

DSD Committee hearing – 2<sup>nd</sup> October 2014

I have been asked to provide a briefing to the Committee on my knowledge of a number of key events and decisions relevant to the hearing .I have set out those events as they have been advised to me.

## CONTEXT

As Director of Housing and Regeneration I was responsible for recommending ,planning and implementing the Egan programme .This was part of a wider modernisation programme which was designed to improve services to tenants,and reduce programme / overhead costs.This represented a period of unprecedented change for NIHE.

## SPECIFIC EVENTS/DECISIONS

Decision in Dec 2007 to terminate a Red Sky contract which was later rescinded in Sept 2008.

1. The background to difficulties between Red Sky (and its prior entity Spectrum) and NIHE has been well documented but can be summarised as
  - the company operated a policy of “strategic pricing “ which in itself led to persistent disputes on specifications ,measurements and what was deemed to be included in certain contract items.
  - the company”s management and accounting system continually displayed inaccuracies which led to disputes on coding ,invoicing and payment .
  - the company struggled to grow its skills base to match its business growth and
  - the company”s relationship with some individual NIHE staff was unacceptable.
2. On the basis of these problems I sought in 2006 with the agreement of the Chief Executive to exclude Spectrum/Red Sky from tendering for further tranches of Egan contracts.In the event legal advice prohibited such an approach .
3. Accordingly Red Sky was able to tender for and secure a number of contracts which were let in March 2007.At this stage I instructed the Repairs Inspection Unit to prioritise the Red Sky contracts in its inspection programme .
4. In the Autumn of 2007 following a briefing by West Belfast maintenance staff I commissioned the Repairs Inspection Unit to carry out a specific investigation in relation to changes of tenancy and backlogs in West Belfast.The findings were presented in Nov 2007 and from them it was clear that Red Sky did not have the capacity or skills to fulfil the contract.
5. Therefore I offered the company the opportunity to withdraw from the contract ( an approach which was adopted in other contracts )but they declined .Accordingly I issued instructions to terminate the contract in Dec 2007 with a 3 month notice period.
6. Following a legal challenge by Red Sky a six month “ standstill agreement “ was put in place .The NIHE legal advice made it clear that we had to give Red Sky the opportunity to devise and implement an improvement plan ;to be seen to be assisting them in meeting the requirements of the contract and to take action to reduce or eliminate errors which could undermine effective action against the contractor .
7. The RIU inspections had confirmed those contract management issues at District level .Therefore a range of measures were put in place ,in particular,

- Central contracts management support was provided to Districts with Red Sky contracts
- Quarterly performance meetings with District Maintenance Managers and Area Managers were arranged to discuss the findings of the latest RIU reports and identify corrective action including any special training requirements.
- Retraining programmes (as part of the wider modernisation programme )were carried through and
- the sampling methodology for District inspections was varied to avoid over-familiarisation by contractors

8.A review of Red Skys performance against the improvement plan by central contract management staff recommended the “ re-instatement” of the contract which was put into effect in Sept 2008.

9. As a separate and side issue Red Sky advised that a particular maintenance officer was deliberately trying to undermine their efforts to meet the terms of the contracts .I had the matter investigated by the Asst Director who could find no evidence to support the claim .As I understand it Red Sky was advised of the outcome although I am led to believe a formal reply was not issued .

#### Investigations into the Red Sky group by the NIHE Repairs Inspection Unit,Internal Audit ,and ASM Howarth/VBEvans

10.The NIHE Repairs Unit operated an annual ,cyclical programme of District Office inspections and the results were advised to the relevant managers and Internal Audit.In addition I commissioned numerous separate investigations into Spectrum/Red Sky .

11. In early 2009, subsequent to the “ re-instatement “ of the contract, quality issues and work backlogs began to re-emerge.In April 2009 I instructed RIU to set aside the cyclical programme and commissioned a detailed investigation into the operation of the Red Sky contracts.

12.The RIU reported in June 2009 and this made it clear that significant overcharging was still prevalent particularly in one District and the measures to improve contract management (which had set out clearly the standards expected ) had in the most part been ineffective .

13. In advance of an action plan being put in place the Chief Executive advised that he had decided to seek an external ,independent review of the Red Sky contracts .

14. In advance of the completion of that report (which I understand was Nov2010) it was necessary to extend two Red Sky contracts for a further year from August 2009.In addition RIU were instructed to recover known overpayments and carry out an investigation into the recurrence of duplicate payments across all Districts. My involvement in the contracts ended in Mar 2010.

#### Investigations into other NIHE contractors as requested by the Minister

15.This took place after my involvement in the management of the contracts.

Investigations into other NIHE contractors undertaken by NIHE Internal Audit and the Repairs Inspection Unit

16.In so far as this relates to post-Mar 2010 this was after my involvement.

Meetings with the Red Sky group to discuss the issue of overpayments.In particular meetings held on 4<sup>th</sup> and 16<sup>th</sup> Feb 2011

17.In so far as this relates to post –Mar 2010 this was after my involvement.

Decision by the NIHE Board on 13<sup>th</sup> April 2011 to terminate the Response Maintenance contract with the Red Sky group

18. This took place after my involvement.

C Mc Caughley

September 2014