



Northern Ireland
Assembly

Committee for Social Development

OFFICIAL REPORT (Hansard)

Inquiry into Allegations Arising from a BBC NI
'Spotlight' Programme aired on 3 July 2013 of
Impropriety or Irregularity relating to NIHE-managed
Contracts and Consideration of any Resulting Actions:
Mr Colm McCaughley

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Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Jim Allister
Ms Paula Bradley
Mr Gregory Campbell
Mr Stewart Dickson
Mr Fra McCann
Mr Sammy Wilson

Witnesses:

Mr Colm McCaughley Northern Ireland Housing Executive

The Chairperson: Colm, you are very welcome. Thank you for being here this morning and for providing us with a paper. Some of the evidence and questions will cover similar ground to the previous session, I presume.

Mr F McCann: Colm, you are welcome this morning to the inquiry. In the briefing that you have provided, you say that, in 2006, you raised concerns about a contract under Spectrum/Red Sky. I think that you took legal advice that you could not exclude it from tendering. Can you explain who Spectrum was, what difficulties you had with the contract, where the contract was based and whether any concerns were raised by local politicians, the local community or others?

Mr Colm McCaughley (Northern Ireland Housing Executive): Spectrum was one of the predecessors of the new entity, Red Sky. There were three companies pulled together. Spectrum's main areas of operation prior to the existence of Red Sky were east Belfast and the Shankill. Its performance in east Belfast was not too bad, but, on occasions, its performance in the Shankill Road left a lot to be desired. On a number of occasions, I was drawn into detailed discussions with it about its performance. I had to deal with it on a number of occasions and to recover overpayments on a number of occasions. It was not quite as big or as awful — to use a general term — as it later transpired, but, yes, there were some difficulties. It was not all bad. It was an extraordinarily good company in cases of emergencies, which were quite common. On those occasions, it outperformed most other contractors. But on the day to day business that we were doing with it, yes, the old company, Spectrum, left a fair bit to be desired. Our fear was that that was going to get drawn into the new company, hence the desire to effectively block it from tendering. I think that the Committee has taken evidence from the Central Procurement Directorate (CPD) to explain the legal basis of that. You cannot simply stop a company from bidding on the basis of past performance.

Mr F McCann: When it was operating in the Shankill and east Belfast, was it your officers who drew attention to the poor-quality work in the Shankill or was it local politicians or community representatives?

Mr McCaughley: It was both. It was staff and the community and political representatives, particularly the community representatives. There was a huge amount of work going on around the Shankill at the time, and therefore it bubbled up through the community sector fairly extensively.

Mr F McCann: If my memory serves me right, some very serious concerns were raised at the time in the Shankill about the quality of the work by Spectrum.

Mr McCaughley: I think that that is fair enough, but it is like all contractors; they peak and trough in their performance. You seldom get a contractor who has a steady line of performance. The trouble with Spectrum was that its peaks and troughs were higher and lower than everybody else's. It was a problem in the Shankill Road at various stages.

Mr F McCann: At the same time, you would not accuse it of being sectarian.

Mr McCaughley: No. The sectarian issue was raised subsequently on two occasions.

Mr F McCann: I am talking about on the Shankill.

Mr McCaughley: Oh, on the Shankill.

Mr F McCann: Mr Wilson seemed to indicate here this morning that all the complaints that were coming from west Belfast, whether they were from the likes of me as an elected representative or community representatives, about the poor work that was carried out by Red Sky seemed to have an indication of sectarianism. However, at the same level, the same poor work happened before, under the name of Spectrum in the Shankill area.

Mr McCaughley: Yes, on occasion; but the sectarian issue was raised with me on two different occasions around the relationship between the west Belfast office and the new Red Sky.

Mr F McCann: Did you carry out an investigation, or did anyone carry out an investigation, into that?

Mr McCaughley: What happened was that it won the new tranche of contracts, which was a huge amount of work — its business effectively increased by a factor of 200% or 250% — and one of those was for west Belfast. Serious problems emerged. During my normal visits to the district office, I had a briefing from west Belfast maintenance department about the problems, but, in due course, I also had the view expressed by Red Sky that effectively what was happening was that, unlike in all other districts, it was sectarianism or some mild form of sectarianism, if there is such a thing, that was behind it. I decided to take one stand back, call in the repairs inspection unit (RIU) and get it to investigate the basis of the overall complaints about the performance of Red Sky.

The results of the RIU's investigation clearly showed that it was an outright issue of performance. What happened, in my view, is that, having grown by 250%, Red Sky could not get the skilled labour. Remember, at this time, Northern Ireland was going through the highest rate of new build since after the Second World War. All the skilled labour was in the new build sector. They really could not get the skilled labour to perform on all the contracts, so they were not committing enough resource to fulfil the terms of the contract. On that basis alone, I terminated the contract, after asking Red Sky if it would like to withdraw on the basis that it did not have the capacity. It declined that offer. That was one area in which the sectarian issue was raised. It was raised later with me after we had reinstated them, and yet there were still obvious questions around its performance. Two things happened, one of which was verbally. At a face-to-face meeting, one of the officers said that a particular maintenance officer, whom I do not wish to name today but I know who he is — let me make it clear that it was not the district manager, who was totally irrelevant to this situation, this issue around sectarianism — was abusive and deliberately trying to undermine them. I told Red Sky that, if I discovered that to be the case, I would move the officer and discipline him. Subsequently, they put that in writing. Somehow, somewhere, somebody has decided to correlate the letter sent to me stating that this person was still creating problems for them and asking what I was going to do about it, because I said that I would move them, with a move by a district manager a year later. I do not know how that happened or why that correlation has taken place, but it was a specific maintenance officer.

The letter in question was referred to the director of personnel and to my assistant director for investigation. A full investigation took place, and it concluded that the Red Sky official had told me that one other staff member was present when the abuse and some of these other issues took place. The other officer was interviewed. No evidence came forth of the fact that the officer was behaving inappropriately. I advised Red Sky of that verbally. Please do not ask me when, because I cannot honestly remember, but I know they were told. What transpired was that no formal letter of response was ever issued, even though one was drafted. I cannot provide any explanation to the Committee of why that happened. I certainly wish that it had not happened and that the letter had been issued. So, in both instances of sectarian calls, there were, in my view, proper investigations: one by the RIU and one by personnel/my assistant director, and —

Mr F McCann: They found that there was no reason for the allegations to be made.

Mr McCaughley: All that I am saying is that we could not find any evidence —

Mr F McCann: I am talking about the findings of both organisations.

Mr McCaughley: Well, we could not find any evidence to support the allegation.

Mr F McCann: You talked about the termination of the Red Sky contract. If, at the time, a Minister had come to you and said that they wanted you to reinstate the contract — I do not know in what circumstances it was reinstated at that time — would you have believed that to be undue pressure from a Minister interfering in the normal contractual workings of the Housing Executive?

Mr McCaughley: If the evidence was there to show poor performance, I could see no reason why anyone would wish to extend a contract, other than to find time to clear staffing issues. This was a major employer in the city. I always had due concern that, whatever we did with Red Sky, we had to be concerned with its employees and the impact that it would have on that bit of the local economy. Therefore, yes, had someone said to me about contracts and managing them to a proper conclusion, I would have to take account of the fact that I would have to manage it to honour commitments to the staff of that organisation and to make sure that they did not get a bad deal out of it because of mismanagement by managers of that organisation.

The Chairperson: There would have been a legal requirement on you to do that.

Mr McCaughley: Yes.

The Chairperson: So, it would not have been an option; it would have to be done.

Mr McCaughley: It would have to be done, but I am saying that you would need to take proper time to do it. To put TUPE and all the other things into effect may not necessarily take one month; it might take six months. In other words, I would not have been rushing in. Mind you, you could say that maybe we should have rushed in a few other times to terminate it. In summary, I am really saying that it should have had due regard.

Mr Allister: When Pauline Gazzard wrote to you — she wrote to you, is that right?

Mr McCaughley: Yes.

Mr Allister: Was that on foot of discussions that there had been, or did that letter come out of the blue?

Mr McCaughley: There had been continuous discussions at that stage. That was when they were going through the transition in terms of completing their management plan and improvement plan. We had continuous meetings with them. At one of the meetings, the issue was raised about a particular officer.

Mr Allister: The letter, in fact, seems to go wider than that. It talks about certain personalities — more than one person, obviously — who remained working in the west Belfast office. They were looking for appropriate actions.

Mr McCaughley: Initially, she was hitting out with a broad brush, saying that maybe the whole office was sectarian, but then she focused on one particular officer.

Mr Allister: But not in this letter.

Mr McCaughley: No, but —

Mr Allister: Was there a follow-up to the letter? Was there a further meeting?

Mr McCaughley: In terms of —

Mr Allister: There had been discussions. She then wrote to you talking about "certain personalities", and now you are telling us that she focused in on one individual. When did the focusing on one individual occur?

Mr McCaughley: It was certainly prior to the issue of that letter. Prior to the issue of that letter, the focus was on one particular officer, with me verbally —

Mr Allister: The focus in this letter is on more than one officer.

Mr McCaughley: I accept that, but I do not know why she decided to broaden it again. As far as I was concerned, the issue —

Mr Allister: Do you agree that it was quite an audacious letter for a contractor to write to their employer? It said, "We don't like some of your staff. We want appropriate action".

Mr McCaughley: It is quite desperate. I think that Red Sky was a little desperate at that stage, in any event. It really had to fulfil its improvement plan to maintain —

Mr Allister: They seemed to want to call the shots in the Housing Executive.

Mr McCaughley: I do not think that the evidence supports the view that Red Sky ever called any shots —

Mr Allister: I said that they wanted to.

Mr McCaughley: They may have wished to, but that was not the case. They were under continuous scrutiny.

Mr Allister: When Mr Cushnahan wrote to your colleague threatening to wash dirty linen in public, were you aware of that letter?

Mr McCaughley: Oh yes.

Mr Allister: At that point, did you say to some staff, "Red Sky must have something on us" or "Red Sky has something on us"?

Mr McCaughley: I do not recall a statement to that effect.

Mr Allister: To that effect.

Mr McCaughley: No.

Mr Allister: Were you aware of anything that Red Sky might have had that would not have been in the interests of the Housing Executive to become public knowledge?

Mr McCaughley: Nothing more than the normal result of all the inspections, which castigated some of our staff as much as it castigated Red Sky and its performance.

Mr Allister: One of the reasons why you could not sometimes recover money was because your own staff had not covered themselves in glory. Is that not right?

Mr McCaughley: Absolutely. I have acknowledged throughout that that was part of the problem. Although most of the staff were excellent, on the three occasions that I had a detailed investigation into Red Sky, disappointingly, despite all our best efforts, the issue that percolated to the top was that some individual staff did not perform to the standards required, which, to some extent, let Red Sky off the hook.

Mr Allister: On the £260,000 reduced to £20,000 figure, you took the decision to sign that off. Is that right?

Mr McCaughley: Yes. It was in my delegated area of responsibility.

Mr Allister: Had you asked Mr Cushnahan to become involved?

Mr McCaughley: I do not honestly recall, but I might have. I do not recall who —

Mr Allister: Why might you have?

Mr McCaughley: On the basis that our dealings with some of the other members of Red Sky were circular and were not really as conducive to resolving some of the issues as they might have been. I do not honestly recall whether it was me, my assistant director or any of the other staff involved.

Mr Allister: And you thought it appropriate to involve him, given the issues that the PAC has since adversely commented on.

Mr McCaughley: Yes, and I still do. I can think of hundreds of private individuals and ex-public servants who subsequently worked as full-time employees even for the firms that they would have had previous dealings with, because they worked for IDB or whatever. The issue here was nothing to do with his previous role in the Housing Executive. The issue here was about how much we were owed and how much was he going to pay us.

Mr Allister: On the issue of how much you were owed, you have heard the discussion this morning about whether installing standard kitchens and charging for higher standard kitchens was the problem or whether higher standard kitchens were actually installed. You know what Mr Kitson told us.

Mr McCaughley: Yeah. By the way, Raymond was party to the, I think, six meetings that I had in dealing with that overpayment.

I am struggling to find an analogy for the Committee to understand it. I think that the best thing to do is to say that, if you had two cars with exactly the same engine by way of output etc but one was encased in a Lada and the other one was encased in a Ferrari, they would both meet the standard and have the same output, but they would be fundamentally different products. The product that Red Sky gave us was excitingly better than anything that we had installed before. As Paddy remarked, that led me to demand a review of our kitchen standards. There was one standard — I think that Raymond said that there were two — and two prices. All you had to do was get above the standard.

Mr Allister: So, Mr Kitson has misled the Committee in telling us that the issue was that you were paying for higher standard kitchens but only getting standard kitchens.

Mr McCaughley: I would never suggest that Raymond deliberately —

Mr Allister: But that is what he told us.

Mr McCaughley: Let me explain this: to meet our standard, all you need to do is put a wooden handle on a kitchen door, but what Red Sky put on was a beautiful steel Shaker-shaped handle, which the tenants adored.

Mr Allister: So, you are confirming to us that a higher standard kitchen was installed than what the contract was for and that that is what was then paid for.

Mr McCaughley: I would say that it was of a higher quality. The materials used may not have been so, but the quality of the design was better.

Mr Allister: Mr Kitson told us that there are standard kitchens and post-formed kitchens. Do you recognise that terminology?

Mr McCaughley: Oh yes.

Mr Allister: Right. What was installed at west Belfast: a standard kitchen or a post-formed kitchen?

Mr McCaughley: Neither. Something different. Something which was —

Mr Allister: Another variety.

Mr McCaughley: Yes. Something which was not the standard. It was different, but it was not post-formed. Six months later, after the review of kitchens, everything was shifted, and the standard was upped to post-formed.

Mr Allister: Let me ask you this: were you billed for standard or post-formed kitchens?

Mr McCaughley: The local manager authorised the pricing at post-formed on the basis of what Red Sky provided.

Mr Allister: But post-formed was not provided.

Mr McCaughley: No. Well, there are many forms —

Mr Allister: But post-formed was paid for.

Mr McCaughley: Yeah.

Mr Allister: So, there was a loss to the Housing Executive even in that scenario, was there?

Mr McCaughley: You could argue that, yeah. How much? You could argue it.

Mr Allister: So, we have Mr Kitson saying, "It was pretty clear-cut. We got standard kitchens, but we paid for post-formed kitchens", Mr McIntyre telling us, "No, no. We got post-formed kitchens. That is what we paid for" and you telling us, "Well, in fact, it is something in between. We did not get post-formed kitchens, but we got standard kitchens with knobs on it".

Mr McCaughley: Of a higher quality design on some components.

Mr Allister: You will understand that the Committee might be baffled at how we are getting three versions of the matter.

Mr McCaughley: Yes, I do. I fully understand it.

Mr Allister: Is that a reflection of turmoil within the Housing Executive?

Mr McCaughley: No. I think that it was just a reflection —

Mr Allister: What is it a reflection of?

Mr McCaughley: It is a reflection of a particular set of circumstances that happened in a particular district office at a particular time, which was inspected and then managed out of the system through a review of the standards.

Mr Allister: It all sounds pretty shambolic, does it not?

Mr McCaughley: Well, it certainly was not helpful to our relationship with Red Sky and its management. That is why the officer who authorised that was subsequently barred from any operational management.

Mr Allister: So, what had he done wrong?

Mr McCaughley: He had not sought central clearance on the standard that he was adopting.

Mr Allister: He was paying for a higher standard than he got.

Mr McCaughley: Up to a point, yeah. He was being offered a new product, and he should have got clearance from headquarters for the acceptance of that product.

Mr Allister: I must say that I am more confused than ever about this. The head of the audit side, Mr McVeigh, gave evidence in which he said that, much to his annoyance, you altered a report — the RIU initial draft report. He said of the changes made:

"In my view, they obscured the clear analysis that had come out of RIU's initial draft, which indicated that there was some substance to the whistle-blowing letter's allegations."

He is saying that you sanitised it; you toned it down.

Mr McCaughley: Well, what I demanded of the RIU was absolute precision in the report. We had been through a series of previous reports whereby we ended up with a figure that was much less than what we started with. That was through a process of review. Secondly, I wanted to make it totally clear what the financial impact of those results was. If we look at the two drafts, we see that exactly the same data is in both, except that, in one and not the other, you get a very clear picture of the financial impact. I am sure that the Committee has access to both drafts or can have access to them. I will put it to members that, if you look at both, you can judge whether anything cloudy has been introduced into the analysis.

Mr Allister: What do you say to what Mr McVeigh told us? I presume that you have read it.

Mr McCaughley: That is his opinion. My opinion is —

Mr Allister: Well, his opinion is very clear that you sanitised it.

Mr McCaughley: He said sanitised, but —

Mr Allister: I am paraphrasing.

Mr McCaughley: I changed it to make it a better report — a clearer report — and something that could be used against Red Sky and was comparative and relative as opposed to absolute.

Mr Allister: But it was less critical of Red Sky.

Mr McCaughley: No. My view is that it shows consistently that Red Sky was underperforming on a relative and comparative basis against other contractors. None of that comparative information was in the first draft.

Mr Allister: I want to give you the opportunity to comment on what the Chartered Institute of Public Finance and Accountancy (CIPFA) said about the close relationship that Mr McIntyre had with you clouding his judgement and giving you a lot of leeway in how you ran the department. Do you have any comments on that?

Mr McCaughley: I really do not accept that. I have been sent on many management courses, but I have never seen friendship as one of the factors in the efficiency and effectiveness of individual officers, to be honest. I struggle to accept what was said there. I do not know the motivation or the briefing that went on behind the construction of such a statement. I was subject to the same controls as all others. I had to produce business plans, and all my performance had to be reported, not simply

to the chief executive but to the board as well every month, including how every component of my bit of the business was performing.

Mr Allister: The report comes from CIPFA, which is a professional body. One would assume that it should have no axe to grind about these matters. Do you think it has?

Mr McCaughley: I do not know. I do not know who briefed it.

Mr Allister: It said that the division headed by you appears to have been operating with minimum oversight and ineffective controls.

Mr McCaughley: I simply do not accept that.

Mr Allister: The picture it paints is that your friend, Mr McIntyre, gave you a lot of latitude that maybe was not given to others and that you could run that department as you pleased.

Mr McCaughley: My latitude was determined by the board and all the other arrangements that were put in place via the board about my delegated authority.

Mr Allister: In terms of your subservience to the board, did you take Pauline Gazzard's letter to the board?

Mr McCaughley: No. I had no —

Mr Allister: Why not?

Mr McCaughley: I viewed as being purely an operational matter.

Mr Allister: That is a great phrase — "an operational matter" — but this was a contractor wanting to dictate terms about staffing within an office of the executive. That was more than an operational matter, was it not?

Mr McCaughley: I viewed such matters as that is why they paid me: to manage problems like that away instead of taking every such issue to the board. The board was managing a huge multimillion pound business —

Mr Allister: So, you thought that it was right to conceal that from the board.

Mr McCaughley: I thought it was right not to present it to the board.

Mr Allister: And from the audit committee.

Mr McCaughley: And not to present it to the audit committee, yes.

Mr Allister: Was that because it would have raised too many awkward questions?

Mr McCaughley: No.

Mr Allister: Thank you.

The Chairperson: Colm, I just point out that the net effect of the changes minimised the levels of overpayment. That was said in the evidence last week. It was said that the changes that you made to the draft had minimised the levels of overpayment. I am just putting that on the record for you. Sometimes we skirt round things, but I just needed to say that so that you would have an opportunity to respond. You are saying that you were interested in relatively comparative —

Mr McCaughley: Absolutely. The key figure here is about the percentage of the orders inspected that had an overpayment in financial terms. The percentage quoted in one of them against one of the districts was 25%, but what does that mean in financial terms? The answer is 4%. So, there was no

point in me going to Red Sky and saying, "Twenty-five per cent of your orders are being overpaid", when the actual answer was that 4% of the orders were being overpaid.

The Chairperson: Fair enough. Thank you for that.

Mr Campbell: In one of your answers to Fra McCann at the beginning of your evidence, you talked about Spectrum, a predecessor of Red Sky, and the peaks and troughs of performance. Was that specifically to do with Spectrum, or did that peak and trough happen with Red Sky?

Mr McCaughley: It happened with Red Sky to some extent as well. If we were giving marks out of 10, earlier on in the contract, it would have been given four; it rose to about seven; and then fell back to six. So, there was a bit of a parabola going on: it was up and down. That was fairly dramatic, and I put that down to the availability of labour at the time in Northern Ireland. It just could not get the people to do the job.

Mr Campbell: You said that one of its peaks was more in terms of emergency work.

Mr McCaughley: Oh yes.

Mr Campbell: Was that applicable to Red Sky as well as Spectrum?

Mr McCaughley: Absolutely. At the time of the floods in Belfast, it was extraordinary.

Mr Campbell: Extraordinarily —

Mr McCaughley: Good.

Mr Campbell: During your time, how many firms were involved in response maintenance contracts in addition to Red Sky? In timeline terms, leave Spectrum out and concentrate on Red Sky.

Mr McCaughley: Is the timeline post-Egan or pre-Egan?

Mr Campbell: When did the Egan contracts —

Mr McCaughley: Really, 2004 was the threshold.

Mr Campbell: Post that.

Mr McCaughley: Only about 28 to 30.

Mr Campbell: We will say 30 in round terms. I am interested in the peak and trough performance. Would there have been less volatility with the other companies? Is that what singled out Red Sky for attention?

Mr McCaughley: Yes. No contractor can go in a straight line, because he gains and loses skilled labour, but you expect the level of volatility to be manageable. In Red Sky's case, it proved not to be.

Mr Campbell: Did the other 28 or 29 firms have poor performances as well as good performances, just not as extreme as Red Sky? Am I accurately depicting the picture?

Mr McCaughley: Yes, there would have been times when we received complaints about some of the other contractors, but, again, it would have been for the most part short-lived, and there would usually be a good reason.

Mr Campbell: The reason I am going down that route is that we have a copy of the letter that the BBC sent to you in June 2013. Of course, we sometimes forget that the reason all of this is going on is the BBC. They are why we are here, why we have spent the last 14 months examining this, but they never come and sit where you are. We have tried to get them, but they seem to be quite content. They kicked up a storm, and they are away in the smoke now. In the letter of 13 June to you they

posed 13 questions. I have looked through them, and I do not see any of them alluding to any of the other 29 firms. Did they raise any of the firms other than Red Sky with you?

Mr McCaughley: To the best of my recollection — I could be wrong — there was never anything raised about other firms.

Mr Campbell: OK; but you have already said that some of the other firms had problems and issues, maybe not as extreme in volatility, either as good or as bad. Had they bad times as well as good?

Mr McCaughley: Yes. That is another reason why I amended the audit report — to make it all relative and comparative. There was no point in isolating just Red Sky if we should have been terminating another dozen contracts. They were not of the scale and magnitude that we experienced with Red Sky.

Mr Campbell: But none of the 13 questions in the letter from the BBC to you alluded to any of the other firms?

Mr McCaughley: Not to the best of my recollection.

Mr Campbell: The Chairman alluded to getting right down to the basics of the sectarian undertone in terms of a Protestant/Catholic thing. Maybe if we did that in relation to the overall issue, just so that we are absolutely clear and nobody is dodging that column, as it were. I have put it to a number of senior people in the Housing Executive that there was an underlying problem with the composition of the Housing Executive's workforce for 20-odd years. During the period that we are talking about — post Egan — the recruitment of Protestants into the Housing Executive was worse than the recruitment of Catholics into the police that necessitated a law change to get a 50:50 recruitment balance. Is that not right?

Mr McCaughley: Yes.

Mr Campbell: So, percentage-wise, fewer Protestants were being recruited into the Housing Executive than Catholics were into the police.

Mr McCaughley: You really need to break that down. Those figures do not apply to technical staff. It would probably be the opposite for technical staff. In the technical professions there would traditionally be a higher percentage of Protestants than Catholics. For example, most of the architects and quantity surveyors would have been Protestant. I do not want to mislead. While that had been the case, by the end of the period in question I suspect that things had started to even out a lot, but it would depend on which bit of the organisation you worked in. At the clerical end, it was dominated by Catholics. The technical end, at one stage, was dominated by Protestants, but gradually the two, thankfully, changed.

Mr Campbell: The reason I raised that is that the overall organisation had a recruitment practice over that period that gave a particular view to the organisation, irrespective of how various sections of it were viewed. The organisation as a whole had a perception of having a difficulty in recruiting sufficient numbers from the Protestant community at the same time as a company, Red Sky, which was viewed by most people as having a predominantly Protestant workforce, was working, among other areas, in a predominantly Catholic area. Is that right?

Mr McCaughley: Yes, especially in my division, we were proactively seeking to recruit more Protestants.

Mr Campbell: Yes, but the bigger picture is that there was an issue of sectarian undertone by a company that was perceived to be predominantly Protestant working in a predominately Catholic area. Once that allegation and assertion had been made, did you, or to your knowledge, did anyone else say anything like, "We better be exceptionally careful here, because we are aware of how we as a company, as an institution, are perceived in the wider context of Northern Ireland"?

Mr McCaughley: That would continually run through your mind as a member of a public organisation such as the Housing Executive. You would be aware of that sort of situation being escalated into a major public issue, which it was not in this case. Yes, it would always be in the back of your mind. In

the history of the Housing Executive, never had a case of discrimination been brought and held against us. The first thing that you always told a new member of staff was that they must never do anything that would leave the organisation in a position where it would be found guilty of some form of sectarianism or discrimination.

Mr Campbell: Would that advice that was offered to staff have been offered to the staff members who were at the centre of the allegation by Red Sky?

Mr McCaughley: They would have known that, and it would have been deeply instilled in them. Part of their whole psyche was that the Housing Executive was neutral.

The Chairperson: I think that we are making a huge leap from an allegation of sectarian motivation that resulted in complaints against Red Sky to the workforce composition and so on. However, it has been aired and put on the table, and perhaps that is the best way to deal with it. It has been opened up.

Mr Campbell: Better to be precise, Chairman.

The Chairperson: I think that it is important that, if people have something to say, they should spit it out. However, I will rule when appropriate and when a line will not be continued. I want to make that clear.

Mr Brady: Thank you very much for the presentation. There seems to be a fixation about sectarianism. I, fortunately, live in an area where we are not quite so fixated. I had never heard of Red Sky until I came here —

Mr F McCann: You are lucky.

Mr Brady: Yes, I probably am lucky, from what I have heard.

The Chairperson: Please stick to the questions.

Mr Brady: The point that I was making is that Gregory seems to be implying that there was this perception throughout the North about Red Sky. As I said, I was ignorant of Red Sky until I came here, and that is all I am saying. We would have been more concerned with the contractors in our own constituency as opposed to what somebody else was doing or not doing in another constituency.

It has been said this morning that there was a problem, obviously, with Red Sky, and it was not just in west Belfast but throughout the contracts that it was doing to a larger or lesser extent. There has also been an inference that the "sectarian" element came in for complaints from west Belfast. It seems to me that public and community representatives and, indeed, tenants in west Belfast were simply more vociferous in complaining than, possibly, in other areas. Would you like to comment on that?

Mr McCaughley: I think that the problem started in west Belfast with an under-resourced contractor who started, once he came under intense pressure, to spread the resources. What happened was that he was spreading his resources so thin that the problems started to pop up in east Belfast and north Belfast. It was swinging around the city according to where the greatest pressure was being exerted, politically, organisationally and otherwise for Red Sky. That is the best explanation that I can give to the Committee for what happened.

Mr Brady: You said earlier that its capacity increased by over 200%.

Mr McCaughley: Its workload increased.

Mr Brady: Presumably, then, its capacity had to increase to take up on that type of work.

Mr McCaughley: Yes. My view was that, because of the labour market at the time, they really could not —

Mr Brady: In fairness, you did make the point that, because of the private developments that were being built at that time, people were going to the South to work in construction. I know that that was

very much the case in my constituency. So, it had difficulty getting tradesmen, basically, who would be capable of carrying out the specifications that were required in particular instances.

Mr McCaughley: Absolutely.

Mr Brady: Would you accept that?

Mr McCaughley: Absolutely, yes.

Mr Brady: That is fine, thank you.

Mr Wilson: Colm, I just take you back to what you said about the amount of overpayment and the area around the kitchens etc.

Mr McCaughley: Yes.

Mr Wilson: What was the legal advice that the Housing Executive received, first about how robust any assessment of overpayment could be? Was it ever drawn to your attention?

Mr McCaughley: Yes. At the time, I think that the legal advice was clear, and it was that we were being continually undermined in our dealings with Red Sky because of officer error. Indeed, the police said the same thing to us at one stage as well, when we referred it to them for potential fraud. The police asked how we would expect them to handle it until we cleaned up our own act. So, yes, that was apparent in the £260,000. It was a significant amount of money and £47,000 or something was involved in what you would broadly call staff error. It was the whole issue of kitchens, which I will not go into again, but there was that and various other aspects concerning what was deemed to be included in the contract. Red Sky was saying one thing and staff were agreeing. My central contracts staff were saying, "You shouldn't have approved that; it is included in the contract terms and you shouldn't be paying for it as an extra". So, yes.

Mr Wilson: That being the case, was it not appropriate that you had the best people on your side and on Red Sky's side sitting down to try and work out the mess that had been created?

Mr McCaughley: That is exactly the stage that it arrived at. At the end of the day, this became so divisive that it was down to me, as director, to sit down with the head of Red Sky and try, as best we could, to resolve it. Absolutely.

Mr Wilson: In light of the legal advice that you had been given and the complexity that you knew about the payment system and the mess that it was in, are you surprised at the conclusion that the Chairman of Red Sky, who had financial knowledge, should not have been the most appropriate person for you to deal with?

Mr McCaughley: No. I repeat what I said earlier, I was thankful that the chairman of Red Sky intervened in this and helped us reach a conclusion. Yes, you are right; a legal adviser had six separate meetings — they had internal meetings — to make sure that the legal position was clear. I think his view at the time was take whatever you can get and run because, at the pace of abatement that we were hitting the overpayment with, it was going to arrive at the stage where we were going to have to pay Red Sky. So, the answer was let us clear the decks here. Let us get as much as we can and then try to start again here and manage our way through an intensely difficult situation — for staff, I add, and the contractor.

It was not a happy situation, but I thought that we made enough progress at the time to move to the next stage, it being an improvement in the performance of Red Sky and an improvement in the performance of some staff. I must emphasise just some staff. If I had to do this all over again, one of the things that I would do is stop performance measuring district offices and start performance measuring individual officers in these contracts.

Mr Wilson: The answers that Mr Kitson, you and Mr McIntyre have given have caused some confusion as to whether value for money was obtained when it came to the kitchens. I do not know whether we are talking about kitchens that are post-form, pro-form, anti-form or uniform. In your

assessment, regardless of what designation you attach to the kitchens, did the Housing Executive pay the appropriate money to Red Sky for the kitchens based on what the Housing Executive asked for?

Mr McCaughley: On a value for money basis, yes. I am not saying this, by the way, as a detached director. I went out and saw the kitchens that Red Sky installed and compared them against our normal standard. The tenant reaction to this was quite extraordinary. Indeed, we brought tenant groups to a one-day event. The problem is that Red Sky was bringing the kitchens in from England, which was cutting local suppliers out of the equation. We brought local suppliers to the table as well and, between us all, came to a new standard and a new type of relationship so that local suppliers could get their chance at the new kitchens that we were to install.

Mr Wilson: I know that the letter came from Paddy McIntyre, but, in March 2009 — we will find out what it was in response to later on — it was indicated that termination of the contract should not be rushed into because of the administrative issues that were involved, such as the back payments, the slowness of payments, etc. What was your view about the termination of the Red Sky contract?

Mr McCaughley: Remember that, on foot of this, I set aside all the cyclical programmes of RIU and redirected them full time to Red Sky in an attempt to try to get sufficient information. I would not have thought to terminate all the contracts. I was of a view back in 2009 that we should have gone back to where we were in 2007 and picked off the worst performing offices and terminated them but hold them in the other offices. I was not of a view that Red Sky should have been put to the sword per se back in 2009. But it was still questionable, on foot of the 2009 report — it does not matter whether it is the draft report or the final report — whether we had sufficient data and robust information represented in the way that I wanted to enable us to terminate the contracts. We probably had enough to terminate one, but, at that stage, the chief executive, Paddy, decided that he wanted more and something that he could stand up with in court and say, "This is the basis upon which I terminated one or more of these contracts."

Mr Wilson: Advice went to Brian Rowntree but was sent to Frances Gallagher, the head of legal services, first of all. Brett Lockhart is quoted as saying:

"I appreciate that there are strong political pressures being exerted",

for the termination of the contract. That was from a letter from way back in November 2010. Are you aware of where those political pressures were coming from?

Mr McCaughley: That was after my involvement, but I can clearly say to the Committee that I was never brought under any political pressure to do anything to either keep or terminate maintenance contracts of any type.

Mr Wilson: So, the political pressures did not occur while you were in post. It was subsequent to you.

Mr Allister: Can you remind us when you left post?

Mr McCaughley: From March 2010, I had no further involvement in those contracts.

Mr Allister: Had you left the Housing Executive?

Mr McCaughley: No, I was sick.

The Chairperson: Colm, I have a couple of points. There were allegations of sectarian motivation for complaints coming from west Belfast, and you, Paddy McIntyre, Stewart Cuddy and others have dealt with that. You have also, in your evidence, presented that a number of complaints were coming from the Shankill area, which you mentioned specifically, mostly, I think you might have said, from the community networks. Is there any suggestion that those complaints were motivated by sectarianism?

Mr McCaughley: No, none whatsoever. I went into the Shankill and saw the problem at first hand.

The Chairperson: You have given evidence that there were a lot of complaints coming from that area, and all I am asking is whether those were motivated by sectarianism.

Mr McCaughley: I can confirm that the complaints in the Shankill were totally justified.

The Chairperson: I know. You said that about both, by the way. Given that, in your submission, you outline measures that you have put in, not least your last comments that you redirected all the RIU's focus on Red Sky, were you accused of having a sectarian motivation?

Mr McCaughley: Me, personally?

The Chairperson: Look at the information that you have given us in your submission. It says that you took a lot of measures, including seeking to terminate Red Sky's contract.

Mr McCaughley: Yes.

The Chairperson: Were you ever accused personally of having a sectarian motivation?

Mr McCaughley: No. I was not.

The Chairperson: That is fair enough. OK —

Mr Campbell: I have just one point on the issue that you raised about — I cannot remember the word that you used — Red Sky's excellent performance, when you were talking about its volatility. I know that it does not happen very often, but people might commend contractors or the Housing Executive for the outstanding nature of the work. When that happened — I think you said that Red Sky was particularly good about flooding — did anybody imply that there was any sectarian differentiation about Red Sky's good performance, as well as its bad performance?

Mr McCaughley: No.

The Chairperson: OK. No other members are indicating that they wish to speak. Colm, as you have heard, this is our normal procedure. We appreciate your attendance this morning, providing a written submission in advance of it and dealing with the questions put to you. I know that they are sometimes very awkward and sensitive issues, so I appreciate people's ability to deal very professionally, for the most part, with all these things. This is the way we do business here. We will assess the evidence that we heard today in due course and as soon as possible. Obviously, we may want to seek further information and clarification. We have already indicated that in one aspect of the evidence today. Likewise, I give a standing invitation to you that if, at any time, you want to come back to us with any additional information or clarification, feel free to do that. Is there anything that you want to say this morning before we conclude this particular session?

Mr McCaughley: I do not think so, Chair, other than to repeat what Paddy said. I do not think that one Red Sky makes a summer. I am still proud of the Housing Executive and all it has achieved over many years in the public service of the people of Northern Ireland.

The Chairperson: OK, Colm, thank you very much for that. Good luck.