



Enhancing Life Chances

## Report on whistleblowing allegations

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### 1. Summary

- 1.1 This report gives an overview of events at the beginning of the Keepmoat contract which led to the discovery of overcharging by Keepmoat for a number of repairs on tenanted properties. It must be noted that while the initial allegations were to do with fraud, no evidence of fraud was found. The pricing discrepancies were due to initial staffing issues and the widespread usage of subcontractors, as well as the need for CHMP to fully implement the control processes that were in place. These have now been fully addressed, particularly with regards to post inspections, and Keepmoat now have the majority of work carried out by their directly employed workforce. Keepmoat have now reimbursed CHMP for the discrepancies. No leaseholders were affected.
- 1.2 Bill Byfield, Director at Savills, has supported this work and provided a full independent review. In his conclusion he stated that the discrepancies are not uncommon in the early stages of contracts of this size, and that Keepmoat have worked in partnership to address the issues raised. Savills recommended the settlement agreement and now consider the matter closed.

### 2. Background

- 2.1 In late August 2014 Circle Housing Merton Priory (CHMP) was approached by the Wimbledon Guardian, the local newspaper, informing them that they were planning on running a story alleging that Keepmoat, the CHMP reactive repairs contractor, were seriously underperforming. In addition allegations were made that Keepmoat were overcharging. The allegations were being made by an anonymous Whistleblower who claimed to be an ex-employee at CHMP. He then made contact with Circle Housing, and made further allegations regarding incorrect scaffolding payments.

### 3. Outline of Investigation

- 3.1 As a result of these allegations, an independent review of work was commissioned from specialist Surveyors, Rand Associates. Rand are experts in construction contracts involving schedules of rates, and were completing some routine work in Merton to check CHMP's contract.
- 3.2 The type of contract used in Merton contains "schedules of rates". These are fixed prices that should be used for repairs items. It also contains "basket rates", which allow you to order one item, and the basket rate will contain everything you need to do the job. For example, for a window replacement the "basket rate" will also contain the hinges, glass, window locks etc.
- 3.3 Rand Associates independently inspect 20 selected repairs that had been carried out by Keepmoat in the early stages of the contract, and were subsequently paid for by CHMP. The 20 properties that were selected for inspection were completely random and so should be considered as fair indicator of performance across the

entire contract. However, it should be noted that, due to bad weather earlier in the year, the sample contained a high proportion of fence repairs.

3.4 In summary, Rand Associates reported the following:

- The total charge by Keepmoat for the 20 jobs was £16,923, but Rand calculates the cost should have been £10,577. An apparent overcharge of £6,346 had been claimed.
- A number of examples of claims that had incorrect measurements, e.g. charged for 5 metres rather than 3 metres.
- A number of examples where additional schedules had been added for works where one basket rate already incorporated all the required work.

3.5 In respect of the control sample, only three of the properties had been post inspected by CHMP prior to payment. The sample was picked because all jobs should have been post inspected as they were over £500. The three which had been post inspected were found to be accurately charged/paid.

3.6 Keepmoat carried out their own review of the 20 randomly selected jobs after the Rand report was shared with them. Circle Housing's Executive Director Governance met with their Managing Director, who was open and willing to get to the bottom of any issues which had arisen. Keepmoat reported the following, after their own internal investigation:

- 17 of the jobs were carried out by sub-contractors
- They had overcharged by £3122.35
- On a number of schemes there is evidence that the schedule of rates process had not been correctly adhered to
- They believed some of the valuing techniques and considerations utilised by Rand had not been carried out in the spirit of the TPC Partnering Contract.

Whilst there did appear to be a sample of schemes that clearly had incorrect values applied, in the whole scheme of any major project there will be instances where discrepancies are encountered. A number of enhanced control processes needed to be introduced by Keepmoat moving forward.

#### **4. Joint Inspections**

4.1 Following a further meeting with Keepmoat, it was agreed that Savills would carry out inspection work on properties jointly with Keepmoat to enable CHMP to reach a commercial settlement. Keepmoat agreed that there would not be a financial detriment to CHMP as a result of any potential overcharging.

4.2 Savills have advised that, for a contract of this scale and complexity, it is not unusual to see differences of opinion regarding application of cost or discrepancies in pricing, especially in the early days of mobilisation and for external work of this nature.

#### **5. Scaffolding Overcharges**

5.1 CHMPs enquiries showed scaffolding charges that should not have been included in invoices, as they were duplicate payments. Scaffolding is included in the schedule of

rates charged on buildings up to and including second storey eaves, rather than needing to be invoiced separately. The Circle Standard clearly sets out what each schedule of rates code includes and this should be understood both by Keepmoat staff when they invoice, and CHMP staff when they approve the invoice for payment. Keepmoat had not complied with the Circle Standard, and CHMP had not made appropriate checks on these jobs before authorising the payments.

5.2 With regards to some of the scaffolding over claims, Savills have advised that a number of these were as instructed by Circle staff (by incorrect ordering) and have therefore been duplicated as they were taken as an instruction and invoiced. These have been credited back for those properties which were under two storeys.

## 6. Recalls

6.1 Whilst completing the investigation, it became evident that there had been a number of “recalls”. A “recall” is where Keepmoat have had to return to a job they previously undertook due to a fault with the original repair, and this should be without charge. The Circle Standard sets out what is chargeable in terms of follow up work and recalls.

6.2 This was not fully understood by both Keepmoat and Circle Staff and was an area that lead to a difference of opinion. This is because jobs which are “recalls” could be placed as new jobs, and some which are recalls could in fact be for different faults. Savills have worked to understand the recalls and have reached a position on these and both sides now have a clear understanding.

## 8 Recommended Settlement

8.1 Savills have finished negotiations with Keepmoat and advise that the below represents a fair settlement:-

• Scaffold over-claim credit value	£127,237
• Recall over-claim credit value	£ 34,413
• Circle Staff overtime contribution	£ 12,000
<b>Total Credit Value</b>	<b>£173,650</b>

8.2 Keepmoat has now reimbursed CHMP.

## 9. Internal Audit Findings

9.1 The Internal Audit team were also instructed to carry out a review of the internal controls in CHMP with a particular focus on repairs processing (scheduling, variations and approvals), post inspections and performance and contract management. The audit found the following:

- 17% of repairs over £500 and 0.5% of repairs under £500 were post inspected. These figures should have been 100% and 5% respectively.

- Post Inspections on average took 119 calendar days (this should be 28 days) which led to poor quality post inspections and conclusions not being able to be reached accurately.
- 17,000 repairs have been completed in the last financial year, at just over 5,000 properties, equating to approximately 3.5 repairs a property. Orchard also shows that 4,000 jobs have been booked and later cancelled.
- Regular contract meetings are held with Keepmoat

9.2 Following Internal Audit findings, additional resources were brought into the CHMP surveying team and the post inspections are now being carried out and performance figures are available. This is being monitored closely by management and follow up audit work will take place in quarter 3 to provide additional assurance that the control is now being applied.

9.3 There is no evidence to suggest that staff at either Keepmoat or CHMP acted fraudulently. Due to the lack of resources at that time, the volumes of payments to be checked were being 'batch authorised' rather than individually checked.

## **10 Conclusion**

10.1 A number of factors contributed to the controls which had been put in place not being fully implemented at CHMP and within Keepmoat. Keepmoat consider the complexity of the Schedule of Rates coding structure, and use of subcontractors, were a critical factor from their side. At the beginning of the contract they had a large subcontractor workforce, and they have now moved to a main provision of direct labour other than specialist jobs.

10.2 At CHMP, staff shortages were a critical factor. These shortages and initial mobilisation difficulties led to staff deciding to prioritise repairs for CHMP customers over post inspections for work that had already been completed. These resourcing issues have been addressed and an additional six surveyors and building inspectors have been employed since the beginning of the contract. They have been equipped with the technology to register problems directly from residents' doorsteps so that repairs can be booked as soon as an inspection has been carried out. In addition 100 per cent of work over £500 is now being post inspected.

10.3 Savills are assisting with a review of the Circle standard (to ensure that the Schedule of Rates is clear).

10.4 The Director of Audit & Risk has confirmed that all internal audit recommendations have either been implemented or are within target.

10.5 Savills consider that Keepmoat have entered into this review in an open and transparent manner in order to ensure that they retain a productive working relationship with Circle Housing. Keepmoat have also agreed to improve their own internal control process and have put a range of improvements in place, including increasing their own post inspections. Keepmoat have agreed to reimburse CHMP for the scaffolding charges, and for the costs of the investigation.

10.6 Circle Housing will be carrying out further audit work in quarter 3-4 to ensure that the controls are still operating effectively.