

Dr Kevin Pelan
Committee Clerk
Committee for Social Development
Room 412
Parliament Buildings
Ballymiscaw
Belfast
BT4 3XX

2nd Floor
Lighthouse Building
1 Cromac Place
Gasworks Business Park
Ormeau Road
BELFAST
BT7 2JB

Telephone: 028 9082 9325
Facsimile: 028 9082 9324
EMail: susan.mccarty@dsdni.gov.uk

2 May 2014

Dear Kevin

SDC Inquiry – Phase 2 evidence session – 8 May 2014

I refer to your letter dated 15 April 2014 requesting NIHE officials to attend the Phase 2 Inquiry session on 8 May 2014.

Attending will be:

- | | |
|--------------------|-------------------------------|
| • Mags Lightbody | Interim Chief Executive |
| • Siobhan McCauley | Director of Regional Services |
| • Gerry Flynn | Director of Landlord Service |

In your letter you ask NIHE officials to provide a short briefing to the Committee outlining what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010. You also advised that the Committee would welcome an update of the OGC Gateway Review 5 on the new Response Maintenance Contracts which took place at the start of April 2014. A written briefing is attached at Annex A.

I hope this information is helpful

Yours sincerely



SUSAN MCCARTY

Written Briefing from NIHE Officials for the Phase 2 Inquiry Session on 8 May 2014

Northern Ireland Housing Executive

The adequacy of actions proposed by the Minister, DSD and NIHE to address previous, well documented failings in relation to procurement and contract management.

This briefing takes into account:

- what steps the NIHE has taken to address previous well documented failings in relation to procurement and contract management since 2010.
- what steps senior management has taken to address the concerns noted by the Comptroller and Auditor General in his 2012-13 Report to those Charged with Governance and the NIHE accounts which led to a qualification on the total expenditure for response and planned maintenance in 2012-13.
- Findings of the recent DSD Follow-Up Review of Governance in the NIHE.
- An update on the outcome of the OGC Gateway Review 5 on the new Response Maintenance Contracts which took place at the start of April 2014.

Introduction

Over recent years the Housing Executive Board's and Senior Management team's overarching priority has been to implement measures to address well-documented failings and tackle the legacy issues which have been prevalent from 2010.

We have also accepted the recommendations in the DSD's governance review (and subsequent follow up review), the Gateway Review into response maintenance contracts, NIAO and PAC reports into the management of response maintenance contracts, and also the Comptroller and Auditor General's report to those charged with governance. At the same time we have undertaken a number of internal reviews and audits. The senior management team is confident that each contract has a number of clear controls in place and that the concerns identified in these reports are being fully addressed.

Good progress has been made and there are encouraging signs in how we have been managing both planned and response maintenance contracts:

- The Continuous Tenant Omnibus Survey demonstrates that tenant satisfaction with all aspects of the maintenance service has risen in each of the past two years and now sits at 81%.
- This year, the findings of the Corporate Assurance Unit's inspections of response maintenance contracts have been positive: all 11 completed inspections have either received satisfactory or substantial assurances.
- Monthly performance meetings are now held with contractors and damages are being applied in cases of poor performance. In addition escalation procedures have been activated where required.
- Performance across all contracts is now regularly reported at senior management and board level.

The senior management team recognises there is still work to do. The Social Development Committee will know that we are finalising a resolution to our dispute with planned maintenance contractors. It will take time to resolve some of the outstanding legacy issues surrounding contracts and also changing the culture of the organisation. We will continue to work closely with DSD and NIAO to ensure there is appropriate oversight in place across all aspects of contract management so that we can restore and to re-establish trust and confidence in our maintenance service.

DSD Review of Governance 2010

The DSD's Governance Review of 2010 found "much evidence of good practice" and that there were "appropriate structures to effectively detail and manage risk". The review put forward 75 recommendations that the Housing Executive should put in place to improve governance structures. The senior management team established an oversight board and appointed a full time project manager to oversee the implementation of the recommendations. We found the implementation of its recommendations was an extremely worthwhile exercise and central to the improvement in governance within the organisation.

In the follow up Review in November 2013, it was found that the Housing Executive has made progress in addressing issues relating to governance, and that two thirds of the 75 recommendations have been fully implemented. DSD advised that four critical control recommendations were outstanding. The Housing Executive can confirm that three of the

recommendations are partially completed and will be fully complete by summer 2014. One is no longer deemed relevant.

In terms of the good practice recommendations, in November DSD advised that 21 recommendations were outstanding. The current position is that 10 recommendations have been subsequently implemented, 10 have been partially implemented and one is outstanding. These will all be implemented by December 2014.

The Housing Executive's Governance Structure

The Governance Review led to a fundamental review of all aspects of governance within the organisation. The current governance framework is outlined below and brings together legislative requirements, governance principles and management processes. The framework comprises the systems and processes, cultures and values by which decisions are made and the functions undertaken to deliver the highest standards of housing services in accordance with the organisation's duties and responsibilities.

The Governance structure includes:

- Standing Orders which regulate the proceedings, meetings and business of the Board and its Committees and ensure transparent and effective decision making.
- The annual review of the effectiveness of our governance framework, including the system of internal control. The Head of Internal Audit's annual assurance statement for the period provides an opinion on the organisation's control environment.
- The Corporate Assurance Unit (CAU) provides assurance on the management of key risks and, through inspection, assurance on the management of response and planned maintenance contractors.
- The Board receives a monthly "Emerging Issues" report from the Chief Executive. This report is designed to advise the Board of key issues that may have emerged since its last meeting.
- The Audit Risk & Assurance Committee provides an independent assurance on the adequacy of the risk management framework and associated control environment. The Committee supports the Board in its responsibilities for issues of risk, control and governance, by reviewing the comprehensiveness of assurances in meeting the

Board and Accounting Officer's assurance needs and reviewing the reliability and integrity of these assurances.

- Directors and Assistant Directors are required to complete quarterly assurance statements. These assurance statements are used to inform the Chief Executive's Quarterly Assurance Statement for the Board and Quarterly Stewardship Statement for DSD.

Contracts and contract management response maintenance

Following the 2011 Gateway Review, the structure and management of our response maintenance contracts have been radically overhauled. The basic structure of the response maintenance contracts is now our standard model for other maintenance contracts (heating, grounds, planned maintenance and double glazing). The delivery model for planned maintenance has also been reviewed and design responsibility will move from contractor to consultant, which will add another important layer of assurance. At local level, the management arrangements for maintenance have been strengthened, including new dedicated contract managers for response maintenance.

The new contracts have updated KPIs and robust contract management arrangements that allow us to properly hold contractors to account, including the application of Low Performance Damages. The KPIs fall into four broad groups – quality of work, payment accuracy, timeliness and customer satisfaction. Low Performance Damages clauses are applied when contractors fail to meet the KPI targets. This is backed by a requirement for Contractor Improvement Plans, which are formally monitored. Failure to meet KPIs and/or deliver the required improvements can result in termination. Extensive training of contractors has taken place to ensure complete knowledge of what is required under the contract.

A Response Maintenance Intervention Team (RMIT) was created in May 2012 and was deployed to offices that received a less than satisfactory CAU inspection classification. In 2012 and 2013, 16 offices were visited, and local action plans were developed in each office. The RMIT re-visited the offices to confirm that actions have been implemented and that improvements are being delivered. RMIT has not been required to visit offices this year as they have received positive inspections.

In addition a new statistical inspection regime has been instigated, which is risk-based and generated automatically from the repairs database. This has been designed (and validated) to generate sufficient inspections from which conclusions can be drawn about contractor performance and performance changes over time, allowing the reliable calculation of KPIs related to quality and payment accuracy.

There is a full range of controls in place under each contract which enables the senior management and the Board to have oversight across all contract management. In summary the new regime provides a robust and structured contract management regime within the organisation, with clear lines of responsibility and accountability, and defined escalation arrangements to deal with disputes and/or performance issues.

Contracts and contract management planned maintenance

The Minister had discussed concerns about planned maintenance contracts with the previous Chairman in 2012 and current Chairman in November 2012. The Chairman subsequently asked that the matter was investigated by the Chief Executive.

In May 2013 the Board received a report from the Chief Executive which detailed concerns about planned maintenance contracts. The Board then asked for an independent review of the Housing Executive's handling of planned maintenance and Campbell Tickell published its report in November 2013. The senior management has subsequently drawn up an action plan to address issues raised in the report and this is presented to the Board on a monthly basis.

As with response maintenance, there are new contractual arrangements for the management of future planned maintenance contracts to address control weaknesses:

- The new contracts have been constructed to 'design out' the problems previously encountered around relationships defined under the misinterpretation of the 'partnership' concept.
- A larger number of contractors to reduce overdependence on contractors and provide extended competition.

- The use of independent consultants to design schemes, agree costs and supervise and approve work content: this will provide enhanced controls through:
 - more effective segregation of duties between delivery and management, especially with regard to pricing and inspection of work;
 - transfer of some of the risks associated with scheme design and management as consultants will have to meet key performance indicators or suffer financial penalties;
 - improved access to key technical resources, particularly quantity surveyors.

Reporting arrangements

Arising from the various reviews, special accountability provisions were introduced by the DSD. As part of these, the senior management team collated improvement actions related to a series of maintenance and governance issues into a Work Plan and progress on this plan was reported initially on a two-weekly basis and more recently on a monthly basis to the DSD. Additionally, since September 2012 monthly Accountability/Progress Meetings have been set up between the NIHE Chief Executive and the Permanent Secretary.

At the request of the current Board, reporting arrangements have been overhauled. The performance of response, planned, heating and grounds maintenance contractors are now reported to the Board every second month. In addition assurance arrangements have been strengthened with the Corporate Assurance Unit now reporting directly to the Audit and Risk Committee and the Unit as well as Internal Audit now have a monthly meeting with the Chief Executive.

Improving the skills and knowledge of staff working with contracts

The senior management team also put in place a number of actions to improve the skills and knowledge of staff involved in contract management:

- We have reviewed the competency framework and qualification requirements for new staff.
- New accredited training courses have been developed specifically for response maintenance.
- All technical staff engaged in planned maintenance have received specific training on specifications for work.

- Additional quantity surveyors have been employed.
- All guidance and advice notes related to response and planned maintenance have been reviewed and updated.

The OGC Gateway Review 5 on the new Response Maintenance Contracts

The Housing Executive received the OGC Gateway 5 Review on the new Response Maintenance Contracts at the end of April 2014. The Review contained 8 recommendations. An Action Plan is being developed in order to address these and monitoring arrangements are being established in order to ensure progress against set timescales. The Housing Executive views it as an opportunity to review how the contracts are being managed, the benefits to be realised from them and how we develop the relationship between the Contractors and ourselves for the benefits of all.

Improving the culture

Some of the adverse findings from the DSD's Review of Governance related to the culture within Housing Executive and the skills and knowledge of staff directly involved in response and planned maintenance contracts. The Housing Executive Board signalled a need to promote a new culture of integrity, openness and honesty to complement a focus on service delivery and appropriate application of governance and accountability requirements.

- Since 2011, there has been a marked increase in visibility of Board members and the senior management team, with every office visited at least once. At these visits, members have reinforced the need for good governance, the principles of public life and the importance of behaving responsibly.
- Governance arrangements within the organisation have been reviewed and governance and Code of Conduct training has been delivered to all staff.
- In order to strengthen operational control and oversight, a new Asset Management section has been created and is responsible for all maintenance and works activity.

In order to address culture issues within the organisation, the senior management team has initiated a major transformation to ensure that we deliver top quality services which provide value for money. The Journey to Excellence Programme will aim to ensure consistent approaches to governance and how we improve public services.