

## Decent Homes Review

### Background

In June 2010 the Council's Head of Finance and Assets asked internal audit to undertake a preliminary review of Decent Homes capital expenditure, following the identification of an unusual spending pattern at the end of the 2009/10 financial year.

The Decent Homes capital programme concerned relates to approximately 450 HRA properties in the Kingsley and Kingsthorpe areas of Northampton. The programme was being delivered by Thomas Vale Construction PLC ("TVC") and was project-managed by a third-party quantity surveyor, Michael Dyson and Associates Limited ("Dysons").

### **Contract monitoring**

During the contract, TVC provided a monthly schedule of work completed, which was checked by Dysons. Dysons sent a payment certificate to the Council for the amount they believed to be due to TVC, and the Council issued its own payment certificate after which TVC were paid.

The Council's Clerk-of-Works surveyed all properties included in the scheme, subject to being able to gain access, and post-inspected when works were complete to ensure appropriate quality standards were maintained. Beyond this, there was little Council involvement in checking that the value of work paid for was correct – this process was undertaken by Dysons when TVC submitted their claims for work undertaken.

The contract with TVC allowed them to bill for complete works, and also to bill when significant components of work were completed; for example, if a kitchen required renovation and new units were fitted but other works were incomplete at the valuation date, the contract allowed TVC to bill for the fitting of those units.

### **Payments authorised**

The contract with TVC was valued at around £3.9m, of which £876k had been claimed by 31 March 2010. Work on the programme started in November 2009 and the payments made for 2009/10, as detailed within payment certificates issued by the Council, were as follows:

Date	10/12/2009	08/01/2010	09/02/2010	09/03/2010	30/03/2010
Contract	3,939,650	3,939,650	3,939,650	3,939,650	3,939,650
Contingencies					
Sub-total	3,939,650	3,939,650	3,939,650	3,939,650	3,939,650
Value works executed	107,435	40,315*	280,826	468,512	898,512
Less retention	- 2,686	- 3,509	- 7,021	- 11,713	- 22,463
Total	104,749	136,833	273,805	456,800	876,050
Less previously certified	-	- 104,749	- 136,833	- 273,805	- 456,800
Now due for payment	104,749	32,084	136,972	182,994	419,250
Plus VAT 15%	15,712	4,813			
Plus VAT 17.5%			23,970	32,024	73,369
Total payment	120,462	36,897	160,942	215,018	492,619

\* The value of works executed on the 08/01/2010 certificate should have read £140,315.

Total payments net of VAT: £876,049

It is apparent that £602k or 69% of this expenditure was incurred during March 2010 alone. The former Housing Asset Strategy Manager was one of the signatories authorising these payment certificates. Before he left the Council on 18 June 2010, we asked him what

## Appendix Three

assurance he had that the work within the March 2010 certificates had actually been delivered by 31 March 2010. He told us that the spend was within expectation as the contractor increased the work-streams from 1 to 4 after January 2010 and he expected to see progress. Furthermore, he informed us that 120 properties had been brought up to Decent Homes standard by 31 March 2010, which is a higher proportion of the total than the amount of cost incurred at that date.

He also advised that checking by the in-house Quantity Surveyor had done sufficient work to be sure this work was all completed.

### Potential issues identified

- Payment certificates submitted by Dysons were usually accompanied by a spreadsheet, detailing the works undertaken and a detailed cost breakdown. The £419k claim dated 30/03/2010 on the schedule above was not accompanied by this detail. Instead, the accompanying email from Dysons to the in-house Quantity Surveyor on 30 March 2010 states:

*“I am pleased to enclose the valuation certificate for March 2010. This is in the region that was agreed between TVC and (The former Housing Asset Strategy Manager). Next month we will again be providing a full breakdown of the valuation and there will be some final accounts.”*

This indicates that there was no detailed information to support this, the largest payment on the scheme to date and that it had been agreed between the former Housing Asset Strategy Manager and the contractor direct, without the professional input of Dysons. This might also indicate that the figures involved did not relate to work actually undertaken at the balance sheet date.

- We were told by the former Housing Asset Strategy Manager that 120 homes were brought up to Decent Homes standard by 31 March 2010. In a separate meeting, the in-house Quantity Surveyor told us that the figure should be 150 properties and the acting Major Works Team Leader speculated that 182 properties might be involved. Prior to our review, another source within the Council told Finance staff that only 80 properties had reached Decent Homes standard by the end of March. If the latter figure had been correct, the comment about the percentage of expenditure compared to project completion would not hold true.
- Additional work-streams are likely to increase the value of work undertaken; nevertheless the steep increase in the value of works booked in March 2010 compared to prior months is notable. Furthermore, the subsequent payment certificates for May and June 2010 were at around half the value of those for March.
- The former Housing Asset Strategy Manager told PwC that the checking undertaken by the in-house Quantity Surveyor was another reason why he was happy to accept the valuation as being accurate. Our meeting with the in-house Quantity Surveyor identified that he undertook few if any checks of the valuation certificates received, reasoning that this was what Dysons were paid to do.
- The former Housing Asset Strategy Manager joined the Council from Dysons in March 2009. He told PwC that in summer of 2009 he was involved in the selection process to appoint an external project management firm, resulting in the appointment of Dysons. This raises questions about the procurement process employed.
- The in-house Quantity Surveyor told PwC that the Dysons Quantity Surveyor had been asked by the former Housing Asset Strategy Manager to undervalue the work performed early in the programme and then to be ‘generous’ in March to make up some of the shortfall. This raises questions about the integrity of the process and potentially raised a

## Appendix Three

question-mark over what other costs remain to be brought into the open if the valuations are not a direct and accurate reflection of work done to date.

- We were told that there have been issues about TVC's work, particularly in respect of communication with residents and resident satisfaction. If there has been a major drive to increase the work completed after January 2010, this may correspond with reduced levels of customer satisfaction if it had not been managed sensitively.

### Further considerations/potential work required

- The Council should consider meeting with, or appointing specialist capital project specialists to meet with, both TVC and Dysons, to fully explore the circumstances behind the large value of works certified in March 2010. This should include access to open-book accounting information for TVC if necessary, to validate the extent of works completed at that date.
- The Council should consider commissioning or undertaking relationship checks / corporate intelligence checks of TVC, Dysons and the former Housing Asset Strategy Manager, to help gain assurance that there are no relationships that might have compromised the objective and professional letting or running of either contract.
- The Council should consider engaging a forensic IT provider to securely image the e-mail and computer records of the former Housing Asset Strategy Manager, with a view to establishing whether there is any evidence to suggest involvement in manipulating the value of the March or other payment certificates.
- A complete review of the financial position of the programme should be considered. Our work has focussed on payment certificates but we have not examined or reconciled the certificates to actual expenditure, nor expenditure to budgets.
- The actual number of homes having achieved Decent Homes status by 31 March 2010 should be established.