

<b>Subject:</b>	<b>Overpayments on the housing repairs and improvement contract</b>		
<b>Date of Meeting:</b>	<b>12 January 2016</b>		
<b>Report of:</b>	<b>Acting Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Graham Liddell</b>	<b>Tel: 29-1323</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report summarises the results of an internal audit review of overpayments identified by the council in respect of contracted housing repairs. It summarises:
- the audit findings;
  - the actions taken by the council to recover amounts owing and to prevent any further overpayments;
  - actions being taken by the contractor (Mears Ltd) who are working with the council to prevent further occurrences.

**2. RECOMMENDATIONS:**

That the Audit & Standards Committee:

- 2.1 Note that the council's housing revenue account was over-charged by an amount estimated by audit at more than £300,000 over a 17 month period for work carried out by a sub-contractor working on the housing repairs and improvements contract.
- 2.2 Note that the council expects to recover the overpayments from the main contractor, Mears Ltd.
- 2.3 Note that the council is working positively with Mears Ltd to identify any other overpayments that may have been made and to prevent any overpayments in the future.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 Mears Ltd provides a comprehensive responsive repairs, planned maintenance and major works service for council homes across the city under a 10-year contract. Around 20% of the annual contract is responsive repairs of which just under 30% (by number of jobs) is carried out by sub-contractors. In terms of value, the contract is expected to cost £27m in 2015/16. Approximately 4% of the annual cost relates to sub-contracted responsive repairs. Sub-contractors are also used extensively for planned and major works but these are subject to different payment, audit and sign off regimes.

- 3.2 Mears Ltd has contractual responsibility for undertaking post inspections of 10% of all completed works and the council's housing contract compliance team also carry out checks. Following an audit of housing repairs in 2013/14, the Housing Contract Compliance Team enhanced its assurance processes by increasing the number of physical post-inspections (with effect from February 2015). In May 2015 these inspections identified a potential over-charging issue by a sub-contractor. After initial investigation, the Housing Contract Compliance Team contacted Internal Audit with their concerns.
- 3.3 Internal audit, working jointly with quantity surveyors from the council's Housing team, inspected 46 repairs completed by a single sub-contractor to identify the extent of any potential overcharging and to identify shortfalls in internal controls.
- 3.4 Further inspections were then carried out by Mears Ltd and council surveyors.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 The audit concluded that mechanisms put in place by Mears Ltd to identify overcharging were not operating as intended. There was significant evidence that a particular subcontractor had routinely overcharged Mears Ltd and that these costs had been passed onto the council. The audit concluded that the housing revenue account had been overcharged and estimated that the overcharge was in excess of £300,000 for the 17 month period examined.
- 4.2 The contractual mechanism allows for review of valuations after submission. This takes place on a monthly basis as a matter of course. In this case, however, the overcharging was not identified at the time and so would need to be addressed by correcting historical valuations.
- 4.3 The audit made a series of high priority recommendations to:
- stop the sub-contractor from working on council contracts;
  - identify and recover all overpayments made by the council to Mears Ltd;
  - improve controls by Mears Ltd over the work carried out by sub-contractors;
  - strengthen the scrutiny of the work carried out under the contract by the council.
- 4.4 Officers have agreed to implement all audit recommendations by the end of December 2015. They have also met with senior managers at Mears Ltd who have responded positively.
- The sub-contractor has been dismissed from the contract.
  - The council and Mears are working together to:
    - estimate and refund to the council the amounts overcharged for work carried out by the subcontractor for the 17 month period examined and since the subcontractor was first engaged in 2011/12;

- review amounts charged by other sub-contractors to assess whether there are any other potential instances of over charging;
  - improve the arrangements put in place by Mears to prevent further instances of overcharging. This includes:
    - reducing the amount of sub-contracted work with more direct delivery through a Minor Works Team;
    - implementing cultural change, ensuring the lessons learned from this case are disseminated into practice;
    - a new management and staffing structure (including the appointment of a new quality assurance manager);
    - redesigning post-inspection processes;
    - introducing a new protocol for the information, records and photographs to be made available for the council to inspect.
  - revisit the contract to consider providing funds to enable the council to increase the extent of its quality assurance processes.
  - Mears Ltd has provided regular updates on the progress it has made to gain assurance that these issues are isolated to a single contractor and that processes and procedures have been strengthened to prevent any reoccurrence.
- 4.5 The housing repair and improvements partnership with Mears Ltd is a critical part of the housing service provided to council tenants. Internal audit will continue to work with housing officers to:
- monitor implementation of audit recommendations arising from this report;
  - review other aspects of the contract, with a particular focus on assurance processes, and make recommendations for improvement where appropriate.

4.6 We will carry out a follow up audit in 2016/17.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

5.1 None.

## **6. CONCLUSION**

6.1 The council's Housing Revenue Account was over-charged for work carried out by a sub-contractor by an amount estimated at more than £300,000 over a 17 month period. The council expects to recover these overpayments from its main contractor, Mears Ltd, and is working positively with Mears Ltd to:

- identify any other potential overpayments that may have been made;
- prevent any overpayments in the future.

## 7. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

- 7.1 The housing repairs and improvement contract was procured to deliver significant efficiency savings and at the time of procurement it was evidenced that the new contract would provide:
- the greatest level of discounts to the schedule of rates used for responsive repair works compared to other tenders;
  - cost efficiencies in the agreed schedule of rates for capital works. In addition capital works and any other works outside of the agreed schedule of rates are competitively tendered with a minimum of three suppliers.
- 7.2 The estimated overpayments of over £300,000 relate to expenditure within the Housing Revenue Account (HRA). These overpayments will be recovered from the main contractor and are ring-fenced for reinvestment within the HRA. Any further overpayments that may be uncovered through the investigation are also expected to be recovered.
- 7.3 A small element of this overpayment estimated at between £3,000 to £5,000 over the 17 month period related to leaseholders. This will have been included in leaseholder service charges and therefore a reimbursement for any overcharge will be included in next year's service charge statement.

*Finance Officer Consulted: James Hengeveld*

*Date: 18/12/15*

### Legal Implications:

- 7.4 The measures outlined in the Audit report and agreed by officers will ensure that all monies due to the Council are recovered and that the Council is protected from similar overcharging in the future.

*Lawyer Consulted: Abraham Ghebre-Ghiorghis*

*Date: 15/12/15*

### Equalities Implications:

- 7.5 None

### Sustainability Implications:

- 7.6 None

### Any Other Significant Implications:

- 7.7 None.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

None

**Documents in Members' Rooms:**

None

**Background Documents:**

None

