prices, recognising that, in many respects, the job of the contractor is to make a return on the work they are doing. We acknowledge that, but it has to be a reasonable return.

**Mr Anderson:** That was going to be my next question: how do you check the financial viability of companies? You tell us that they will not be accepted. Do you find that often in your contracts? With the difficulty of finance, you may have to say that you do not think that stacks up at all and not accept that. Is that happening?

**Dr McPeake:** It does happen from time to time. We do a financial assessment as part of the tender process, so most of our public procurement exercises go through a pre-qualification questionnaire or preliminary stage. Part of that stage of the tendering exercise is that we will have a viability exercise conducted on the contractor. We rely principally on Constructionline, which provides that service for all public sector bodies in Northern Ireland. However, as you will see in the Audit Office report, there was an issue with Constructionline and Red Sky, so we do challenge it. So, although we use Constructionline as our key source of information, it is not the only information that we rely upon.

We try to structure our contracts in such a way that they are amenable to the small and medium-sized enterprises that constitute the Northern Ireland construction industry. It is not designed in any way to be anticompetitive or to prevent anybody else applying. It is a recognition that we want to keep open, as public procurement policy requires us to do, opportunities for small and medium-sized enterprises to bid for the work. So, our work packages are, generally speaking, medium-range. However, what happens occasionally, Mr Anderson, is that some contractors bid for multiple packages, and when you bid for multiple packages, and depending on the keenness of your bids and the quality of your submissions, you may end up being offered more than you are really comfortable with. So, there is an opportunity before the contracts are finally agreed to take account of the genuine capacity that exists within the firms, financially and logistically, to do the jobs.

Our belief is that, at the end of the day, the contract has to be the main point of delivery for our maintenance function for our tenants. We have to be satisfied, because we have a tenancy obligation, that we have a system in place that tenants can get the repairs done that they need, and that we get that work done to the right quality and do not pay any more for it than we should.

**Mr Anderson:** Are you in a position to tell us what the successful bids were, in the particular instance here?

**Dr McPeake:** I do not know the details. The exercise is completed. If you had a particular question, we might know between us which district it is.

**Mr Anderson:** Well, if you had done that, maybe that could be —

**Dr McPeake:** We can certainly write to the Committee. What we call response phase 2 and 3, the most recent response contracts — that work is all now complete. We do have a challenge outstanding from one bidder who was unhappy with the process, but we proceeded to make the contract awards on the basis of legal advice. The final contracts are in place from September. We now know which contractors have which work packages across the whole of Northern Ireland.

The next issue for us, because response maintenance was divided into three groups, this most recent being phase 2 and 3, is that we need to go back and redo phase 1. That is necessary because this most recent procurement has taken advantage of the lessons from the gateway review that Mr Haire mentioned. We genuinely believe that we have a very good form of contract, very robust key performance indicators (KPIs) and an ability to hold contractors to account that we never had before, including applying what we call low-service damages — what you and I might refer to as penalties. If somebody does not perform to the standards expected, we will be able to penalise them financially. That is something we have not been able to do in the past, and I genuinely believe that will bring about a sea change in the attitudes of contractors and, in many ways, vindicate the work that my maintenance staff are doing. At the minute, they fail one job in five, so there is an issue about the contractors doing the job that they are paid to do and not having us bailing them out and doing their quality control work for them.

**Mr Flynn:** There are 21 work packages at the minute. Nineteen are external contractors and two are managed by our internal direct labour organisation. The four other work packages will be tendered before 14 August. Those 25 work packages are managed by 10 contractors, so there is a spread of work across the Province and the range of players, which provides us with cover if any particular contractor gets into difficulty.

**The Chairperson:** Thank you. Dr McPeake, you said that there are now opportunities for small to medium-sized enterprises to bid for those contracts. Was that the case previously? It has not been, and is that in place now? Is that opportunity there now?

**Dr McPeake:** We have always believed that our contract packages are of a scale that is suitable for the small and medium-sized enterprises that make up the Northern Ireland construction business. So, we have not gone to a situation, for example, where you group all our districts into one and seek one major contractor. I have colleagues who work in major authorities in England, for example, and that has been the model that they have applied. Organisations with 20,000, 30,000 or 40,000 properties have them all managed by one contractor. We have sought to reduce the number of contractors for reasons of standardisation of service and to make sure that we get a good-quality service that we can stand over across the Province, but not go so far as to prevent small and medium-sized enterprises successfully winning that work.

We also emphasise to our supply chain that we encourage firms to form groups and to bid as consortia if necessary. We have had a lot of success with small firms grouping together into consortia for our contracts.

**The Chairperson:** Thank you. I call Mitchel McLaughlin.

**Mr Mitchel McLaughlin:** Thank you very much, Chair.

**The Chairperson:** Apologies, Mitchel; Paul is next.

**Mr Girvan:** You have alluded to one of the questions that I was going to ask. It relates to the fact that two of the contractors who have been working for NIHE have gone into administration recently. I want to be sure that contractors are not being put in a position of having to tender for a contract at a price that will be impossible for them to deliver.

I have some experience, having worked with the Housing Executive for years. I have heard people saying that they did not get paid for a job. When you ask why a contractor was not paid for putting a new front door on a property, you can be told that although he laid out £200 for a front door and put on three hinges, he left out two screws on the top hinge. For the sake of 4p, 5p or whatever, and although he laid out £200, that is struck off. Granted, the guy will say that they specified that the contractor put on only a three-screw hinge and that he has put four-screw hinges on to the door. I use

that as an example because that happened. There were four screws on each side of the hinge. There are eight screws per hinge and three hinges on the full length of a front door. However, instead of putting in eight screws, he put six into each of them. On that basis, he loses out on a payment and it becomes a dispute.

I wonder about the two contractors who have gone into administration. What mechanisms have been put in place to ensure that the contractor will not go into financial difficulty when inspections are done? Sometimes inspections are not done, but sometimes they are done because people want to find holes in certain contractors' work. I can give you examples of people saying, "We know who did a job; we'll go out and make his life as awkward as possible." I am not saying that that always happens, but it can happen.

**Dr McPeake:** Gerry wants to make an observation, but I will say something at the outset. Our belief — and it may be a very simple one — is that we have a specification for the work and we expect the contractor to do what is specified. Our internal corporate assurance people police my staff. They are my staff, too, of course, but they police the operative part of the business. That is what they expect. They hold us, as an organisation, to account. They provide me, as the accounting officer, with the assurance that the contractors on whom I am spending public money are doing what I am paying them for.

At the same time, if you are asking whether there is room for common sense, the answer is that, of course, there must be room for common sense. At the end of the day, a contractor must do what he is paid for. If he does what he is paid for, there will not be an issue; that is the truth of it. We also take very seriously our obligation to comply with the rules about prompt payments. Most of the issues that we have with making payments promptly are due to problems with the work.

For the Committee's information, it may also be worth mentioning at this juncture that we do not inspect every job. It is not possible to inspect every job. Each year, we do something like 330,000 repair jobs on our stock and maybe another 70,000 or 80,000 on our heating systems. We cannot inspect everything. The jobs that we inspect are pre-selected by the computer and there is no human intervention in that. Therefore, I do not accept the notion that someone might be vindictive and pick on a contractor. The computer determines randomly what jobs are inspected. That said, we are all living in the real world. We all have employees, and sometimes those employees have particular views. I want my employees to hold contractors to account because that is what I pay them for. I do not pay my employees to be vindictive, and I have no evidence that they are vindictive.

**Mr Girvan:** I want to go into the detail of when someone tenders for a job. Is consideration given to whether the pricing structure is adequate to make their business sustainable? Are any of the other 10 contractors that are up and running showing signs of financial hardship or difficulty?

**Mr Flynn:** It is very early in the new contracts. Some were let in August and the remainder in September.

To refer back to what John said earlier, under the new service credit system that we put in place, if contractors fail beyond our benchmarks, we will hit them with penalties: a 1% penalty for amber and a 3% penalty for red. It will hit them in their pockets. To allow them to get used to the new controls that are in place and the new way of working, we are running the contracts for three months. Therefore, for example, if contractors have a new contract in August, we will produce the performance data for the months of August and September. If they are failing on our KPIs, we will sit down with them to try to help them understand why they are not meeting our targets. By the time we get to October, they will be in the real game: if their performance continues below the bar, we will hit them with service credits. If someone fails a job in any given month and has an amber rating, they will lose 1% of their income for that month. Anecdotally, profit margins in any month are around 8%. Therefore, if you fail on 1%, you are losing around one twelfth of your profit. There are fine margins. It is not in our interest to penalise contractors every month. It is certainly in the interest of both parties, us and them, to understand what we expect.

To that end, we have done some root-cause analysis with contractors and our staff to determine why we fail on certain KPIs. As we said earlier, some of that falls on our part because we did not understand the complexity of the schedule of rates codes that we were using, made mistakes or were not detailed enough. On the contractors' part, their quality-assurance systems were not what they thought in some cases. They described what they were in a document, but, when it came to applying

them, they did not do so. Again, in some cases, on their part, they misunderstood the schedule of rates. They used incorrect codes, which can happen.

Therefore, it is in our interests that both parties get a better understanding of what is required from each party, so that when we get into the real situation of applying live damages, we do not have to use that penalty. We do not want to apply damages and, ergo, fail jobs. It is in our interest to get the work that we expect because we are spending public money.

It is early days. Probably from October or November onwards, we will start to see the fruits of the application of the new contract arrangements.

**The Chairperson:** I call Mitchel. Apologies for earlier, Mitchel.

**Mr Mitchel McLaughlin:** Thanks again.

Paragraphs 1.9 to 1.11 deal with key performance indicators. As you will be aware, those were an integral part of the Egan-type contracts that were adopted in 2001. Given the stated or theoretical importance of KPIs, why did it take the Housing Executive nearly nine years to identify and address the fundamental problems that were highlighted in the internal audit report of 2010?

**Dr McPeake:** I have to say that there is no easy answer to that. I believe that what actually happened was that we missed an opportunity to make changes — improvements, I have to say — in the KPIs in 2007. Those contracts are actually multi-year contracts. Therefore, the early Egan contracts were let and ran for a period of time. We had issues with them. We worked with them and tried to improve them as they were live. However, in 2007, the first of the early Egan contracts were coming to an end. A number of things were changed at that stage. Unfortunately, some things were not.

The thing that I find particularly disappointing is that there had been an Audit Office report — a gas audit report — that made a number of important recommendations. Many of them were to do with procurement. We followed those up and actioned them. In particular, one related to low performance. We did not pick that up. We should have. There was an opportunity in those contracts to take a different approach. We did not do that. Hands up: mistakes were made at that stage.

The gateway review in late 2010 highlighted the issue that we were, in effect, doing the quality assurance work for the contractor. Therefore, we were paying him to do a job. He was obligated to deliver a service to a particular standard. We were doing an absolutely massive amount of inspection — something like 80,000 inspections a year. We had KPIs that were not particularly objective. As a result of that work, we have put significant effort into reviewing the KPIs. Twelve months ago, in September 2011, we had a second gateway review to look at what we have done and how we have got on with the KPIs. The review found that there is plenty of evidence that our new KPIs are relevant to the business, robust, well thought through, and are an example of best practice. As an accounting officer — I am almost talking against myself by saying this — I take that with a pinch of salt, because my belief is that the proof is in the pudding. Those new contracts are in place now, and I want to see them functioning and see the outworking of those before I feel confident in coming back to the Committee and saying that we have got this licked.

I believe that we have the right approach, and we have done a lot of work with colleagues in other organisations, subjected ourselves to external scrutiny and identified those weaknesses. We absolutely should have identified them earlier, but we have fixed those problems now. We will not be complacent about it because, as I said earlier, there is a risk in any organisation of our scale and complexity that you feel that because you have fixed one thing, it is fixed for good.

**Mr Mitchel McLaughlin:** Can I take it from that detailed answer that it did not even occur to people that there might be a weakness in the key performance indicators and that you missed an opportunity? I am keen to know whether any examination of the executive's records would reveal that there was a discussion on the subject and that it decided not to do it, or are we to accept that it did not even occur to anybody at that level in the Housing Executive that perhaps the key performance indicators needed to be reviewed and updated? It has to be one of the two, does it not?

**Dr McPeake:** I was not involved personally at that point, but I have reviewed the files, and that is what led me to the conclusion that an opportunity was missed.

**Mr Mitchel McLaughlin:** What was your role at that time in 2007?

**Dr McPeake:** I was on the design and property services side and had no role or responsibility in this. When I look back at what decisions were taken at that time and what papers were produced, I see that there was discussion about KPIs and changes were made. However, the changes were, for example, that whereas, in the past, we said that it was satisfactory to get 70%, they pushed those scores up to 80% or 85%, but the fundamentals of the KPIs did not receive the scrutiny that they should have.

**Mr Haire:** That certainly fits in with my experience. When we did the expert review in 2010, we told the Housing Executive that we needed to look at the issue, and it said that it was very happy to do so, but it did not raise issues. That happened when the independent experts came in. I remember the meeting where they said that the contracts were out of date. Everyone in the public sector had those sorts of contracts 10 years ago, but we should have moved on, so there is an issue. How did we fall behind? In about 2006 or 2007, when other people were moving on, why did we not keep on top of that knowledge and realise that we needed a different type of contract? For me, a key lesson was to question how we can always keep up to date with developments, as people are learning from processes, and keep on top of them. Clearly, we fell behind here

In relation to disciplinary issues, one point was that the original contracts were so general that they were very difficult to implement. They were too vague, and, therefore, it was very difficult for staff and everybody in the process. They were weak contracts, but, clearly, we were behind the ball.

**Mr Mitchel McLaughlin:** So, in the process leading to the preparation for setting a new round of contracts, that issue had not been addressed. It appears from what Mr Haire told us that an outside consultant realised that you were using outmoded definitions.

**Mr Haire:** We got people from GB who were experienced in looking at that type of contract.

**Mr Mitchel McLaughlin:** Were they brought in by someone to review the KPIs?

**Mr Haire:** The Office of Government Commerce got us a group of three experts who came and quizzed the system for a week and gave us a very quick, sharp and clear report, the recommendations from which are in the appendix to the papers.

**Mr Mitchel McLaughlin:** In that round of contracts, was there an updated set of KPIs and schedule for reports and visits?

**Mr Haire:** The ones that they looked at in 2010 were as John has indicated.

**Mr Mitchel McLaughlin:** So are we not talking about 2006 or 2007?

**Mr Haire:** I am sure that John is right that some were moved around. As the report makes clear, only two of the KPIs were really objective from the system, and most of them were fairly subjective in the process. That was the weakness. John has now put in place KPIs that are generated by the system, and they are objective in that sense. It is absolutely clear, and there is no question of judgement.

**Mr Mitchel McLaughlin:** One of the fundamental flaws — it appears to have been recognised since — is that it became quite difficult practically for the executive to rid itself of a contract that, on the basis of the KPIs, was underperforming.

**Dr McPeake:** That is a very fair observation. The KPIs were too subjective. We were able to terminate that contract, and it would be wrong to say —

**Mr Mitchel McLaughlin:** Sorry; did you say that you were able or unable to terminate contracts?

**Dr McPeake:** We were able to terminate contracts. I think that I am right that in the past 20 years, for example, we terminated 16 contracts. The report refers to one of those terminations as a big case study.

**Mr Mitchel McLaughlin:** Was that on the basis of the KPIs or outside of them?



**Dr McPeake:** That was on the basis of a range of different things. I am not seeking to defend the old KPIs, because we have accepted that they were not fit for purpose. However, it is indisputable that the gateway review that was carried out with the OGC was very important for us. It brought about a sea change in our thinking on the contracts. We should perhaps have realised that. We did not but we have learned that important lesson.

I want to make one important point. At that time, I was acting as director of housing — I did that for a few months before taking up this post — and I formed and chaired what is called a works procurement board. As chief executive, I continue to chair that board because I feel that it is critical that, having identified the shortcomings with response maintenance contracts and solutions for them, I make sure that those solutions are applied in our other works procurement activity. That new approach, with a new type of contract, stronger and more robust KPIs and low service penalties, has been applied to our heating contract, which was put in place in June. We are also well advanced on our planned maintenance contract, which will come into effect from January next year, and the dedicated double glazing contract.

My point is that we have sought to learn from the failures of the past and from the best practice that we got from the OGC. That was originally focused on response maintenance, but we have applied that across the board because we felt that it was work that needed to be done.

**Mr Mitchel McLaughlin:** I want to try to stay focused on a particular issue, and these very lengthy answers, which throw up other possibilities, make that very difficult. Dr McPeake, I am trying to establish whether there was a failure at board level to realise that the KPIs were failing and not delivering, whether the board was unaware that its staff and local managers did not have the tools to do their jobs and whether it could not ensure the quality of the work or performance. One of the main tools that we sent staff out with was the list of KPIs. If there was a failure in 2007, was that because the directors on the board were not asking the right questions? They have a heavy responsibility. The can may be carried at a local level, but surely someone at board level queried whether the KPIs were worth the space.

**Dr McPeake:** One of the other weaknesses identified in the Audit Office report was that we did not report KPI information to the board. So, the board would not have been fully sighted on that issue. That was a mistake and we addressed it. However, you are absolutely right: we have a professional procurement group in the Housing Executive and people who are technically qualified in procurement. Those things should have been identified.

**Mr Mitchel McLaughlin:** My next question is also on the reliability of the performance indicators that were used. The graphs on page 14 — figures 1a and 1b — show a very depressing and worrying picture. Paragraphs 1.12 to 1.14 are also quite astonishing and detail an error rate going from 5% to nearly 20%. The level of incorrect invoices is also recorded — I find "incorrect invoices" to be interesting language. If invoices were adjusted at the local level and not captured by you, there was something very seriously wrong with the systems you were using. There is also the question of whether incorrect invoices were being presented for work that was never done, or whether it was down to the incompetence of contractors who did not know how to accurately fill in claims for legitimate payments. Local officers making those kind of adjustments would have contributed to the blindsiding of senior management.

**Dr McPeake:** Gerry might want to make a couple of observations, particularly about the two charts. The chart really shows that we are failing. If you look, for example, at figure 1a, you will see that, for 2010-11 to 2011-12, we have a new approach to the way in which we record the information on jobs that we fail. We are at the situation where, basically, we are failing one job in five. That happens when the contractor presents something to us, we say that we are not satisfied with that and the contractor will not be paid until it is right. We were failing high numbers of jobs in the past. The difference was that, before 2009-2010, we did not record the information in that way. We are a member of a national benchmarking club, and we have sought advice and peer review from our colleagues, and we are not aware of anybody who is recording that information. The key thing to emphasise here is that there is no weakness in us detecting the problem, and there is no weakness in us stopping that job before it is paid. The weakness is that we did not record the fact that we had to go back several times to the contractor to get it right. It is another example of what the gateway review highlighted, which was that the Housing Executive was, in a way, doing the quality assurance work for the contractor. Our approach is much more robust now. As the chief executive of this organisation, I am not happy having contractors about whom my professionals say that there is

something wrong with one job in five that they submit. However, I am happy that my people are finding those and making sure that those jobs are fixed for the tenants —

**Mr Mitchel McLaughlin:** Yes, but at the time reflected in these reports and graphs, you had coming up to 30 years' experience.

**Dr McPeake:** Yes, you are exactly right. However, over the course of that period, the nature of contracts have changed many times. A lot of the issues around these particular contracts stem from the partnering ethos. The Housing Executive accepts, and the board is of the view, that we put far too much emphasis on partnership, far too much trust in the contractors, and not enough scrutiny over the work that they have done. We have sought to learn that lesson. However, the key point is that we were doing that work and identifying the errors that the contractors were submitting and stopping those jobs before they were paid. It was costing us a lot of extra money to do that. Therefore, we believe that the new contract arrangements will solve that entirely. If you get a contractor who is submitting a high level of failures like that, he will get financial penalties. It is important to note a key point: we are still only doing a sample of inspections; we will be doing about 14% of jobs. However, if you are the contractor in a fictitious district — Ballygomuck — and have done 1,000 jobs that month in that district and my inspectors do their 14% inspections and come back and say that you have failed your KPIs, I will be taking money off you for all those 1,000 jobs, not just for the 70 or 100 jobs that I inspected. I really believe that that will solve that problem.

At the end of the day, we must ensure that we put the risk where it appropriately rests. The contractor is obligated to do the job that he is tendered to do, and our job is to make sure that he does it. I have to have a system that gives my board and, ultimately, Will, as the senior accounting officer, the assurance that we are managing those contracts effectively.

**Mr Mitchel McLaughlin:** Colleagues might move on — I think they will — to examine the kind of institutional resistance that we found when, in fact, audit reports were filling up with evidence that there were problems. It raises this very important question: given the circumstances that I have addressed, who is held primarily responsible? Is it the contractors or the Housing Executive? In fact, was that the management culture? Was it a case of, "We did not want to know, we did not ask the questions, so we are not looking for the information"?

**Dr McPeake:** I think that it is a bit of both, to be honest. Contractors have not done the job that we require of them, but we have not covered ourselves in glory in the way in which we managed those contracts. I come back to the point that I made earlier: I really, genuinely believe that we have a way forward on this that will address those concerns. If you come back to that issue again, I believe that we should be in the position where I expect every member of staff, regardless of whether that person is a clerk in an office or a director of the organisation, to do what they are supposed to.

**Mr Mitchel McLaughlin:** OK. I have some further questions for a later stage of the meeting, but I want to make one reference to the earlier discussion. Has every staff member of the Housing Executive received a staff handbook that details the disciplinary procedures, processes and sanctions?

**Dr McPeake:** In the modern world, it is done electronically. We have fundamentally reviewed the governance arrangements. We have so far completed governance training for every member of staff from the board down to what we call our level 5 grade, the middle managers. Between now and the end of the year, we will complete that training programme for the remaining staff. So every member of staff will have had it.

**Mr Mitchel McLaughlin:** So the staff handbook —

**Dr McPeake:** The staff handbook and the code of conduct are available on our internet site for every member of staff, and just today a fresh version of that was issued.

**Mr Mitchel McLaughlin:** Has it been reviewed?

**Dr McPeake:** It has been fundamentally reviewed and reissued.

**Mr Mitchel McLaughlin:** That is good. In light of these ongoing enquiries — not just that which is dealt with specifically in the report, but the ongoing process, which I welcome and support — is it still

possible under the reviewed disciplinary procedures for people to offer themselves for voluntary early retirement if they might be the subject of an investigation, or do your new procedures prevent that happening?

**Dr McPeake:** To be honest with you, I am not aware of anybody offering themselves up for voluntary early retirement to avoid disciplinary action. I am genuinely unaware of any instance of that.

**Mr Mitchel McLaughlin:** I am interested to know whether that is possible. I do not know of any instance of that either, by the way. It is a possibility, or so it seems to me. Do your procedures now prevent that?

**Dr McPeake:** I will have to confirm this, but my understanding is that if we have someone who is under disciplinary review, we will not allow them to retire with a package. However, there will be some people who are of an age to retire and are entitled to by virtue of what is called the 85-year rule. If they are aged 60 or over and the combination of their age and their length of service comes to more than 85, they can retire. There is no enhancement in that, they can just leave. A few people have done that.

**Mr Hussey:** The Chair is quite right: the Housing Executive have not covered themselves in glory, as this goes on. Mitchel's questions specifically went back to 2006 and 2007. At that time, there were reports by ASM Horwath and VB Evans, and you would be aware of the findings of those reports. You would have been aware of the situation as far back as 2007. Why are we in this position today? In 2007, you had a report that, basically, pointed out an awful lot of errors, and there appears to have been nothing done. Or was something done?

**Dr McPeake:** Indeed something was done. VB Evans and ASM Horwath did a piece of work for us in connection with the Red Sky contracts, and on the basis of that work, we believed that there was sufficient evidence for our internal repairs investigation unit to do a detailed study. So they went in and did a detailed study of all the work of Red Sky over a 30-month period. It was on foot of that investigation that we terminated that contract.

**Mr Haire:** Let me just clarify that it was in 2010 that VB Evans and Horwath were operating, not 2007.

**Mr Hussey:** The reports go back to 2007.

What is the involvement of the PSNI and the Serious Fraud Office? Where are you with that?

**Dr McPeake:** If we find that there is any evidence of fraud or an allegation of fraud, we will investigate it. We have a specialist anti-fraud team that works in the Housing Executive, and they are all highly experienced officers. They will produce the fraud information or the evidence pack, as it is called, and submit it to the police. It is then up to the police to decide what to do in those circumstances.

In the case of the Red Sky contracts, I believe that I am right in saying that certain materials were provided to the police on two occasions and, at that stage, the police believed that there was not sufficient evidence to warrant fraud at a criminal standard. Let me be very clear here: that did not absolve us of our obligations to deal with those issues. So, although we could not produce evidence to a criminal standard that would have resulted in a fraud prosecution, we had sufficient evidence to a civil standard that allowed us to discipline the staff involved and terminate the contract.

**Mr Hussey:** When was that evidence given to the PSNI?

**Dr McPeake:** I do not know the precise dates but it would have been after the RIU investigation and prior to the termination of the contracts. I can confirm the exact details for you afterwards, if you wish.

**Mr Hussey:** I know that on 1 July 2011, Mr Haire was advised that there was a possibility that that would be happening:

*"...active consideration is being given to referring the matter to PSNI for possible criminal investigation in relation to suspected fraud."*

**Dr McPeake:** An earlier case was referred to the police in and around 2006. In the most recent investigation, there was a second referral to the police, but I do not have the precise date for that. In both cases, the police took the view that there was insufficient evidence to a criminal standard that would have warranted a fraud prosecution. Our approach is that every time we believe that there is evidence of fraud, we investigate it thoroughly. We use our anti-fraud specialists, and when warranted, we refer cases to the police. However, it is up to the police to decide whether there is sufficient evidence to proceed.

**Mr Hussey:** Chair, may we ask for details of when that information was provided to the PSNI and also, perhaps, a copy of the police response?

**The Chairperson:** Yes.

**Mr Girvan:** I will come back to Mitchel's earlier point on key performance indicators. Paragraph 21 of the executive summary states:

*"In some cases there has been a long history of poor workmanship and performance and one company's work was classified as Unacceptable over a four-year period."*

It took four years, even though the work was unacceptable. The Audit Office has been good enough to name one company throughout the report, but the reference here is to "one company". I want to know the name of that company and whether it still has a contract with the Housing Executive. My understanding is that only one contract was terminated and one company has gone into administration. The report states that it is based on information held by the NIHE and is compiled in light of that. Four years is mentioned, and I want to find out the company's name.

**Dr McPeake:** I can do that. I believe that I know which company it is, but I would rather check and make sure rather than quote wrongly. We can certainly do that.

**Mr Girvan:** Will you bring that to the Committee?

**The Chairperson:** Yes.

**Mr Rogers:** As my colleague said earlier, one of the most annoying things about this is the legacy that has been the Housing Executive. So many people have got onto the housing ladder through the Housing Executive. As a public representative, I have dealt with local Housing Executive staff and their work over the years. I can think of one district manager who, when there was terrible snow one Christmas, worked on Christmas Day and was always available. That makes these failures in senior management even more alarming, because they are really letting the organisation down.

Dr McPeake, paragraphs 1.15 to 1.21 deal with Red Sky. As far back as 2000, the Housing Executive — indeed, everyone — knew that there were problems with Red Sky. Northern Ireland Water also had problems with Red Sky. Just read the report about the catalogue of things that were going wrong. We have already heard about repeat contracts being awarded, extensions to existing contracts, and so on. Senior management seemed to go out of its way to keep internal audit and the audit committee completely in the dark. Page 17 outlines overpayments of £264,000 to Red Sky. After negotiations, that was whittled down to £20,000, and a former member of the independent audit committee was on the negotiating committee. How could that happen?

**Dr McPeake:** I share your concern about that. I do not think that the Housing Executive did a particularly good job in dealing with the Red Sky contract over the years. At the start, our belief was the same as it would be with any contractor, which is to give people an opportunity to fix what is going wrong. We are conscious that many people's livelihoods are at stake in those firms and that they deliver a service to local districts. Continuity of service has to be maintained, so when there is a contract dispute, our approach is to give the contractor an opportunity to fix it. In hindsight, it is clear that our belief was mistaken. In the early part of the last decade, we gave Red Sky an opportunity to sort out the issue. It turned it round for a time, and the situation improved, but, unfortunately, that was not sustained, and a series of other issues arose.

Looking back, I think that a key issue from our point of view, and from my point of view in particular, is that it took too long to sort out the problems with that contractor. We accept that. Some of that stems

from the fact that perhaps we were a little generous in offering opportunities, but that was the nature of the Housing Executive. We wanted to try to be fair to everybody and give people an opportunity to fix the problem. There is the issue of natural justice, and that would be our approach with any contractor, even Red Sky, which was giving us a poor service in that district. The company was doing decent work elsewhere, so that at least gave us cause to believe that it could turn the situation around. We were wrong in that sense.

With regard to your specific points about the settlement, I do not know what was in the mind of Gerry's predecessor and mine when this case was considered. However, I can say that the Housing Executive took legal advice on the situation at that stage; that is very clear from the files. A large part of the £157,000 potential overpayment was down to a failure of our staff, who overspecified. They specified a kitchen that they should not have specified. In fairness to Red Sky, it provided that kitchen. There is no question of the specified work not being done. The error was that staff should not have specified that, and, following legal advice, the view was taken that it would be unfair to Red Sky to hold that money against it because our staff had ordered work at that standard.

That said, it still left a situation in which the view was, as paragraph 15 of the executive summary states, approximately £81,000 was due. After discussions and agreement, that was reduced to £61,000, and a settlement was reached at £20,000. I do not know the ins and outs of how that settlement was reached, but it is clear from the files that our senior barrister said that we would spend more than that in fees fighting it at a commercial court. There was a risk that we would pay more than that in a commercial court. So, at that stage, a judgement was made by the director involved that the settlement was reasonable.

Would we do that now? I suspect not. If we take the most recent Red Sky example, whereby we identified potential overpayments in the order of £650,000, we are holding overpayments in the order of £650,000 against Red Sky in administration. There was a dispute with the administrator about that, but the point is that our more recent approach is informed by our experience. When there are overpayments, we have taken a much more hard-nosed approach to our contractors. We have sought to recover money at the earliest opportunity. We still give contractors an opportunity to put their side because we accept that it is a complex business. It is not absolutely black and white; a judgement is involved. People have to be given an opportunity to put their case, but that evidence is then weighed up and a decision is formed.

In this case, the evidence was weighed up and a decision reached. Looking back, I think that whether we agree with the decision is almost a moot point. In the heat of the moment, the people involved made a decision on the best basis of the information available to them and following legal advice. Our approach now is probably much firmer and more hard-nosed than was the case then.

**Mr Rogers:** In addition to the problem with district maintenance officers not having the authority to authorise that particular work, and granted that it takes £157,000 off and the irregularities are now down to £81,000, another £26,000 has been lost somewhere as well.

**Dr McPeake:** I do not know the answer. The Audit Office, in writing the report, would have had the information from the files available. My understanding is that all those work categories and individual price issues were gone through, and an agreement was reached that the level of overpayment was £81,000. There seems to have been a second stage of discussion and engagement that reduced the figure to £61,000. That figure was then subject to the meeting to which you referred that was attended by a former member of the audit committee. He rightly stepped down from the audit committee because he was approached by Red Sky to be its new chairman. Personally, I do not know the circumstances of his involvement. I understand that he indicated that he was asked by the former chief executive and director of housing and regeneration to attend the meeting because they thought that it would be helpful. I wrote to them, after having been encouraged to do so by the Audit Office, and their recollection of the event is that he made the offer to meet and to help to mediate. Whatever the circumstances of that, I have no reason to doubt that the motivation was to try to reach a solution. Whether they went about that the right way is clearly an important question. If I were in that situation now, what would my perspective be? I would say that the potential conflict of interest would outweigh the benefit that might be had from the negotiating skills of that individual. I am not suggesting that anything wrong was done. It is a matter of judgement, and an argument could be advanced to say that, in the circumstances, the judgement that was exercised in the past was exercised here. I do not believe that, contemporaneously, the Housing Executive would approach the issue in that way.

**Mr Rogers:** Mr Haire, do you think it ethical that somebody who declared a possible association with Red Sky was then involved in the negotiations of the settlement at the end?

**Mr Haire:** Like John, I do not know the full details other than what I have read. Given the issue of perception, and for the sake of public confidence, I would not encourage anybody to go down that route again. In perception terms, whatever the motivation, it just does not work.

**Mr Rogers:** Was the previous permanent secretary aware of the issue?

**Mr Haire:** I do not think so. I have no record of his being aware. I certainly would be against this judgement.

**Mr Rogers:** Are you saying that the previous permanent secretary was not even made aware of the issue?

**Mr Haire:** I have no evidence to that effect. I have not searched every file in the process. However, it is something I would not encourage.

**Mr Rogers:** Dr McPeake, could we go to paragraphs 16 to 18 of the executive summary, which still deal with the Red Sky issue? What happened to staff who challenged poor contractor performance is very disturbing. Appendix 4 shows that, in 2007-08, district maintenance inspection reports showed dissatisfaction levels of 30% in west Belfast 1 and 17.1% in west Belfast 3. It was evident that, in that role, the Housing Executive person was doing his job. It is very concerning that, in the previous year, a dissatisfaction level of 4.1% rose to 30%. However, from what we read here, the Housing Executive member of staff was doing his job. When staff challenged poor contractor performance, the contractor wrote to complain about staff, and a staff member was subsequently moved on. I know that you refute that, but there was an opportunity for the Housing Executive to respond. Paragraph 18 of the chronology of events states:

*"NIHE subsequently told us that a robust reply was drafted but this appears not to have been sent and that this oversight or misjudgement was regrettable."*

Was it an oversight, or was it a misjudgement?

**Dr McPeake:** I do not know how to answer that question. All I can say is that there is file evidence that shows that that letter was drafted and prepared for signature to be released. It was not released, and I do not know why, which is why, in our response to the Audit Office, we have accepted that our failure to refute is the nexus of the problem that we now face in the report. I agree completely that the member of staff was doing a good job for us, and the fact that the contractor complained about that member of staff and we did not refute that is a major weakness and a great disappointment to me. One thing that I have learned in my career in housing is that you cannot afford to be careless about dealing with correspondence. Perhaps it is to do with the fact that I started as a graduate trainee. If a good simple administrative process had been in place, it would have solved the problem.

I am struck by two things about the member of staff being moved. First, we had two offices in west Belfast, which were referred to as Belfast 1 and Belfast 3. Those offices were being merged, and we ended up with a surplus member of staff. The area manager began a process and had negotiations and discussions with both officers. By agreement, that officer was moved to manage a centralised function, with a promise that he would return to the office in due course. The move was not immediate, and it did not happen until almost a year later. However, I accept completely that the fact that we did not challenge that at the start created the wrong impression, despite the fact that the evidence shows that the two things were unrelated. Secondly, from a common sense point of view, it would have been more sensible to have left that officer in the office. He was clearly doing a good job, and I really do not understand why that happened.

Genuinely, although there was pressure from the contractor, the Housing Executive did not accede to that pressure. If that had been the case, surely the officer would have been moved right away rather than a long time later. However, from a business point of view, it would have been more appropriate and sensible if the officer had remained. He was seen to be doing a good job and had the confidence of the organisation in holding the contractor to account. The two things are unrelated, but the fact that we did not refute that letter was a major weakness, and it left us open to claims that we bent to pressure from a contractor. I assure you that that did not happen.

**Mr Rogers:** Finally, is it common practice to rotate managers?

**Dr McPeake:** For various reasons, we have tried to introduce a policy of rotation. I would not say that it is common in the sense that it happens every week, but it is a feature that we are trying to make more use of. In districts in which we have had poor performance, one of the ways in which we deal with that is to rotate the manager out and bring in a better-qualified or more experienced manager. We then use that opportunity to build the skills of officers who have been challenged or who have not performed as well as they might have. We use rotation as a means of skills development, but we are not in the same situation as civil servants. We do not have mobile contracts, and our employees are, generally speaking and at least historically, appointed to a very specific job. As we have moved on, we have tried to make contracts more location-orientated, which gives us the facility to move people about. There is a real benefit in being able to do that.

**Mr Hussey:** They say that a red sky in the morning is a shepherd's warning, and you totally overlooked that warning. You said that, from a business point of view, perhaps that manager should have been kept where he was, but, also from a business point of view, the Housing Executive should have taken a more robust approach to this company in 2000.

You are here today and, with all due respect, you apologised and took what happened in the past on the chin. However, I am afraid that you have not hit it hard enough. You had concerns in 2000, yet you have told me that the permanent secretary in DSD did not know about the issue. This is public money. It is not my money; it is everyone's money. If this was a public company, whoever did this would have been sacked. For well over 10 years, we had a situation in which it was apparent that no one seemed to know what was going on. You told me that the permanent secretary in DSD was not aware of the issue. I am appalled at that. Are you telling me that, as far back as 2000 when there were concerns and warning lights were flashing, the permanent secretary in DSD was not aware of the issue? Is that what you are saying?

**Mr Haire:** I have seen no evidence to that effect. I have not been able to search all the files on the issue, but the point is —

**Mr Hussey:** I have seen several papers that go back as far as 2000, and the Housing Executive was aware of this issue in 2000. The Housing Executive may be an arm's-length body, but, in this circumstance, it appears to have been an arm, a leg and a head away from the Department. You cannot sit there and say that you did not know. You should have known. That is the role of DSD. This is public money. I can see no justification for sitting here today and saying that you are sorry for what happened. Alarm bells were ringing in 2000, 2005, 2007, and so on. It appears that no action was taken and that no business plan was put in place to tighten things up. Staff were moved about. An innocent man was moved, but the people responsible got away with this. If you are telling me that DSD did not know as far back as 2000, DSD must have been totally ineffective in 2000.

**Mr Haire:** I have not been able to go back to the history of the files in 2000.

**Mr Hussey:** Why not?

**Mr Haire:** The range of the issues that are just defined, we have not —

**Mr Hussey:** It is always amazing that the pieces of paper that we need to find for specific years are never available. This is a public body. Omagh District Council can find pieces of paper going back well over 100 years, and you are telling me that you cannot find papers from 2000.

**Mr Haire:** Sorry. I have not found a piece of paper in relation to the issue in this question. The point that I am making is that I think that there is a real issue. I recognise that the question is about the challenge the Department gives to the system. There are real issues. A lot of these issues are, rightly, given to a non-departmental public body to be in charge of. It has a board with responsibilities, and it has senior management. It is meant to report through report mechanisms. However, there is the role of the Department. I have to make sure that an assurance system is in place to assure you that public money has been spent there. The issue with the Housing Executive situation is whether good documents of assurance were in place, and it has been able to show me that. However, it was only when we went into the governance review in 2010 that we started to see that although information at a certain level came to the Department, it did not reflect some of the information that

was really in the organisation. That is where it is absolutely crucial that we — the Department — have an active monitoring process and that we are not only taking the assurance from the Housing Executive but are going in and drilling into particular areas regularly to make sure that those assurance systems are there. That is what we are doing.

**Mr Hussey:** Are you telling me that, up to this point, somebody from the Housing Executive could have sent you a note to say that everything in the garden is rosy, and you would have accepted that? It is quite clear that, from 2000, Red Sky was ringing alarm bells. However, you are telling me that a note from the Housing Executive to say, "Don't worry about us; everything is fine and is signed" is OK.

**Mr Haire:** What I am saying to you is that ever since I have been in the Department, I have not taken those things. When people have said to me, "I don't think there is any question over that issue", I have sent in my teams, asked questions and pushed those issues. I cannot tell you, and I have not been able to get a record of exactly what happened 10 years before I came into the process. However, the role of the Department is to challenge; I have challenged, and I will challenge.

**Mr Hussey:** Are you saying that that challenge role was not done in the past?

**Mr Haire:** I do not know how well that was done in this situation. In honesty, I cannot answer that.

**Mr Hussey:** You should have an opinion. After all, you are a senior civil servant. If you had been in that position in 2000, would you have accepted the note saying that everything in the garden was rosy?

**Mr Haire:** I would have been checking the system. I do not know what my predecessor was doing at that time.

**Mr Hussey:** It is quite clear that he was not doing enough.

**The Chairperson:** Before I bring in the Deputy Chair, I remind members to keep their supplementary questions brief. We have a list of questions to go through.

**Mr Dallat:** I am sure that all of us around the table will agree that we are conducting this inquiry today in an atmosphere that is completely different from 2000. I want to ask a question, which I know could be difficult to answer. Was there not a culture, or even a need, to try to work with contractors — I am not talking exclusively about Red Sky — who may have had paramilitary connections, and if there was not an ability to work with them, the work simply would not have been done? Chairman, I do not want anyone to quote me out of context. I am not saying that that was right. The files may not be available, but my memory is clear enough. There were horrendous problems in the Housing Executive in trying to get work done on the ground. Would that have had an influence on some of the decisions that were not right?

**Dr McPeake:** It is fair to say that in the early years of the Housing Executive, in the 1970s when the Troubles were at their height and, perhaps, into the 1980s, those issues would have bubbled to the surface from time to time. However, it would not be a reasonable conclusion to say that, as recently as 2000, we had significant concerns about paramilitaries involved in construction. That is not to say that there were not any because we worked quite closely with a number of initiatives designed to prevent racketeering and extortion. It was one of the big issues that we always faced. I do not believe that there is any evidence of it in the context of this case.

You made the point, and it is important to say that a culture issue was involved. Over the years, the Housing Executive approach has been to do everything that we possibly can to get the job done. It has had a strong delivery focus to get the job done, often in very difficult and trying circumstances. My board recently came to the view that one unintended consequence of that is that corners were sometimes cut. However, we are in a different era now. There is a normalisation in Northern Ireland that we all welcome, and the Housing Executive, in keeping with many other public bodies, has to move with the times. We are in an era in which there is a much greater level of scrutiny and a much higher level of expectation about the standards of public service. As an organisation, we are completely committed to ensuring that we live up to those standards. However, it is not fair to say that, as recently as 2000, the problems with Red Sky were down to those issues. Some of the problems stem from bad decisions made by individuals, bad decisions by some of my employees and



bad decisions by the contractor. It is not right to say that they were glossed over or ignored. Appropriate actions were taken at various stages.

Mr Hussey mentioned the year 2000. We took action in those circumstances. The individual in the first example was dismissed, and the individual in the second circumstance was also dismissed. Therefore, we took appropriate action. In retrospect, we were perhaps too generous in giving that contractor an opportunity to turn his act around. However, that was not because we were unwilling to deal with the issues; it was because we had a service culture, and we wanted to make sure that we were as fair as we possibly could be to everyone. It is easy to look back now and say that we should have been firmer, but we have a different approach now.

**Mr Dallat:** I accept that, and I will not argue with it, but if you permit me the luxury of saying that I am not so sure that it was rosy in the garden in 2000.

**Mr McKay:** I want to go back to the issue of the district manager in Belfast west who was moved. There is a reference to a letter that was sent. What did the letter say?

**Dr McPeake:** I cannot remember the detail of the letter, but it refuted the claims and said that we would not be moving the officer. If the Committee is interested in the letter, we can get it.

**Mr McKay:** Surely you must have some idea of what it said, given that it is a big issue today.

**Dr McPeake:** I cannot tell you the content of the letter. I do not have it to hand, but I can get it for you.

**Mr McKay:** What did Red Sky insinuate in its letter?

**Dr McPeake:** It complained about the officer in question and said that he was difficult to work with, was finding problems that did not exist and, essentially, was making Red Sky's life miserable. To be frank, he was doing what we expected of him. He was holding a contractor to account.

**Mr McKay:** Was that all that the letter said? Was it just making a complaint, or was something else sticking out like a sore thumb?

**Dr McPeake:** It wanted him to be moved and was encouraging him to be moved. The organisation made a mistake. A letter was drafted for the relevant director to sign and issue, but I do not understand why that was not done. The officer concerned is no longer in the employment of the Housing Executive, so I have no way to get an answer to that question. However, the file shows that a letter was drafted but not sent. The issue was raised in the report, and it creates an impression that the Housing Executive was prepared to move an officer at the request of a contractor, but I assure you that that is not what happened.

**Mr McKay:** Have you spoken to the district manager who was moved?

**Dr McPeake:** I have not spoken to him. However, as part of the investigation at the time, there was a period of engagement with the various people involved. Indeed, an external consultant also looked at the matter. Therefore, the district manager was spoken to.

**Mr McKay:** What was his view?

**Dr McPeake:** He was not happy that he was moved.

**Mr McKay:** Did he hold the Housing Executive in any way responsible?

**Dr McPeake:** He was of the opinion that there was influence from the contractor. I have to say that he is back in that office now. I must also say that he has always had the confidence of the Housing Executive. There is no question about his integrity.

**Mr McKay:** Did he hold the director of housing and regeneration responsible?

**Dr McPeake:** I do not know who he held responsible. However, he believed that the Housing Executive should not have moved him.

**Mr McKay:** Did he hold somebody personally responsible?

**Dr McPeake:** I do not know who he held responsible. However, I am sure that he believed that —

**Mr McKay:** Can you check that in your records and get back to us?

**Dr McPeake:** I can, yes.

**The Chairperson:** Dr McPeake, is there any way that we can get a copy of the letter to which you referred?

**Dr McPeake:** Yes. We can do that.

**The Chairperson:** OK. Thank you.

Mr Girvan had indicated that he wished to ask a question. However, he has left the room. I call Mitchel.

**Mr Mitchel McLaughlin:** Was the process of negotiation with Red Sky that eventually arrived at the settlement figure, and the very interesting involvement of the former member of the audit committee who took up the post of chairperson, also reported to the Department under accountability arrangements?

**Dr McPeake:** Not at that stage, as far as I can determine. The matter fell to the director of housing and regeneration. He was responsible for negotiation. That was permitted under the Housing Executive's standing orders at the time. We have changed those standing orders. That is not permitted now. I believe that it was done within the confines of the housing regeneration division, with the support of the contract claims department, which is a different part of the Housing Executive, and legal services, which had commissioned external legal advice. However, the decision on the issue rested with the director of housing and regeneration. There is evidence on file that, in reaching that decision, he consulted with the former chief executive at the time. I do not see any evidence on file that there had been any engagement with the Department.

**Mr Mitchel McLaughlin:** Were those legal services the same legal services that were available to the Department?

**Dr McPeake:** No. The Housing Executive has its own internal legal department. For most routine matters, our internal legal people provide legal advice. When it comes to matters of a more specialist or contentious nature, we use external counsel. In that case, we used an external QC to provide advice.

**Mr Mitchel McLaughlin:** Therefore, at that time, there was no line-of-sight, or reporting, mechanism, but that has now been rectified.

**Dr McPeake:** Yes. Indeed, given our recent experience with that particular audit and the other levels of scrutiny that we are under, for issues that relate to contract terminations or settlements, depending on the value of the contract, our standing instruction to my colleagues is to go forward.

**Mr Mitchel McLaughlin:** Was it not an issue given the quantum of that, which started off at £800,000-odd and was reduced down to a settlement figure of £20,000?

**Dr McPeake:** I think that it started at around £200,000 and came down. Yes; that is precisely why I say that the approach that we would take now is that matters of settlement of a contract nature such as that would come through the CXBC — the chief executive's business committee — and, ultimately, to the board.

**Mr Mitchel McLaughlin:** Could we come back to the report — paragraphs 26 and 27 on page 22? Those paragraphs suggest that the Housing Executive was less than happy with the role played by Constructionline, which actually gave a clean bill of health to Red Sky's finances based on an unaudited management account and telephone conversation with the auditors. Will you outline

Constructionline's role with regard to public-sector contracts and what action the Housing Executive is taking to draw its concerns to other centres of procurement expertise (COPEs)?

**Dr McPeake:** In brief, earlier in the session, the Committee asked me about the financial capacity of contractors. The way in which that is assessed is through Constructionline. It is a service that looks at the published audited accounts of construction firms and determines what is called the "notation value"; in other words, the level of business that firms could reasonably compete for given their financial health. That service is provided to all public procurement bodies in the construction field in Northern Ireland.

We raised a number of issues that are detailed in the report, and the Audit Office has been very faithful in reporting our concerns. We drew those issues to the attention of our colleagues in the Central Procurement Directorate (CPD) and wrote to them to make clear our concerns. We also met them. Stewart Cuddy, who at the time was the acting chief executive, met Constructionline to raise his concerns and seek their assurances. Our particular worries were that Constructionline seemed to place reliance on rather informal sources of information in reaching what was a manifestly significant decision. So we drew the attention of CPD to our concerns.

**Mr Mitchel McLaughlin:** As a follow-up to that, I put two questions to Ms Hamill, the Treasury Officer of Accounts. What steps has CPD now taken to alert other public sector contracting bodies, both here and in Great Britain, to Constructionline's actions in this case? What has been their response?

**Ms Fiona Hamill (Department of Finance and Personnel):** Constructionline is the UK's largest online database for registered construction contracts. It is a public-private partnership between the Department of Business, Innovation and Skills and Capita. It works with one of the large credit assessment companies to provide online information across the public sector.

Constructionline has confirmed to us that it has taken on board the discussions and the conversations with the Housing Executive on the specific issue of taking informal advice. It has confirmed that it will now take into account only formal written advice from auditors when it revises the assessment. So, I think that we have seen a definite improvement in the standard for the entire UK public sector as a result of the lessons learnt here.

**Mr Mitchel McLaughlin:** You will recall that the question of COPEs has been discussed in this Committee previously. I think you were in attendance. However, based on the principles that are set out in appendix 1, page 64 of the report and the contents of the report, are we expected to accept that the Housing Executive is really an exemplar? The obvious question that flows from that is this: what steps are being taken to review the accreditation process?

**Ms Hamill:** I acknowledge that the process of accreditation of COPEs has been a matter of concern for this Committee on more than one occasion, and, certainly, the response that we make on COPEs was set out in the memorandum of reply on procurement and governance in Northern Ireland Water, where we committed to a full review and a new accreditation process for COPEs that would now include external independent assessment of them. That process has commenced. The plan is to fully review the accreditation of COPEs in 2014. That seems a long distance away, but it is to allow them to gather the necessary evidence that we will expect them to provide to external assessors.

In the interim, we have moved to strengthen the relationship between the COPEs, CPD and the procurement board, by requiring them to start formal compliance reporting to the procurement board from November. We have also required each COPE to appoint a head of procurement who will be personally responsible for ensuring that the governance, compliance and professional standards in that specific COPE are addressed.

So, these are the measures that we have taken in response to the Committee's previous concerns, and we hope that they will deliver the improvements and provide the Committee with the assurance that it expects. The Committee will appreciate that the concerns arising with this COPE are similar in time frame to those that the Committee has already looked at in Northern Ireland Water, so it is a part of the same response.

**Mr Haire:** Can I just add one point? In the light of this report, and with the experience of the past couple of years, I have been in discussion with CPD. Procurement excellence is one issue, but this seems to me to demonstrate the problem of contract management skills in the public sector; our ability

to manage the contracts once we have them; and the necessity of ensuring that there is continuity between people writing the contracts and getting into the management skills.

Des Armstrong has agreed that we should run a seminar to look at best practice and experience on this issue, and also to look at how to get the management skills of the systems; to look at how to get the right sort of contract skills as well as managerial skills to get on top of this and use key performance indicators to mine the information. I feel that is an important issue. Being on the procurement board, I have been bringing that to other Departments' attention because I think there are lessons to be learned.

**Mr Mitchel McLaughlin:** Are there worrying indicators of a less than appropriate relationship between Housing Executive officials and contractors? Does that go to the heart of the question of the Housing Executive being classified as exemplar when it comes to procurement?

**Mr Haire:** We often look at the process of procuring and we focus a lot of attention on that. You are right; it is about looking at how you manage. It is the management of the contracts —

**Mr Mitchel McLaughlin:** I think you have to deal with both.

**Mr Haire:** Exactly, that is my point. Our COPE debate has been about whether you get the contracts and whether you navigate the European regulations to get those things right. The key issue is how you use that effectively and ensure that it is really worked through.

**Mr Mitchel McLaughlin:** Capture the data. Thank you very much.

**Mr Anderson:** Can we look at the reliability of the repairs inspection unit? Mr Haire, according to appendix 8 on page 74 of the report, jobs with a value of less than £100 made up 81% of all response maintenance jobs. If my reading of paragraphs 2.2 and 2.5 is correct, it is the contractor who specifies the work that is to be done in those jobs. However, prior to January 2011, the work was never physically inspected by the districts. Are you shocked by that?

**Mr Flynn:** Our general approach to inspections has been that, in working closely with the audit commission and taking a risk-approach base to looking at inspections, we have always looked at inspecting high-value jobs. As a general rule, probably 80% of our jobs are worth less than £100, which was the point you were making. However, 3% of our jobs are worth over £750 but account for over half the value of the contract. Assuming that around £50 million a year is spent on response maintenance, 3% of the jobs generated spend of around £25 million of that. That tends to be around our big change of tenancies, so that is where our inspectorate invested our resource; in genuine advice. That is where your risk should be. However, assuming that there are 300,000-plus jobs and 80% of those are worth less than £100, we did not look at them unless they were a new item.

For example, if a tenant rang up and asked us to fix their lights or their cooker, the contractor who would have looked at it would have completed that job as long as its value was less than £100. If he was going to replace something, we would send an inspector out. That was our focus in the past. It is not random, so, therefore, the contractors would have known what jobs were being inspected, generally. If the jobs were less than £100, we would not have been looking at them.

We now take a more systematic approach to inspecting jobs by using our resources across the spectrum. Therefore, the value of the job no longer matters. For example, instead of inspecting every job over £750, our approach now is that we will do half of those. We will be doing 20% of those that fall between £100 and £750, and 5% of those that are less than £100. We have a completely random approach to doing inspections now that will still provide us with robust assurance that, depending on what you find in the sample, you can be fairly certain that the general trends will be pretty similar if you were to inspect all the jobs. We would be 95% sure that the results we were getting would be plus or minus 1% or 2%. We are now moving to a situation whereby if the contractors get it wrong, and we inspect them and find they are wrong, we will penalise them. It is in their interest now to make sure that the work is got right first time.

In the past, we did roughly one in five inspections and failed one in five jobs. You could argue that the contractors were using our resources. Our inspectorate is a quality assurance mechanism, so we are moving away from that. You would be right to say that in 80% of those jobs worth less than £100, the contractor would have gone out and decided what work was required because most of them were to fix something.

**Mr Anderson:** It was open to abuse.

**Mr Flynn:** There is a view that it was open to abuse but, as I said, there has been a move forward. Our inspection system now is that if we find errors in jobs worth less than £100, we will apply penalties against all the income for that month for that contractor. We talked earlier about the pricing approach by contractors, and the prices are very keen. It is not in their interest for us to be failing jobs and them losing money as we move forward.

**Mr Anderson:** That should have happened. Contractors should have been checked. The job may have been worth £30 and the contractor said £90, so it was really open to abuse.

**Mr Flynn:** Our resources were looking at those areas that we felt were the greatest risk, based on the general advice across the UK about having a risk-based approach to doing response maintenance, which was to focus your energy on high-value jobs.

**Dr McPeake:** It is important to make the additional point that although we did not physically inspect any jobs under £100, we had a telephone follow-up with tenants in 6% of those cases asking them what exactly was done. However, we have accepted that if we want to have a more robust assurance arrangement —

**Mr Anderson:** Six per cent is quite low.

**Dr McPeake:** It is sufficient to provide a reliable figure. If you look at that category of work under £100, the actual average cost of a job is £25 to £30. It costs me about £40 to send somebody out to check it, so I have to make sure that I use my resources wisely. That is why, with this new arrangement, we have a physical inspection of a random sample of jobs in all category values. In the past, we did not have a physical inspection of low-value jobs, so we have closed that potential gap where a contractor may be minded to think that there is a very low risk here that he might get caught doing something he should not be doing. We have now closed that gap because he will not know whether that job will be checked. He gets no advance warning; the job is just checked under the new system. I believe we have closed that gap.

That was one of the issues that emerged from the work that we took on from the Gateway review. It was not highlighted by the review but occurred to us as we worked through its recommendations.

**Mr Anderson:** Appendix 2 sets out some response maintenance values, touching on jobs valued at less than £100. Do you have figures to hand for the number of jobs valued at under £100 or could you forward them to us?

**Dr McPeake:** Do you mean the numbers by district?

**Mr Anderson:** Yes. I would be interested in those.

**Mr Flynn:** We can give you that.

**Mr Anderson:** Mr Haire, without any form of timely inspection, how can you assure this Committee about value for money and propriety of this expenditure?

**Mr Haire:** The key point, as Gerry indicated, is that the inspection regime had weaknesses. The first question you asked me was whether I was shocked about the issue. I must admit I was surprised when I heard about the Housing Executive's non-use of random statistical analysis.

**Mr Anderson:** I am shocked and surprised.

**Mr Haire:** The big business of the Department is social security, and we use much more statistical analysis to do our analysis and use data to risk-manage that process. So, when I came in new to the organisation, I presumed that that approach would have been used in the Housing Executive. We find that that is a robust system in chasing money inasmuch as it gives you a good analysis, as Gerry said, of the risks. With the contracts there, you have a good handle. So, I am satisfied that the new contracts have the potential to nail this one.

I agree with the report. The system the Housing Executive was running laid it open to the potential for fraud. That is the major issue. The system was too broad. You could not, however, under the old system have inspected every job. That would have been impossible. You are already spending £5 million each year doing the inspection as it is at the moment. So, that is why it is really important to get much sharper contracts, and it is why we placed a priority on the Housing Executive to get the contracts right.

**Mr Mitchel McLaughlin:** We are talking about 81% of a £50 million overall response maintenance budget. Is that the quantum of the figures?

**Mr Flynn:** Eighty per cent of the jobs are less than £100, but the value is about 20% of that.

**Mr Mitchel McLaughlin:** That is what I wanted to know.

**Mr Flynn:** It is the Pareto principle. The bulk of the expenditure is spent on the small numbers.

**Mr Anderson:** I will move to paragraph 2.36, which sets out very sensible recommendations. Could we focus on the second bullet point on page 36? From a departmental perspective, are you surprised that response maintenance of heating systems has not been subject to inspection? Why did that slip through the net? What assurances can you give the Committee about the value for money and propriety of expenditure in that area?

**Mr Haire:** That was an issue in the Housing Executive, and we were surprised about that. There was an issue of the skill set that has, I understand, now been rectified. John can explain that.

**Dr McPeake:** The response maintenance repairs to heating systems are carried out by the heating contractors and not by the all-trades contractors. Red Sky did not do the heating repairs; the heating contractor for the district did that work. Those contracts are set up to provide the specialist resource needed to do the work and the servicing and maintenance. Our maintenance inspectors, by and large, are general building tradespeople. We have some specialist building folk. As part of the day-to-day inspection activity — the sample inspections — that work is done. My maintenance inspectors inspect a job and send a maintenance officer out to it.

That bullet point refers to the second level. In the Housing Executive, we have a corporate assurance unit, which is a unique feature of public service in Northern Ireland. We have created that independent assurance unit in the organisation. That unit is outwith the operational division and is not part of housing and regeneration. It provides me, as the accounting officer, with assurance on key activities. It had not been resourced to look at the heating systems as part of its corporate assurance role. That issue has now been addressed and we are recruiting a specialist mechanical and electrical (M&E) engineer for it. However, it is important to recognise that heating inspections were being done by the operational business.

**Mr Anderson:** How can you assure us that they were being carried out? You do not have any record of that, do you?

**Dr McPeake:** We have the records of the inspections carried out by the operational staff, but the corporate assurance unit is an additional level of assurance, and that is what I expect to have.

**Mr Anderson:** That is only recent.

**Dr McPeake:** We have only created that corporate assurance unit; it came fully into operation last September. It was an initiative of the former chairman of the Housing Executive and it emerged from the governance reviews that Mr Haire mentioned a moment ago. You are right to draw attention to that because the corporate assurance group did not have the M&E resource to do that additional level of assurance, but the original inspections of the activity were being done and we have taken steps to address that issue now.

**Mr Flynn:** We had a front line inspectorate that looked at the heating jobs. It is very similar to what we have for the general maintenance jobs in our properties.

**Mr Anderson:** As a matter of interest, when you say front line inspections were taking place, what was the level of the workmanship found through those inspections? What was the level of rejection or poor workmanship? Do we have that feedback? You say that it was done, but we need to get into this to see the level of workmanship with those heating systems.

**Mr Flynn:** We have the same broad set of KPIs that we hold for our general maintenance contracts. It is similar for the heating contractors as well. As we move forward, the systems are virtually identical, and the key issues for heating and maintenance are in four areas: cost; quality; how quickly we get the jobs done; and tenant satisfaction. That applies across all contracts.

**Dr McPeake:** It is worth mentioning that we have had issues with the quality of work on behalf of our heating contractors, which is all the more reason why it has been important to address this corporate assurance deficit to make sure that we bring the corporate assurance look to bear on heating-type work as well as on the normal maintenance activity.

**Mr Anderson:** Mr Haire, I will move on to paragraph 2.7, which is on page 27. The RIU was, primarily, a business improvement initiative. There does not seem to have been much improvement in the way in which districts performed, if we look at figure 5 and figure 7. I have a number of questions about that. Did districts know what level of performance they were expected to achieve and by what date?

**Dr McPeake:** I am going to let Mr Flynn handle the questions in this part.

**Mr Flynn:** Generally, on performance, districts are very clear about what is expected of them. For example, we set a very challenging level of acceptable performance for management contractors. There are two things that we need to look at here. For management contract and performance outside, we talked about the KPI issue earlier, and that is one side. We then have an internal mechanism whereby we manage the contract management aspect of that; in other words, how well our staff manage the contract. With regard to looking at the internal standards, when we look at on-site inspections for contractors, the benchmark is 99%. In other words, we expect our staff to ensure that the contractors deliver a performance at 99%. When we come later on, no doubt, to talk about the performance in the tables, you will see green and red performances, and those reds are offices that have fallen outside the tolerance. When we set a bar of 99%, the band between being successful and being unacceptable is 0.6%. In other words, if you operate in and around 98%, it will appear as red in the table. We make no apology for that. At the end of the day, you are talking about £50 million of public money overall.

**Mr Anderson:** You are saying that there is a fine tolerance level.

**Mr Flynn:** There are very fine tolerances but, at the end of the day, you could say to me; "Look, 2% is equivalent to, potentially, £1 million of public money every year". Therefore, we set a very high internal benchmark. Ultimately, those internal inspections are, in many respects, a potential trigger for the performance of contractors. For example, if you had a sea of green internally as regards the quality of the inspections, you would, therefore, assume that the contractors must be doing all right. However, if you have a sea of red, where our inspector comes along and finds that our maintenance officers are not doing their inspections properly, you could say that, first, they are failing internally and, secondly, if they are not doing their inspections properly, there could be a problem with the external KPIs. For example, if a maintenance officer is passing a job that he should not pass, ergo the contractor is, potentially, not being failed and, therefore, not being penalised. There are two aspects as to how we handle maintenance performance: one is the external, or the KPIs, which are at a benchmark of 90%; and the other is the internal one, which is a very high threshold. Critically, we will look for two aspects: the quality of the work that the maintenance officer inspects, and the value for money. It is that whole issue about invoices coming from contractors.

If you look at the tables, you will see that, over the past number of years, our performance on quality regarding the nature of the work that contractors give us and the levels of satisfaction from tenants is pretty good. We have issues to address regarding the quality of the invoices that we get from contractors, and no doubt you will want to refer back to that later.

**Mr Anderson:** I have a couple of questions in relation to the senior management in the housing and regeneration division. Did they set any targets in relation to this, and did they pay attention to any reports? We are talking about the senior management. What was their input?

**Dr McPeake:** Again, Gerry might want to come in as he is the director for the housing division at the moment. However, just to give you the general perspective on it, the RIU, as you rightly pointed out in your initial question, started as a business improvement tool within housing regeneration division and, therefore, at that stage, the reports from the RIU work stayed, principally, within housing regeneration division. Therefore, other parts of the organisation did not get to see them in detail. Summary information was certainly presented to the audit committee, for example, and there were annual reports but the detailed reports were largely kept within housing and regeneration. The director's aspiration was for the relative balance between offices deemed to be unacceptable and those deemed satisfactory to change, and it did change for the better over years. However, it was seen primarily as an activity within the division.

Since the emergence of our recent round of scrutiny on the governance review, the gateway review and this audit report, a number of key things have happened. One is that we have taken the RIU out of the division, so it is no longer a divisional activity but part of the corporate assurance unit that I mentioned. We have introduced new arrangements whereby all draft inspection reports, whether part of the corporate assurance unit or internal audit, are copied at the first stage to the relevant director, the chief executive in my case, and Jim Wilkinson as the representative of the Department.

We also have in place a monitoring arrangement to make sure that when those draft reports are issued, those charged with responding to them do so in a timely fashion. So, long story short: initially, focus on housing regeneration; then mostly manage the current arrangements within the division, subject to a much greater level of scrutiny and use.

**Mr Anderson:** Were any district staff held to account if they were not performing, and what role did the chief executive's business committee play in that?

**Dr McPeake:** When districts were not performing, our approach was to try to turn them round. You referred to the chart that is figure 5 in the report. RIU's interpretation of that is that, over those three years, you can see a gradual improvement in services, although not as quick as anyone would want. However, a number of things strike me on looking at it; namely, the same offices appear in the bottom group the whole time. So, there is a conclusion that is not difficult to reach: those things are not happening quickly enough.

My initiative was to create what I have called a response maintenance intervention team. On the foot of an adverse audit, and by adverse I mean one that is classified as unacceptable or limited, whether from the inspection side of the business or internal audit, I put, through Gerry, the response maintenance intervention team into that office. That work is in order to understand what went wrong, what resulted in the negative classification and what the problems and errors of the district were. It helps the district to diagnose what went wrong. My belief is that you cannot do this for somebody; you have got to get them in a situation where they understand themselves where they went wrong so they will not do it again. That is the philosophy of the response maintenance intervention team. It is made up of experts in the field who are respected within the business, have the confidence of senior management and, most significantly, have the confidence of the corporate assurance part of the organisation. Those people, who are respected, go in, work with the districts, produce an improvement plan, help them through that process, come back after three months to make sure it is happening, and then we expose the office again to the formal scrutiny of corporate assurance. We have taken —

**Mr Anderson:** Was that all lacking in the past?

**Dr McPeake:** That rigour was certainly not there. There were examples in the past of when the director and area manager would have relocated managers. Managers who did not perform well in successive RIU investigations or reports were rotated, as I mentioned earlier, but there was not the rigour that we have now put in place. The approach we have taken is beginning to show signs of bearing fruit but the proof, again as I mentioned earlier, will be in the eating. We have to make sure. We have this mechanism in place, and I believe it is making a difference, but the real test comes when the corporate assurance people go back and go through and are able to demonstrate that we are getting improvements.

**Mr Anderson:** By going in there and maybe having to revisit, do we see that as a problem area?



**Dr McPeake:** I created the response maintenance intervention team just earlier this year, so, at this point, we have been through, I think, nine offices. The cycle, Mr Anderson, works on a three-month basis, so the first of those offices will come up for the revisit, as it were, in October, and we will be able to see then. However, yes, that would be a logical conclusion. If you go in, do this piece of work, help them to understand what went wrong, show them what they need to do, encourage them to do it, and if they fail to do it, clearly, a more —

**Mr Anderson:** The ball is in your court.

**Dr McPeake:** Well, let us say a more robust approach is required.

**Mr Flynn:** I have gone to some of the offices and sat down with people. It is about understanding why people are failing. Some of it is down to people having missed the obvious, which happens in some cases. However, in some cases, you are dealing with over 2,000 schedule of rates codes. Maintenance is a complex business and people make mistakes. Some staff members have asked us to try to help them to make fewer mistakes by simplifying the system. So, for example, if they are only meant to use one code in a particular part of a house and they try to use two, the system would stop them, or, at least, alert them that they have already used that code and cannot use it again. To support management, we have created new reports, and people can run those to identify trends that should not be happening in offices. Those are things that we did not have in the past.

We have been more proactive in trying to help staff to deal with the complex situation of managing maintenance on the ground. We have given them increased control reports and have recalibrated the whole approach to training. A lot of our offices have new staff and there could be between 15 and 20 agency staff in an office. The first course those staff members go on will show them how to use the system, but they may not be clear what their role is within the inspectorate. So, we are going back to recalibrate the whole approach to training.

**Mr Mitchel McLaughlin:** Is that programmed interrogation, or do we rely on the expertise of the individual to know what questions to ask?

**Mr Flynn:** There are two things. Part of the system is about the use of duplicate codes. If you have used the code before, the system will prompt you, and if you override that, you will have made a conscious decision to do so. The general reports are available and have been constructed by experts. Someone just has to run them; they do not have to compose them.

**Dr McPeake:** Of course, you have to read the reports and make use of them. That is one of the compliance issues that we are conscious of. It is all very well putting those tools in place to help people, but they have to make use of them. We are focused on making sure people know what is available and how to do it, and then giving them the opportunities to get on and do it.

**Mr Haire:** The key and important shift has been the movement of the business improvement system, which was, frankly, hidden in one of the divisions, to become an assurance system for the chief executive and the accounting officer. It is about consistently using that, having the support systems in place to help raise people to that level and us being able to use that information rapidly. Connected to that, there will be contract managers for the new contracts. They will look at the work that each contractor does and the quality of that work. Better assurances on the quality of the districts and the contracts will provide John and the board of the Housing Executive with much better data. Their ability to mine that data, understand it and keep on it is important. It is about having a relentless focus on reaching above that 99% to get value for money out of the system.

We have the tools but, as John said, we have to see this work. From the Department's point of view, the processes look right, but we have to make sure they work. We will come back next year to go through that. As John emphasised, there are also other bits of business in the Housing Executive for which we have to make sure there is exactly the same clarity of approach.

**Mr Anderson:** Thank you.

**Mr Girvan:** Thank you. I want to come back in on that point. Quite a bit of emphasis will be placed on those who are involved in carrying out inspections. I appreciate that 150 staff members in the organisation are involved in that area, and that there is £5 million to administer it. On that basis, are there satisfactory staffing levels in the districts to deal with that, and are the staff who will be involved

in that sufficiently skilled and trained in that aspect? Some members alluded to the fact that people came into the organisation having not been previously involved in the industry at all, yet they were undertaking those roles in some of the local offices.

**Mr Flynn:** There are a couple of points in relation to that. I will deal with the training aspect first. As I said, we completely recalibrated the approach to training. We are hoping to start the first of the pilot schemes in October. The two major focuses of the training programme will be pre-inspections and post-inspections. That will take approximately five days. Over the next period of time, every maintenance officer will go through a completely new comprehensive approach to maintenance inspections, and it will be competency based. Part of that will involve being in the field doing inspections, as opposed to just sitting reading manuals. They will be taken to a property and tested on their understanding of what is required in an inspection. That is one part of the training.

There is a change in the approach to inspections. Earlier, we talked about doing a 100% inspection of everything that was over £750. Change of tenancies tend to be our big jobs. Our approach to inspections is that we will do one in two of those now. Therefore, we are freeing up a maintenance resource to spend more time on a detailed change of tenancy. A change of tenancy can have anything from 100 to 150 different codes in it. They could be completely revamping a property. So, they have more time to be more thorough in their approach to the inspection. They are more versed having been put through a more comprehensive approach to training.

On the other side, we have done two things to get the work right first time round. We sat down with contractors so that they can understand why we are failing their work. They thought that they had good quality assurance systems, but, in some respects, they were not fit for purpose, so they changed those systems. They also have a better understanding of our schedule of rates.

Lastly, it is a bit like the carrot and the stick, as we have service penalties now. If they do not get it right and we fail them in any one month, they get an amber rating, and we will take 1% of their income off them. That is the last resort. So, it is a combination of a range of factors in the Housing Executive and external to the Housing Executive. That should take us in the direction of getting an improved level of inspection, improved quality of work and an improved quality of invoicing from contractors. However, as John mentioned, the proof of the pudding will be in us demonstrating as we move forward that we have that.

**Mr Girvan:** Are inspectors expected to complete a number of inspections daily or weekly? How soon after a contractor has finished a job is the inspection to take place?

**Mr Flynn:** There is a standard set, and the system will generate the inspections for our maintenance staff daily. When the contractors complete their work, the standard is that we have five days to turn that round. However, bear in mind that there is a twin-track approach to dealing with contractors. There are those who are selected for inspection whose work we ultimately signed off on and pay, and there are those who come through the system and are presented to us daily to allow the contractors to generate income. So, there are standards set for each of our district offices, and the system can generate reports in respect of who is doing what inspections, the level at which they are doing the inspections and the time that they are taking to do the inspections.

**Dr McPeake:** One of the things that we have changed in the inspection regime, apart from the obvious issue of moving from a risk-based approach, which was not random, to this statistical method that Mr Haire mentioned, is a key part of it. However, the second part is that we have split the inspection regime into two tiers. Therefore, the statistical part, which is generated by the system, is what we call tier-one inspection. That is to give us reliable measures to hold a contractor to account and to assess any service penalties that are required to be applied. So, it is really about the contractual compliance issue.

Tier-two inspections, on the other hand, are what we have described as being "use your head inspections". We are saying to maintenance officers that they are out on the field daily, they see things that are happening, they are analysing KPIs and doing their statistical inspections, so they begin to get a feel for themes or trends that are emerging. We have worked to create a capacity for maintenance staff to do tier-two inspections where they use their brain and their intelligence to find something. For instance, one contractor may seem to be using a lot of doors one month or another may seem to be doing a lot of work on replacing toilet seats, for example, but the idea behind it is that they should use their intelligence to identify trends and issues that would warrant further follow-up.

With the old method, they were running to stand still and almost fighting fire the whole time. We believe that this new approach is a more intelligent use of the resource that we have.

To come back to the first part of the question that you asked: we think that we have the right balance between the demands that are being placed on our staff and the resource that we have. Notwithstanding the issue, we are under a bit of pressure at the moment because we are in transition between the old contracts and the new, and that has put staff under a lot more pressure. So, we are going through a difficult phase at the moment because of the start-up contracts, but once we get over that hurdle, we believe that we will have a decent balance between the resource that we need and the demands being placed on the staff. However, we will keep that under constant review.

It is also fair to say that I do not want to be in a situation where I have to rely on agency staff to support core functions, but being able to use an agency resource can give you significant benefits where required. There can be sudden upsurges in demand. When we had the floods in the summer, for example, we had a sudden increase in repair requests for certain types of work, so our belief is that maintenance inspection should be a core function of the Housing Executive. The vast majority of that resource should be delivered by core employees and a small amount of it should rely on additional resource that we bring in. They should be properly trained to do the job of a two-stage inspection process: a statistical inspection to hold contractors to account; and a second stage where they use their intelligence to pick up themes. I think that would give a much greater assurance to the organisation, not just on the quality of the work of the contractors, but on the overall value-for-money framework that we operate in.

**Mr Girvan:** I appreciate that. Different district offices seem to have completely different performance figures on that matter, and that is where we want to see real consistency across the board. We want to see like-for-like inspection, not oranges being tested as apples. I think that is key.

Some areas seem to have performed very well when other areas have not. I am not naive enough to say that there must be an exceptionally good contractor working in one area. I know from having worked with them many times that there are good and bad contractors. It can be hit and miss; it depends who is on the job. I appreciate that those areas need to be looked at.

Paragraph 1.22 on page 23 of the report states that further investigations are being undertaken by the Housing Executive and Departments into the working of a number of contractors and that the Department has commissioned a wider report. Can we have the name of those contractors and a copy of that report when it has been completed? I know that it is to be completed in the autumn, but it is vital that we have that information fed back to us. A lot of the focus was on one contractor around this matter, but I am not stupid enough to think that it was the only contractor there. There were others.

**Dr McPeake:** That is absolutely right. We were treating the investigation that is under way as a confidential process because it raises issues around the commercial viability of the contractor. Our first port of call is to produce what we believe to be the evidence and get it to the contractor so that he can consider it and give us his view. We do the same thing for the staff who are managing the contract as they are part of the issue. When that process ends and the contractor comes back with his responses, the district staff come back with theirs and we close the thing out. I have no issue with providing it at that point.

**Mr Jim Wilkinson (Department for Social Development):** The report is active. It is in draft form and it is being considered. There are two stages to it. On the one hand, we will certainly look to see what we can take from the report about general lessons learned, but the specifics about individual contractors have to go through the Housing Executive's appropriate contract management process.

**Mr Girvan:** I understand that the Minister, when he took up post, commissioned a forensic investigation into this process prior to this report coming about. Is that correct?

**Mr Wilkinson:** Yes, that is what this report refers to. It is the outworkings of that forensic investigation that we have passed to the Housing Executive. That is why I am saying that we can share some of the general lessons that have been learned, including the recommendations, but there are also specific issues that the Housing Executive will have to take forward with its contractors after having tested the evidence.

**Mr Girvan:** There are major areas that we need to focus on. I want to know what is deemed acceptable procedure between the contractor and the staff and what is deemed to be unacceptable behaviour. That would relate to acceptance of excessive hospitality or the splitting of a contract because it was going to be above the level where they had to go in, and, therefore, they would do it two or three times to cover it. There was the duplication of orders that were making their way through and payments were being issued. There was approval of work for buildings that were not even there. How was that sort of thing allowed to slip through? Staff also have to have a code of conduct by which they should abide. Will that be followed through? We recognise that these practices existed in the past and we want to be sure that they do not exist in the future.

**Dr McPeake:** We find completely unacceptable all the examples that you have given. We will not tolerate them in any circumstance. I will go through them. It is quite telling that, of the two examples of excessive hospitality mentioned in the report, one was 12 years ago and the other was seven years ago. In both cases, we took disciplinary action against the officers concerned. We have very substantially tightened our policy on gifts and hospitality. In fact, we probably have one of the strictest policies on hospitality in the public service. Our standing instruction to staff involved in the operational business is to refuse all hospitality from contractors. That is the only safe way forward. People are allowed to take a token issue, so if the contractor gives them a diary or whatever the case may be, that is permitted. To give you an example: the Northern Ireland Civil Service code on gifts allows officers to take a gift of up to £50. The Housing Executive allows £10, but we frown upon it. We really do not encourage people to accept gifts or hospitality.

**Mr Girvan:** Christmas dinners?

**Dr McPeake:** We will not accept any of those; none whatsoever. We are very clear about that. In fact, we are very clear about that. It did happen in the past, and we disciplined people on that basis. You will see that we are very strict about that issue at Christmas and we issue guidance at Christmas to remind people about it.

You asked about the code. We have completely overhauled the code of conduct for staff. Indeed, I think I am right in saying that the most recent version was issued today. I picked it up this morning by e-mail. We have a new code, and this issue of hospitality is included in it. We reviewed the policy on gifts and hospitality on several occasions since those examples were highlighted back in the early 2000s. We have a strict approach to that now.

We have no tolerance for people who would do those other things that you mentioned, such as splitting an order into several groups to keep it within their approval limits. For the examples that were cited, staff were disciplined. We introduced new controls in our systems to avoid and stop the problems of duplicate orders. From the evidence that we have to date, although we found those problems happening earlier in the period, we are not seeing those issues emerging now. We still see problems with incorrect schedule of rates codes being used. We still occasionally see issues. For example, there is a schedule of rates code for cleaning gutters. It should only be used once. So, you get a code to clean the gutters of a house, which means front and back. There have been examples of where contractors have used the code twice, once for the front gutters and once for the back. So, we have made changes in the systems of the organisation that prevent those codes being abused.

I come back to the point that I made at the start of the session. One of the key lessons for us as an organisation is that we cannot be complacent about those things. We must remain vigilant. We cannot lull ourselves into a sense of security and think that, because we have done x, y and z, we have solved these problems. We must keep vigilant and keep on at it. However, I have no tolerance for any of the issues that you mentioned.

**Mr Girvan:** One of the areas that you alluded to earlier was staff rotation. I am not saying that rotation deals with all those points, because sometimes, people who are creating no problem end up being moved for no reason. Is there a policy on that? You mentioned that there was a way of dealing with that and it was through staff rotation. How could that work? Is there a policy for it?

**Dr McPeake:** Yes. There is now a policy on staff rotation. One of the recommendations of the governance review that Mr Haire mentioned was to introduce a more formal approach for staff rotation. One of the weaknesses that we have in our circumstances, which I mentioned previously, is that we do not have mobile contracts. We cannot tell Housing Executive employees who work in Bangor that, next week, they will be working in Ballymena. We do not have the ability to do that.

However, we now have the ability, especially with more recent contracts, to relocate people within reasonable distances.

**Mr Girvan:** I want to make sure that those contractors who have signed up and are working their way forward on recent contracts have been properly briefed on this matter.

**Dr McPeake:** Yes, we call that process the enabling meeting. Although I have talked a lot in the session about training, and the focus on training is, rightly, on us training our staff —

**Mr Girvan:** There is also the training that needs to be given to contractors.

**Dr McPeake:** Absolutely; I was just going to make that point. When you look at it, you see that it is increasingly obvious that part of these problems arise because contractors do not fully understand what is expected of them. So, we are committed to making sure that we get off on the right foot, particularly as part of these contracts. We are committed to making sure that contractors are clear on what we expect from them, know how to use the systems and have clarity about the schedule of rates codes. We are seeing some early issues, which we are trying to work through. As we mentioned earlier, at the start of new contracts, we have a grace period of three months. In that time, we work intensely with the contractors to make sure that we start the process as we mean to go on, because we are in with these guys for four years.

**Mr Girvan:** You alluded to a three-month contract in which you would suck it and see. Is it correct that the contracts of those people who are not coming up to the mark within that period will be up for retender?

**Dr McPeake:** They do not go out to retender. We have what is called an escalation process. Assuming that we are in the normal running mode, and not necessarily in the three-month transitional period, KPIs are produced for that month's performance and assessed. There might be some indicators that performance is not up to standard. In such a case, there is a meeting with the contractor, and the contractor is required to explain what is going on and put in place arrangements to correct that; there is an improvement plan. That might happen at month 2 or month 3. We expect to see evidence that things improve. If they do not improve, it is escalated through the organisation to a point at which the contract can be terminated. The contractors are part of a framework, and we have other businesses that have been through our procurement process, and which have a slot on that framework contract, but which have not been allocated a work package. If we find ourselves in a situation in which we have to terminate one of the new contractors early, and I hope we do not, there will be another contractor on the framework to whom we can go immediately without having to go to retender. Those contractors have been through the procurement process, and prices are already there and available to us. We will be able to go through a transition from one to the other.

Our belief is that termination is an absolute last resort. It should be entered into only if all other reasonable measures have been exhausted. The difference from our approach now and our approach in the past is that contractors enter this relationship knowing exactly what we will do if certain circumstances arise. In the past, there was not that clarity. So we have this clear timeline, a clear cycle of escalation and clear consequences for failure to perform.

**Mr Dallat:** We are three hours into this, but I am finding it to be extremely worthwhile. I am also tempted to say that, on this occasion, the accounting officer has got off lightly. I think that is because the witnesses are clearly focused on what should happen. That message will be warmly received by good contractors, and certainly by the 90,000 tenants of the Housing Executive. If that happens, the hearing has been well worthwhile.

I have questions to ask about the past, because we must deal with it. My first question relates to paragraphs 2.10 to 2.19 of the report, and it is addressed to you, Mr Haire. Figure 8 shows that 21 of the 35 districts had an unacceptable rating and that that covered £25 million of expenditure. Surely, it must have been obvious to anyone in the Housing Executive, before the Audit Office pointed it out, that there was something fundamentally wrong, when a district's performance could be rated as satisfactory even though, in some cases, scores of zero were awarded for the quality of the work and the accuracy of invoicing. I know you have covered this, Dr McPeake, but it would be useful to get the official answer for the record.

**Mr Haire:** I think that this was a very useful way to look at these questions by the Audit Office. A lot of this is about data mining and getting that focus. As John and Gerry have indicated, there are very high standards. Rightly, they expect a 99% level. They are experts in the area, and they know that that should be achievable, and that is what they are determined to get to. Clearly, there are areas where the level of service in that process is not good enough. The key point for me is to hold John, Gerry and the Housing Executive to the standards that they have set themselves and to ask whether they have used the data and whether they will achieve those outcomes. I have been in fairly robust discussion with them about the issue over the past six months, and I have told them that this is the real opportunity for them to focus on this and that they have to get the system right.

There is also the question about the balance of the score and the quality that the customer is getting. In some stages, it varied over a while. Now, rightly, they have set it at about 30%, which is a reasonable level. At one stage, it was down to nearly 10%. It is clearly about the customer and the tenant and making sure that they are getting it right.

**Mr Dallat:** So, in a nutshell, what appeared to happen in the past will not happen again: we will not have the contractors scratching the back of the Housing Executive and vice versa. The new systems, as outlined, will prevent that. Am I right?

**Mr Haire:** The new contract is much better in that way. There is a clear understanding in the Housing Executive that this is what it is about. You made a point, Mr Dallat, and, quite clearly, there were staff in the Housing Executive who were trying to enforce what was a difficult contract to enforce and were standing up to contractors on the issue. Here we have a clearer system where everyone can stand up. At the same time, the point is being made that a lot of this is about training, quality, understanding and making sure that the skill is there. There were failures in the past to get that in place, and I am very glad that John, Gerry and the team are taking this very fundamental view on this process and working it through. There are a lot of other contracting issues, and we have to go across all the contractors of the Housing Executive to make sure that it works well.

**Mr Dallat:** Finally, I want to cover whistle-blowers. It seems that there have been very few whistle-blowers, and it was extremely disturbing to find that somebody fed a whistle-blower's letter into a computer to try to identify common phrases so that they could find out who it was. We had the experience recently in the Northern Ireland Fire and Rescue Service where similar things happened. I am not suggesting that that was exclusively a Housing Executive issue. However, does Mr Haire agree that whistle-blowers are essential and that they need to be protected?

**Mr Haire:** As the report said, the Housing Executive explained why it did that process. It thought that it was an important case and wanted to try to get better information from the individual, but it has recognised that that is the wrong thing to do because it undermines the culture. If somebody chooses not to go public in that process, you must let them use the anonymous route and have it open so that people can feel confident that they can use that route and that there will be no comeback on the issue. The Housing Executive put its hands up and said that it got that wrong; its predecessors called it wrong and that it is not the policy of the Housing Executive now.

The key thing for all organisations is how to get openness in their organisation so that staff feel confident that when they see issues that they think are wrong or things that can be improved, they can use that process and help with the continuous improvement. That is the challenge that all of us as leaders of organisations have to get right. It should not be whistle-blowers only; staff should naturally come and say that something is not working right, that they could do it better or that they are unhappy with it. That is the challenge that John has to deal with.

**Mr Dallat:** Chairperson, for the record, I was referring to paragraph 3.2 and the associated case study.

In 2010-11, of the 22 ongoing fraud investigations in the Northern Ireland Housing Executive, only two had been formally notified to the C&AG. In 2005, a significant suspected fraud, in my opinion, appears not to have been reported at all. Why was the Audit Office not informed?

**Dr McPeake:** With regard to paragraph 3.2, there was a misinterpretation on our part about the point at which we were supposed to inform the Department of such cases. Our belief — and we accept that we were mistaken — was that we should draw a distinction between allegation and suspicion. Perhaps it is a very fine point. We have very experienced fraud investigators in the Housing Executive. At the time, the fraud unit was headed by the former head of the fraud squad in Northern Ireland. That gives you an indication of the quality of the people involved in it.

It was our practice at the time, when we got an allegation of fraud, to do some pre-investigative work to determine whether there was any merit in the allegation. At that point, we would inform the Department. It has been drawn to our attention, through the helpful report of the Audit Office, that that is a breach of 'Managing Public Money Northern Ireland'. We had not appreciated that; and we put our hands up. We have regularised our arrangements with the Department and there is absolutely no ambiguity about it.

One thing I want to say is that no one here is saying that we did not investigate these cases. Every case was investigated thoroughly, and appropriate actions were taken. The failure on our part was not to notify the Department at the appropriate time. That is an issue that we accept and have addressed.

**Mr Dallat:** Yes. I accept the response, and I am glad that we now have an assurance that Dr McPeake understands fully that the Department and the Audit Office must be notified immediately of any suspected fraud. I assume, therefore, that you understand what is required and why reporting is important. How many more unreported cases of fraud or suspected fraud may there be, given that you did not understand the procedure?

**Dr McPeake:** All I can say is that, from the point at which we clarified this with the Department, we have reported every allegation that comes our way on the day we receive it.

**Mr Wilkinson:** I also should say, from the Department's perspective, that the Department had to tighten up its procedure as well. In October 2011, we did a full reconciliation of all investigations and whistle-blowing cases that the Housing Executive had and ensured that the Comptroller and Auditor General had been notified of them. He now has a full record and it is being updated regularly.

**Mr Dallat:** Finally, out of interest, what was the outcome of the investigation referred to in the case study?

**Dr McPeake:** The report indicates at the bottom of that section that there was no evidence, and that we did not report it. My understanding is that they did not find evidence of fraud in that particular case. I would need to check the case files just to be precise about it.

**Mr Dallat:** That is fine. Thank you.

**Mr Easton:** I will touch on the issue of whistle-blowing, if that is OK. My question is to Dr McPeake. Can you explain why, in the case referenced in paragraph 3.7, the Northern Ireland Housing Executive considered it appropriate to try to identify the whistle-blower? Do you also accept that practices such as that, and the sudden transfer of staff or decisions to terminate employment, can create the perception that whistle-blowers are not welcomed in your organisation?

**Dr McPeake:** I agree with the tenet of your question. As Mr Haire mentioned previously, it should not have happened. At the time, the Housing Executive took the view that the public interest would be served by this action, but the truth is that, in the cold light of day, the public interest is not served by it. So we have taken a clear decision that there will be no instances in which we will make an effort to identify a whistle-blower. I agree completely that the integrity of the process rests on the belief that a person can raise an issue with us without any fear or favour. I assure you that that is the approach we are taking.

As to whether staff may be relocated as a result of this, our belief is that we owe a duty of care to whistle-blowers, regardless of whether they are internal or external. We need to ensure that we apply the highest standards we possibly can in dealing with such cases.

**Mr Easton:** What grade was the individual who sanctioned the attempt to locate the whistle-blower?

**Dr McPeake:** At the time, the view was that it could be approved by the director of personnel and management services or by the chief executive. It was on the advice of the head of the counter-fraud group that it was done.

I am aware of that happening in only that case. In fact, I believe there have been two cases in the life of the Housing Executive when an effort was made to do that. We have stopped that in order to make certain that it will not happen again.

The decision was taken at the time. It was believed — in retrospect, I think we accept it was mistakenly believed — that it was in the public interest because the issue raised was potentially a life-threatening question of health and safety. The organisation was conflicted about what it should do in those circumstances because there was not enough information to investigate it properly.

We accept that the decision to try to identify the person was incorrect. For the record, it is worth saying that we did not identify the person. Although an effort was made, it was unsuccessful.

**Mr Easton:** What steps have you taken to implement the Audit Office recommendations? Have you done them all?

**Dr McPeake:** We accept all of them. A number are already well-advanced, but our commitment is to implement all the recommendations of the Audit Office report. We are also expecting in due course to receive the Public Accounts Committee (PAC) report and we will be giving that our due attention as well.

**Mr Easton:** OK, next question. Dr McPeake, I am looking at paragraph 3.9, which deals with the Housing Executive's disciplinary policy. However, it is important to consider that issue in conjunction with the Red Sky case study on pages 15 to 24. Your policy on fraud and corruption is very clear: both are unacceptable. Yet, clear breaches are met with written and verbal warnings according to paragraphs 3.9, 1.17 and paragraph 1.17 sub-paragraph 25, and reinstatement, albeit on appeal, in paragraph 1.17. Are you satisfied that the disciplinary action taken in those cases adequately reflects and supports the zero-tolerance approach of your policy? What more needs to be done to ensure that the punishment fits the crime? For example, are your systems robust enough to identify where breaches have occurred and where the faults lie, and are your investigations sufficiently thorough to support the applications of the strongest sanctions in every case?

**Dr McPeake:** As regards the first broad issue you raised, which was about whether I am satisfied that the disciplinary sanctions are appropriate, I will answer that in two ways. First, I asked my director of personnel and management services to review the way in which the Housing Executive handled disciplinary issues where there were allegations of fraud. A lot appears to come down to whether there is evidence to support a fraud claim. Our belief is that when we have fraud, we have a zero-tolerance approach, as you rightly say. Where we believe there is evidence of fraud, we pursue that to the highest levels we can. If we think that a criminal issue is involved, we will bring it to the police. We have done that on a number of occasions.

I asked my director of personnel to review and satisfy me that we have taken a consistent approach. One difficulty we have with any disciplinary process, of course, is that the only thing we really have in our control is the investigation of the issue, making the case and bringing the person to a panel. The panel looks at the evidence presented on the day, the way in which the person being disciplined presents his case, his representation, and any mitigation offered. As an organisation, our belief is that it is right and proper for us to have zero tolerance. If there are cases where there is evidence of fraud, we will pursue them rigorously.

The second part of your question was really about whether I am satisfied, moving forward, that we have appropriate and robust systems in place. Our fraud response approach is under review, and that review is due to be completed in December. There are two major strands to it. The first is prevention, which is the key to dealing effectively with fraud. You have to have appropriate systems in place to prevent fraud from happening in the first place. The second is the arrangements we have for detecting fraud that has happened. Again, we have introduced a number of key changes to our systems to help us to identify where those sorts of issues may arise. Our belief is that it is right and proper that we focus on bringing these matters to the highest level when there is evidence of fraudulent behaviour.

**Mr Easton:** My last question is to you again. Paragraphs 3.11 to 3.25 deal with the complaints process. If I were a member of the Housing Executive board or a reader of the annual report, I would conclude, based on paragraphs 3.12 and 3.14, that the Housing Executive is doing reasonably well as it gets around only 500 complaints a year. However, that is far from the truth, is it not? Taking into account informal complaints and recalls to contractors, the figure in paragraph 3.20 is close to 19,000. Why is that figure not reported to the board or included in your annual report? Is this just a mechanism to obscure the true scale of tenants' dissatisfaction with the service or standard of work



being provided? Are you covering up the true amount of complaints? I think that you are because I report quite a few of them.

**Dr McPeake:** Yes, I know that. In our complaints system, there is a distinction between informal and formal complaints, and when we report, we mostly focus on the formal complaints. Our organisation's approach is to try to avoid complaints coming into the formal system because it is a measure of failure to an extent. Our approach is pretty much industry standard.

There is a distinction between informal and formal complaints, and, for example, the ombudsman's office has commented favourably on the Housing Executive's willingness to address issues through complaints and to take action on them. To be frank, there is no attempt to hide the issues at all. We probably do not get to keep a record of some complaints because, for example, particularly in the construction business, the tenant might raise an issue on site that is solved there and then. There is no real easy administrative arrangement to be able to record that, but every informal complaint is recorded and stored in the housing management system. We do not regard recalls as complaints because they often turn out not to be a complaint as such. However, we still analyse every one of them. Every single informal or formal complaint is analysed to attempt to draw lessons from it.

We had about 150-odd complaints in the formal system to do with the repair side, and when you think that we do 330,000 repairs a year, that is a very low number. Even when you add the 9,000 or so informal complaints, it is still a very small percentage. However, we are not complacent about that. Every complaint is examined, and we use the complaints data from tenants to hold the contractor to account. The vast majority of complaints, whether informal or formal, that we get that relate to maintenance are about timing. They are about the fact that, for example, a tenant was supposed to have a job finished by Thursday but it was not done until Friday. We get only a very small number of complaints about the quality of work, and the timing issue is the one that most tenants are exasperated about.

We are not complacent about complaints, and we see them as a way in which we can drive up the standards of service. In light of the Audit Office report, I have asked that our formal and informal complaints arrangements are reviewed. Those are managed in the information department, and my colleagues there are conducting a review of the complaints system at the minute. I want to make sure that we make the very best use of all information that we have, and complaints are a valuable tool for improving service.

**Mr Flynn:** For further validation, outside of that we also do the continuous tenants' omnibus survey, where we ask people what they think of the maintenance service. That has been improving over the past five years. We sample tenants through our customer service unit. We ring them when the job is completed and ask for their views, and that is recorded as a KPI. The satisfaction rate is in the high 90%.

We meet every month with the Housing Community Network, and one aspect that is discussed is maintenance performance. There are a number of elected representatives around the room here, and I remember 10 years ago when we were inundated with complaints from public representatives and the public about our maintenance service. We have improved, and although we still get complaints, they are certainly not on the scale that they used to be.

**The Chairperson:** Members, you will be glad to hear that we have two members left: Mr Ross Hussey and Mr Mitchel McLaughlin.

**Mr Hussey:** They will not be glad to hear that I am one of them, but here we go. I will move on to the effectiveness of governance arrangements. Mr Haire, we will stay with the complaints process. Paragraph 1.8 states that one of the benefits obtained from the Egan partnership approach includes increased levels of tenant satisfaction. Yet, if you look at figure 13 on page 47, one in four of your tenants is dissatisfied with the repair service provided by the Housing Executive. From a departmental perspective, what are your views on the overall satisfaction level of 75% for the repair service? Is it acceptable that one in every four tenants is dissatisfied? What would you consider to be an acceptable level of performance for an organisation such as the Housing Executive?

**Mr Haire:** I am not an expert on how the overall satisfaction levels benchmark against other organisations. I am satisfied that the Housing Executive has in place a number of survey activities to try to probe the issue. They take the matter seriously. The point is that it has set itself very high

standards in delivery, as outlined in the RIU report. It has not achieved those levels, and I want to hold it to account and get those levels correct up to the very high levels of the process.

On public confidence levels, I do not know whether the public will give you answers. If you peak at 80%, there will always be a certain proportion of the population that will say that it is not good enough. I do not know whether it is 80% or 85% or 90% in that process, but a key point is that the Housing Executive has to focus very clearly on getting these contracts right and ensuring that they are delivered to the right specification. I think the new contracts will give it that base.

**Mr Hussey:** I disagree. I feel that if there is a tenant situation, which there is here, and that one in four of them is clearly stating that they are not happy with the service that they are receiving, then that is not right. That is not an acceptable standard. The benchmark should be a lot higher than that. When I worked in the insurance industry, if my office received complaints from one in four people, I would not be a very happy person, and the person who was receiving the complaints would receive more than the sharp end of my tongue. I believe that the figure should be at least 85%, leaning towards 90%, and I believe that 75% is a low figure.

**Dr McPeake:** Can I just make a brief comment on that?

**Mr Hussey:** I am going to move on to your question, and you can comment on that as well, because it is getting late and even I get tired occasionally.

Paragraphs 3.21 and 3.22 state that you have made some progress in attempting to use complaints information to assess contractor performance. What is your target score for customer service, and how many improvement plans have been put in place to date? Have they had the desired effect?

**Dr McPeake:** If you will forgive me, I will just add a brief comment to Mr Haire's answer a moment ago. Figure 13, which you referred to, shows information from our continuous tenant omnibus survey. That survey runs every day of the week throughout the year. It is non-specific to particular repair jobs, so when we ask a tenant about it, they are offering a generic opinion. I think you said that overall satisfaction was at 75%, but it is not correct to say that 25% were dissatisfied. That is because the next category in the survey is "neither satisfied nor dissatisfied", or in other words ambivalent, and the next is "dissatisfied". It is a well-known feature of retrospective surveys that around 75% or 80% seems to be a natural level of satisfaction. We rely on contemporaneous recording, polling, of tenants on specific jobs for our customer measures, so our customer service units telephone tenants on a random basis after work is done, and the figures there show that 98% are satisfied. That is the sort of level of satisfaction that I expect to get. It is very difficult to get anything above that in retrospective surveys because of the way they are designed and the way the questions are framed. The way the samples are structured makes it very difficult to get much above 89%.

**Mr Hussey:** Who designed the questions?

**Dr McPeake:** They are designed by research specialists, but —

**Mr Hussey:** Clearly, research specialists believe that those are the questions that they want the answers to and, therefore, if they are the specialists, the answer is still 75%. I accept that the number of people who are neither satisfied nor dissatisfied can put your figures out slightly, but at the same time, if that is what the research specialists are advising you to ask, then surely that is the line you should follow.

**Dr McPeake:** I agree completely. What we find from these types of surveys is the trend. That is very important as well and we are pushing that up, but we are not complacent about it. We want to provide the very best service we can to our tenants because we are obligated to do so and because we would not be in business if it were not for those tenants. We use a method called triangulation. We use a range of different sources of customer satisfaction data to inform us about what our customers think. Retrospective customer surveys are one of those methods and the contemporaneous telephone-based survey that is directly linked to specific jobs is another. We also do quite a bit of qualitative research with tenant groups. We look at all those things in the round. The key thing is that when tenants give us direct feedback that services have been unsatisfactory, we follow up on that.

**Mr Hussey:** Mr Haire, paragraphs 4.16 to 4.18, starting on page 55, show that the Housing Executive is a very important public body and, indeed, one of the largest. How would you describe the relationship between the Department and the Housing Executive?

**Mr Haire:** I think that it is a good relationship. It has also been quite a challenging one over the past while and since the governance review commenced. Through that process, we have tried to look at some of the key issues, such as what the outcomes were, what the Housing Executive has achieved and how it deals with the challenges that it had with contract management, land disposals and the range of governance issues.

We have worked well together in oversight groups to see that the Housing Executive has the basic processes in place. We have also changed the accountability arrangements, and John and I work face to face. At times, I have made that contact more regular, and because of the size of the issues that we are dealing with at the moment, we meet monthly. We will continue to meet monthly until I am assured that all those things are in place. However, although it is challenging, I think that we have a very open and good relationship. That is the right way to be; it must not be too cosy.

**Mr Hussey:** You will have been aware of the suspected contract fraud in the Belfast Education and Library Board, into which the Committee conducted an inquiry. As accounting officer in the Department of Education at the time, you would have been familiar with the problems that maintenance contracts can throw up. Given that you had that insight, did it strike you that there might be a similar problem in the Housing Executive? If so, what did you do?

**Mr Haire:** Absolutely; it was a similar business. When I came into post, an investigation into the Red Sky contracts was already being undertaken. That started before my time and arose after a whistleblower contacted the Audit Office. My key tasks were to make sure that it was pursued and that we processed and analysed the information. However, even before the reports on Red Sky were completed, I was concerned about the land deals and some other issues, and I asked for a governance review. That looked more widely than just contract management and took in the entire governance process. I think that that review was unique, in that it asked about those very big governance issues. Of course, it came at the same time as PAC had carried out its inquiry into the Department of Culture, Arts and Leisure's arm's-length bodies. In light of that, we took a very broad view, and looked more widely than the contracts and took in the whole governance issue. That is why we got the governance report by the end of 2010.

My experience in the Department of Education and of dealing, more generally, with some of the governance challenges in the education and library boards made me feel that we had to look at those issues. On a related issue, I felt very strongly that there were issues with the culture and organisation of the Housing Executive and my governance review also looked at those elements. I think that that was a useful exercise, because it helped to frame the agenda. In fact, in many ways, the NIAO report reflects many of the same themes that I was trying to investigate at that time.

**Mr Hussey:** Staying with that theme; prior to the reviews listed in paragraph 4.1, when was the last major review of the Housing Executive by the Department? What did it conclude?

**Mr Haire:** As you know, we are fundamentally reviewing the structure and future direction of the Housing Executive, and, over the past couple of years, work has been done on that. PricewaterhouseCoopers has also produced a variety of reports. Those are sitting with Ministers at the moment, and they will take a view on the structure and future direction of the organisation. There has been a useful and wide dialogue between the housing sector and the Housing Executive on many of those issues, together with a very useful discussion on the question of where it would be best to locate the Housing Executive's landlord function if it were to be split from its strategic side. We await ministerial decisions to take that forward. The key point that John and I are focusing on is that even though that structural change will be a very important part of our work, any structural change takes several years to put through. The key question is how to make sure of the quality of these services. Whatever politicians decide to do with the Housing Executive structure, how do we make sure that these services are protected and that we do not lose the quality of the day-to-day business? That is the importance of this sort of report and the focus of this sort of question.

**Mr Hussey:** That particular issue is one of the most important things: the integrity, I suppose, of the Housing Executive. In light of what has emerged, are you satisfied that the Department's oversight of the Housing Executive was up to the mark? Clearly, I have made my comments in relation to the past.

What do you see as being the wider lessons for the relationship between the Department and the Housing Executive?

**Mr Haire:** When I came in, I did not think that it was as formalised as I wanted it to be. I have ramped up the formalisation of the process. I can get written assurances from John and from other people that they have assurance systems in place, but I actually think that I have to independently go into different areas every year or so and actually test that. That is a fair thing for a Department to do. I am not trying to second-guess, but I think it is important that an objective individual comes in to ask whether actually that is operating in the system. That is the form of governance that is appropriate here, but it is also important that there is openness and transparency in the process. That is what John and I are trying to work towards.

**Mr Hussey:** We have covered the structure and the organisational structure. Appendix 9 of the report contains the raft of recommendations. Rather than go through all that in detail, perhaps you would write to the Committee setting out how each of the recommendations has been implemented.

**Mr Haire:** Yes, we have done work on that. I am very happy to give you our full report on all that. We monitor that very carefully.

**Mr Mitchel McLaughlin:** Paragraphs 4-7 to 4-9 deal with the critical issue of the independence of internal audit. We have two clear case studies in which critical internal audit reports have been suppressed, or pressure has been put on internal audit to change its opinion. What comes across and what worries me in reasonably contemporaneous time frames is the culture in the Housing Executive of stifling any form of criticism. What is your view on that?

**Mr Haire:** It is totally unacceptable. It is also very foolish, because internal audit is the best process an organisation has to get information out there to deal with issues. These case studies are very clear. The issues that were there maybe did not come up well enough, and it came back to bite the organisation. It is very clear. It is absolutely fair that management is allowed to quickly comment on an internal audit report to make sure of the other factual issues, or something like that. Two or three weeks, you know; give comments. Ultimately, though, it must be the job of the internal auditor to take that into account and to make his or her decision. If they stand by their report, it goes to the chief executive. That must be the way it is, because it is the only way to improve quality in an organisation. It can be very painful for us in that process, because internal audit reports are going to come up, but that is the right thing.

**Mr Mitchel McLaughlin:** I agree that it is painful, but has anyone experienced pain? Has anyone been disciplined?

**Dr McPeake:** Let me reinforce the point that Mr Haire has made. I agree entirely with that assessment. There is no excuse for this having happened. The officers that were involved in both these case studies are no longer in the employ of the Housing Executive. At the start of the session, I mentioned that since taking up my post as chief executive last September and having to work through these issues over the past 12 months, I have made very clear to my colleagues, particularly this year, the importance of having an independent internal audit and the appropriateness of challenging any recommendations in a measured and meaningful way. In no circumstances — and I repeat that: in no circumstances — is it acceptable for a report to be stymied or for it not to proceed.

**Mr Mitchel McLaughlin:** You were part of the chief executive's business committee at that time. Did you go along with that practice, or were you supportive of internal audit's role and function?

**Dr McPeake:** From my own point of view, I have always regarded internal audit as an important tool for senior management. You will see that one of the case studies mentioned related to land issues, and that land-related matter was one of housing regeneration. What has happened is that the Housing Executive has actually taken all responsibility for the land and property function out of the housing division, and placed it in a different division. In the case of the kitchen scheme, the audit again highlights the actions of the former director of housing regeneration and the chief executive.

At the end of the day, the report is correct in saying that the organisation had an approach to internal audit that has not been acceptable. When I met Mr Donnelly's auditors who were doing this work, there was a view that the Housing Executive was a cold house for some of those issues with internal audit — and, indeed, you might argue, potentially with the corporate assurance role.

**Mr Mitchel McLaughlin:** I am trying to work out from that long answer whether you supported the audit committee's position or whether you were part of the culture of trying to change the report or suppress it?

**Dr McPeake:** As I say, these particular —

**Mr Mitchel McLaughlin:** Sorry. Just as a supplementary question, I am also anxious to know whether you have changed your opinion now that you are chief executive?

**Dr McPeake:** It is fair to say that my position on internal audit, as chief executive, is different to what it was when I was a director. That is absolutely true. As to those particular reports, the specific issues were raised by the operational directors. If you are asking me whether there have been internal audit reports, which came to me in my role as a director, and whether I would have challenged recommendations by internal audit earlier in my career, it would be fair to say yes. There would have been occasions on which the organisation's approach at the time was that it challenged audit findings that it did not believe were correct. I do not think, and I genuinely do not believe, that there was evidence that said that senior management or others challenged recommendations because they were awkward, or because they made them feel uncomfortable. I genuinely do not believe that that was the case. However, I accept that perhaps the level of challenge that was seen to be in place at that time was beyond what we would now regard as acceptable.

**Mr Mitchel McLaughlin:** We are only talking about a few years ago.

**Dr McPeake:** I understand that, but a lot can happen in two years.

**Mr Mitchel McLaughlin:** Yes. You could become the chief executive. *[Laughter.]*

**Dr McPeake:** I am very acutely aware of that.

**Mr Mitchel McLaughlin:** Right. I suppose that it is absolutely vital to establish that you would defend, and depend on, the absolute independence of the audit committee.

**Dr McPeake:** Absolutely. As I have said, I have made that point very clear to my management team.

**Mr Mitchel McLaughlin:** Mr Flynn, this is probably the question that you are anticipating. You were the deputy director of the housing and regeneration division when that was going on. Were you supportive of the internal audit's role and position?

**Mr Flynn:** I never had any issue with the objectivity of internal audit in carrying out its work. Naturally, as a manager, I might at times have disagreed with some of the recommendations, particularly if they did not understand what we were trying to explain.

**Mr Mitchel McLaughlin:** Did you disagree with those particular reports that have been mentioned, the two case studies that we have in front of us?

**Mr Flynn:** With reference to the land one, I do not think I disagreed. On reflection, one of the issues was a misunderstanding of an interpretation of what we felt was required in the area of economic appraisal. That was the only issue.

**Mr Mitchel McLaughlin:** OK. You are now director. Is your position on the internal audit's independence absolutely crystal clear?

**Mr Flynn:** Absolutely. As it always was. As a manager, and as John has said earlier, we reserve the right at times —

**Mr Mitchel McLaughlin:** You might have said that, but I did not hear you say it when you were the deputy director.

**Mr Flynn:** No, I did.

**Mr Mitchel McLaughlin:** I think you told me that you had an issue.

**Mr Flynn:** I had no issue with internal audit's objectivity, but you take issue as a manager, at times, with conclusions, if you find that they are not based on an understanding of the business. That still remains the position, but there is unequivocally no issue with its independence. Absolutely none.

**Mr Mitchel McLaughlin:** We have heard during the evidence session about what I think was a positive development in the absolute separation of the corporate and operational functions. You could see how it could be difficult to keep that balance. Mr Haire gave us some assurance that the Housing Executive can manage the situation going forward, and I will give you the opportunity to restate, if it is your view, that those situations will not happen again.

**Mr Haire:** The answer is that great progress has been made in the past while, and it has been a robust and difficult time for the process. We have the basics in place, but this is about culture and about how people act and how they operationalise the issue. That is the big issue, and the jury is out on that. I believe that they are going to do it, but I will test it in a year's time because that is the right thing to do. John accepts that that is very much the right thing to do because he wants to test the contracts. I want to ensure that the governance is right and that all the systems are in place, and, in due course, I will put people in. I have said, right from the beginning, that I have done a governance review, and, in due course, the team will be back to check these things out. That is a positive thing to do. The team is very clear about what is expected of it. From talking to the board, I think that it is very clear about it as well, and the answer is that we have to work it through and, through the process, get people's confidence that we actually have got these things nailed.

**Mr Mitchel McLaughlin:** Paragraph 4.11 has comments from the Housing Executive that all previous reports and assurances to the board and the audit committee from a variety of sources indicated that contract management in the organisation was satisfactory. Based on the evidence presented in the report — the report is referred to in paragraph 2 — do you still believe that to be true? I will remind you, but I am sure you recall, that, in an earlier answer, you talked about a deficit in project management skills.

**Dr McPeake:** Yes, I accept that observation, and I think the point that is being made here in the report is that key information that should have gone to the board and the audit committee earlier in the life of some of the contracts did not go, and when information did go, it was at a fairly superficial level and did not highlight the issues that the report highlights. We have accepted that that is a major weakness.

Since taking receipt of the report and dealing with the other issues, we have reviewed the way in which we report information on major contractual issues to the board. For the first time, we are introducing a process whereby the KPIs associated with the contract will go through the performance review committee, which reports to the board. It will also go to the risk and performance committee. I have taken steps to introduce a contractor review report. We have a number of contractors that work in a number of different bits of our business. They might do all trades, repairs, planned maintenance or adaptations, and, for the first time, we will also bring that sort of information to the board. We accept wholly, and the board accepts, that we did not provide the right information to the board, and so the board was not as well sighted on the issues as it should have been. The board has accepted that its agendas were too long and has worked with the senior management team to review that, and, moving forward, we are confident that we will have addressed those issues.

However, we will not be complacent about it because we want to make sure that once the new reporting arrangements are up and functioning, we touch base with the board, the audit committee and risk and performance to make sure that they are satisfied that they are getting the right information to give them a view on the organisation to enable them to fulfil their job of holding senior management to account.

**Mr Mitchel McLaughlin:** I am actually going to come on to that. Mr Haire, paragraphs 4.12 and 4.13 deal with the board and audit committee agenda. Was that issue addressed in the Department's governance review, and what is your view of the Audit Office comments about the content and length of the agenda and the difficulties that creates in getting down to the core?

**Mr Haire:** This was one of the things that my team brought up. You are absolutely right; there was an issue about having too large agendas and not enough focus on issues. To make a general point, where there is a duty on the executive team to get the right information to the board, it is the duty of the board to demand information and not stand idle. If they are not getting it, it is their job to demand it and keep on demanding it. As we get a new chair and vice-chair, that is one of the key issues in the briefing from a departmental point of view. I think it is a fundamental thing for a new chair coming in to start asking for what he or she wants. They need to be very clear that they have this material.

I welcome the fact that the board has created a risk and performance committee. I think that is good, because at least it is starting to look, not just at the issue of risk, but more strategically at performance. Here was a classic: in the past, the Housing Executive board was talking about lots of detailed issues but it was not asking about key issues such as the outcomes it wanted to achieve and the performances it wanted. As a board, it needs to strategically focus on that.

**Mr Mitchel McLaughlin:** I think we as MLAs have some sympathy because we get swamped with paperwork as well. It can be difficult to see the wood for the trees. That is if there are any woods left by the time we finish reading the papers. Who is responsible for compiling the agenda, Dr McPeake?

**Dr McPeake:** We have a standard agenda in the sense that there are broad headings. So the papers come, depending on — for example, there will be a governance section, but there are things in the board agenda that the board has to consider under the scheme of delegations, so we need formal board approval for certain decisions. Those things are mandated, but the agenda is governed largely by the board's own forward work plan. It also has a brought-forward list or matters outstanding list, whereby the board makes known to the senior management team the key issues that it is interested in. There is an agreement about what —

**Mr Mitchel McLaughlin:** So, you plan your way into these topics.

**Dr McPeake:** We plan our way into it. It follows a broad structure and it is informed by the board's own issues. Issues will come to the board that are of importance that emerge in a month. For example, since becoming chief executive, I have taken the initiative of preparing what I call an emerging issues paper, which I write each month for the board. I will draw to the board's attention any specific things that are of concern to me or a worry to me in the organisation that I feel the board should be aware of. I have taken that practice forward, so I do the same thing for the audit committee that meets quarterly as well as for the risk and performance committee. A number of different factors influence that. The meeting agenda is controlled by the board secretary as well, and the papers go through a pre-board process.

**The Chairperson:** John, the deputy chair, wanted to come in there.

**Mr Dallat:** Finally, let us end where we began. A number of us —

**Mr Mitchel McLaughlin:** I have not finished yet.

**Mr Dallat:** Apologies. I am sorry.

**The Chairperson:** Sorry, Mitchel.

**Mr Dallat:** Carry on, Mitchel. *[Laughter.]*

**Mr Mitchel McLaughlin:** I am an oppressed and threatened minority. *[Laughter.]* I do have one other question. You can tell that the level of interest in my questions from the Committee is very low.

Mr Haire, paragraphs 4.31 to 4.37 deal with the monitoring of expenditure. I am surprised at what appears to be the hands-off approach of the executive's senior management and the board. Considering the level of spend involved and the inherent risks associated, how could the Housing Executive's senior management and the board hope to properly discharge their responsibilities if they do not have sufficient information in front of them?

**Mr Haire:** There is an issue there, and I have been talking about that to the acting chair. There is an issue about the quality of the financial data information that the board is getting. The issue is on our agenda, and there is a meeting to get a tightening around that process. This is a very important issue.

The Housing Executive deals with complex budgets and a wide range of issues, including the tightening financial environment. Like all organisations, we really need to make sure that we have got this data and that it is monitored very tightly.

**Mr Mitchel McLaughlin:** Dr McPeake, paragraph 4.37 is very succinct but it contains some very sound advice. Have you considered, or have you already implemented, that advice?

**Dr McPeake:** Yes, we have. It is part of the point that I made earlier about the fundamental review of reporting arrangements. Our plan is to bring a regular report to the board. We are hoping to bring the first of the restructured reports this month. It also coincides with a change in the financial reporting to bring information on the response maintenance contracts and expenditure by contractor to the board for the first time this month also.

**The Chairperson:** Thank you, Mr McLaughlin.

**Mr Mitchel McLaughlin:** I hand over to the Deputy Chair.

**Mr Dallat:** I will not preface my remarks this time, in case I cut somebody off. Three of us declared our previous membership of the housing council. It is that long since I was on it that I do not remember much about it other than that the lunches provided by the district councils were always of a very high standard. Is there an opportunity for the housing council to receive information on the type of material that is internal or which just comes to light occasionally when the Public Accounts Committee meets? Is there an opportunity for that body, in the future, to be more inquisitive in terms of performance and how the Housing Executive is doing?

**Dr McPeake:** It is coincidental, perhaps, but I will be at the housing council tomorrow. It has asked me specifically about this issue, so I will be talking to the housing council tomorrow about this in a generic sense. As you might imagine, we have not engaged with it prior to this, because it has been a confidential report until the point where it reaches the council. Our ability to comment publicly on it remains highly constrained until the Committee reaches its own report stage. Like you, my engagement with the housing council goes back quite a number of years. Because of the loss of functions originally from local government, the housing council styles itself as being a body that is holding the Housing Executive to account. My experience of it in the past several years has been that that has become more challenging than would have been the case, perhaps, in the past. Local politicians provide a useful insight. They always bring local colour to any situation, and you often understand that that is the way in which politicians very often engage directly with our business. It is why those issues and points that members made about complaints are so critical to us. We believe that local politicians bring a value to helping us understand our service, and we value that connection with them. There is always scope to consider a thing moving forward, and, no doubt, as Mr Haire mentioned, as part of the wider structural review, some people will be thinking about what happens with the housing council in the long term.

**Mr Dallat:** I welcome the fact that the housing council has expressed an interest, and that should be part of the ongoing process. I am very aware that our Welsh colleagues have been with us for so long. I hope that they have found it interesting. I have found this hearing quite different from some of the previous ones in that I am fairly clear where we leave it and where we go. Hopefully, we will see the Housing Executive again, perhaps in a shorter period of time, to review the plans that were laid out here today.

**The Chairperson:** Thank you, Deputy Chairperson. Do members have any further questions? No?

**Mr Hussey:** Mitchel probably has six more, but he does not want to use them.

**The Chairperson:** Mr Ross Hussey has submitted several papers relevant to the inquiry. These were obtained under freedom of information. The Committee will have an opportunity to consider the papers next week. Obtained under that freedom of information request are a series of letters between former Housing Executive chairman, Mr Brian Rowntree, and Mr Haire, and minutes of a meeting between Mr Rowntree and elected representatives about Red Sky. Mr Haire, do you wish to make on any comment on the letters or are you happy enough?

**Mr Haire:** It would be useful if we could give a note, because those are only a small part of a wider correspondence. It is more important to see the full flow of issues around that, and I am very happy to



make sure that you see that correspondence in that process. The stuff that has appeared, particularly, presumably, on the detail, covers certain aspects of the issue, but there are wider elements that the Committee will want to get an understanding of.

**The Chairperson:** OK. Thank you, Mr Haire. Members will have an opportunity to consider those matters next week.

I will conclude, Mr Haire, Dr McPeake, Mr Flynn and Mr Wilkinson, by saying that this has been a very sorry episode in the long history of the Housing Executive here. It is a public body tasked with keeping people's homes in order, but it has let its own house fall into disrepair. That has to be acknowledged here today.

We acknowledge that you accept the report's recommendations and that steps have been taken to improve contracting arrangements. As we see from paragraph 8 of the report's executive summary, the deficiencies identified in the report have implications for other areas of expenditure. What investigations have been initiated by the Department to determine the full extent and impact of those deficiencies in the Housing Executive?

**Mr Haire:** There is clearly an issue with following up in relation to those contracts. There is a clear issue that the Housing Executive, once it detects issues where it can recover money, has to recover funds. There is a wider report, which we have described and which is coming towards completion, dealing with other contract issues, and there will be resource issues in that regard, in making sure that any funds that can be recovered are being appropriately recovered.

The other point is that there is a wider range now looking at other forms of contracting. John has already indicated that he is doing some work on that. We will follow through on that to make sure that we can have confidence in all elements and that public money is being protected.

**The Chairperson:** Are members content?

*Members indicated assent.*

**The Chairperson:** Thank you for your contribution; it has been a long day. The Committee will consider the oral and written evidence that has been given and will issue its report and recommendations in due course. We may ask witnesses to come back. Mr Haire mentioned his predecessor, and we may want your predecessor to come here as well. The Committee will consider that and report back in due course.

I have nothing else to add to that. I thank the witnesses on behalf of the Committee. I thank Hansard for its coverage of today's discussion, and the Comptroller and Auditor General and his team. I thank the visitors and other members in the Public Gallery for their patience.