

Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	30/05/2018

OUTCOME OF HOMES ENGLAND AUDIT OF COTSWOLD HOUSE & THE FUTURE AUDIT OF PRIMROSE GARDENS

PURPOSE OF REPORT

1. Update members on the outcome of the Homes England audit of the Cotswold House project
2. Update members on the expected audit of Primrose Gardens Retirement Village project.

RECOMMENDATION(S)

3. Approve the findings of the Homes England audit
4. Approve the letter to be sent to Homes England outlining the council's concerns regarding the processes and actions of officers at Homes England.
5. Note the audit of the Primrose Gardens project will begin in August 2018.

EXECUTIVE SUMMARY OF REPORT

6. The outcome of the Homes England Audit is given in appendix one. As expected when Governance Committee was briefed about the audit in January 2018, the council has received a red grade. It was deemed that the council received the final tranche of funding in advanced of the project completing.
7. It was on the advice of the grant manager working for Homes England that the council officer managing the project marked the project as complete in the Homes England grant management system. As such the council feels the fault for this red grade lies with the practises of the Homes England grant manager pressuring the council to request the funding so as to the release the money before the end of the financial year. The council has made this clear to Homes England in a letter attached in appendix two.
8. There is no clear indication from Homes England what the consequences of this red grade will be, for example it is not suggested the council will have to return any funding. As expected one of the outcomes will be that the council's other Homes England project, Primrose Gardens, will be audited.
9. The audit must be completed by the end of August (last year the deadline was October) and Grant Thornton have agreed to complete the audit.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

10. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

11. A bid was placed to Homes England in June 2016 for funding towards the renovation of Cotswold House. The total estimated cost of the project was £858k. £658k of Homes England funding was applied for with the remainder of the project costs to be funded by the Council. Homes England announced that the bid had been successful in December 2016 and the project and grant agreement were approved by Executive Cabinet on 17th March 2016. The grant would be paid to the Council 75% when there was a start on site and 25% on practical completion.
12. The Cotswold House project was split into two phases, the first phase related to works included in the original grant bid however as the project underspent, it was approved by Homes England that the council reinvest the underspend in a second phase of additional works to the site.
13. On 21st March 2016 the Homes England Grant Manager rang the council and strongly encouraged the council's grant manager to log into the grant management system and enter the project as complete. The final tranche of funding was released and received on 31st March 2017.
14. The Council were contacted by the Homes England Audit Team in June 2017 and informed that Homes England would be conducting an audit of one of its projects. As Primrose Gardens had only just started it was clear the audit would be for Cotswold House. The Homes England grant managers and audit team are independent of each other and it should be noted that the Homes England grant team never briefed Council officers regarding the potential audit and what works this could involve.
15. The expected outcome of the audit was reported to Governance Committee in January 2018. It was expected that the council was likely to receive a red grade for the audit but it noted that red grades are common for a Local Authority undergoing its first audit. As a result of this the council was expected to be audited again in 2018/19 and that this would relate to the Primrose Gardens project.

IMPLICATIONS OF REPORT

16. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area	✓	Policy and Communications	

OUTCOME OF COTSWOLD HOUSE AUDIT

17. The letter from Homes England and audit outcomes are outlined in appendix one. The council received two high severity breaches and one low severity breach. Receiving one high severity breach results in a red graded audit.
18. The high severity breaches related to the council receiving the final tranche of funding before the project had completed. As stated earlier in this report this was done though the advice of the Homes England grant manager. The project included in the original bid was practically completed by the end of March 2017 with only the veranda to be finalised. However the Homes England audit response did not recognise this, and states that the actual completion date was when the project was signed off by building control on 21st July 2017. Building control signed off the works when both phases of works were complete. This made it difficult for the council to prove the first phase (relating to the original grant bid) was practically complete by the end of March 2017.
19. The outcome of receiving a red grade in the audit are not made explicit in the letter from Homes England although it seems the outcomes are:
- a request from Homes England that in the future the council should adhere to the grant requirements
 - the Primrose Gardens project will be audited in 2018
20. Homes England require that:
- The contents of the Homes England report should be acknowledged by your Board's Chair or equivalent.
 - Confirmation of this acknowledgement should be record in the IMS Compliance Audit Module by your CA Provider Lead on behalf of your Board's Chair.
 - Online acknowledgement should be completed within one calendar month of the report email notification being sent.

PRIMROSE GARDENS AUDIT

21. The council has been notified that it will be subject to another Homes England audit in August 2018. The deadlines are tighter this year with the audit to be completed by the end of August 2018. The audit is expected to be very similar to the Cotswold House audit with a number of questions requiring responses to be uploaded to the Homes England compliance audit website that are then checked by an external auditor. As per the last audit, the council will have 10 days after the audit is completed to respond to the independent auditor's findings.

22. Grant Thornton completed the Cotswold House audit and have accepted Chorley Councils request to complete the Primrose Gardens audit. A budget for the audit has already been set aside as part of the 2018/19 budget setting process.
23. Training for the 2018 audit will be provided by Homes England in June. Further information will be provided at these training sessions including the expected date the council will receive the final audit report.
24. Although the council is better prepared to complete the audit responses this does not mean it can prevent the potential outcome of receiving another red grade. The council received a phone call in March 2017 from a different Homes England grant manager to check how the start to the Primrose Gardens project was progressing. The council officer described how the pre-construction service agreement (PCSA) had been signed and that the site had been cordoned off ready for demolition to begin. The grant manager advised that this would constitute a start on site and that the 75% of grant funding could be claimed, this amounted to £2.4m.
25. The council's financial services manager emailed the Homes England grant manager in June 2017 to confirm that the PCSA constitutes a start on site. The reply to this email was that Homes England grant managers do not provide such guidance and that it is up to the council to interpret the grant funding guidance. The outcome of the audit could be similar to the Cotswold House audit in that the Homes England auditors not agreeing that the trigger to the funding had been met, despite the advice from the grant managers.
26. Council officers will begin collating the necessary evidence to respond to the audit and put together the best possible arguments to confirm that the start on site had begun by the end of March 2017.

COMMENTS OF THE STATUTORY FINANCE OFFICER

27. The cost of the audit in 2018 has been already been budgeted for in 2018/19.

COMMENTS OF THE MONITORING OFFICER

28. No comments. The concern about the advice or information received from Homes England is expressed in the body of the report. Whilst ultimate compliance rests with the Council it should be acknowledged by Homes England that it was the information and advice provided by their representative that dictated the Council course of conduct.

REBECCA HUDDLESTON
DIRECTOR OF POLICY AND GOVERNANCE

Background Papers			
Document	Date	File	Place of Inspection
HCA Audit of Cotswold House Project	24/01/18	http://mod/documents/s82605/HCA%20Audit%20of%20Cotswold%20House%20Project.pdf?LO\$=1	Mod.Gov

Report Author	Ext	Date	Doc ID
James Thomson	5025	22/05/2018	

APPENDIX ONE

Mr Gary Hall Chorley
Council Civic Offices
Union Street Chorley
Lancashire
PR7 1AL

18th May 2018 Dear

Gary Hall

Chorley Council- **Compliance Audit 2017/18**

Further to the confirmation of the results of Homes England's Compliance Audit for 2017/18 I am writing to you as the section 151 officer for Chorley Council to bring to your attention a serious breach that was identified through last year's audit.

Through the audit it was identified that grant was claimed in advance of the relevant event on which payment was dependent. We have given you a red grade as we have serious concerns regarding any provider who might be considered to have claimed grant ahead of need and would ask that you ensure suitable measures are put in place to ensure there is no risk of such a thing recurring.

I have attached the Compliance Audit report for your information, which has also been sent to your Housing Director, Chief Executive and the Executive Member responsible for Housing.

If you have any queries on the above please contact Sally Roberts. Yours

sincerely



Jane Castor

General Manager Finance and Performance

Compliance Audit Report – 2017/18

30UE – Chorley Council

Provider Code	30UE
Provider Name	Chorley Council
Final Grade	Red - Serious failure to meet requirements
Independent Auditor	Grant Thornton UK LLP
Homes England Lead Auditor	Susan Mackie
Homes England Head of Home Ownership and Supply	Carl Moore

Report Objectives and Purpose

Compliance Audits check Provider compliance with Homes England's policies, procedures and funding conditions. Standardised checks are made by Independent Auditors on an agreed sample of Homes England schemes funded under affordable housing programmes. Any findings, which may be a result of checks not being applicable to the scheme or an indication of procedural deficiency, are reported by the Independent Auditor to both the Provider and Homes England concurrently. The Homes England Lead Auditor reviews the findings and records those determined to be 'breaches' in this report. Breaches are used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided at the end of this document.

Further information is available at: <https://www.gov.uk/guidance/compliance-audit>.

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.

Compliance Audit Grade and Judgement

Final Grade	Red - Serious failure to meet requirements
Judgement Summary	<p>Chorley Council scheme no. 730717 has been audited; the independent auditor has reported three key findings and they have subsequently been reported as two high level, and one low level breach, resulting in an overall RED grade being reported.</p> <p>Procedures should be put in place to ensure that contractual commitments are complied with for all future schemes. (Full details of the breach can be found in the section called 'Details of Breaches by Scheme').</p>

Audit Results

Number of Schemes Audited	1
Number of Breaches Assigned	3
Number of High Severity Breaches	2
Number of Medium Severity Breaches	0
Number of Low Severity Breaches	1

Details of Breaches by Scheme

Where there are breaches identified, remedial action must be taken in accordance with recommendations listed in the Compliance Audit Module to mitigate the potential for re-occurrence.

Breach 1

IMS Scheme ID	730717
Scheme Address	Cotswold Supported Housing, Chorley Council 2015-17, Cotswold Road, PR7 3HW
Breach Type	Security of grant
Breach Text	19. PC grant payment claimed in advance of need. This applies where the final grant claim preceded Partial Possession / Practical Completion(as defined in the CFG)
Breach Comment	<p>The Capital Funding Guide (CFG) states on developments for which Grant has been requested, funding is conditional upon providers ensuring that at the point of claiming grant providers confirm that their application for grant payment is correct and conforms to the conditions incorporated in to the Affordable Homes Grant Agreement as accepted by them when signing up to the Affordable Homes Programme (CFG 3.6.5).</p> <p>The CFG states (CFG 7.1.1 (7.1.1 https://www.gov.uk/guidance/capital-funding-guide/8-procurement-and-scheme-issues) Providers must have obtained building regulation approval prior to the completion of the development.</p> <p>The certificate of practical completion for this scheme (contract 2) is dated 22nd June 2017; the certificate of completion from building control is dated 21st July 2017. However the date for practical completion recorded in Homes England Investment Management System is 21st March 2017. Therefore the practical completion submitted in IMS is 3 months prior to the final completion statements referred to above.</p> <p>As a result this does not comply with the requirements of the CFG, on the evidence available at the time of writing, one high severity breach has been reported; this is due to the drawdown of grant in advance of need by 3 months. This is deemed a failure in process. We would ask that for future schemes the contractual requirements of the AHP are adhered to.</p>



Breach 2

IMS Scheme ID	730717
Scheme Address	Cotswold Supported Housing, Chorley Council 2015-17, Cotswold Road, PR7 3HW
Breach Type	IMS data
Breach Text	26. IMS has not been updated in line with contract requirements. These requirements vary according to the programme: Under the AHP 2011 - 15, scheme details must be submitted through IMS within ten business days after SOS; Under the AHP 2015 - 18, firm schemes must be submitted to IMS by five days before SOS
Breach Comment	<p>There is a requirement that details submitted in Homes England Investment Management System (IMS) are in accordance with published guidelines set out in the relevant Contract and CFG. There is a requirement to ensure payment date(s) entered in IMS milestones correspond to relevant documentation. The key finding by the Independent Auditor has shown that the date recorded in IMS did not accurately reflect the relevant documents. Therefore this was a breach of process and a low level breach has been reported.</p> <p>The provider is reminded that the data on IMS should be regularly checked for accuracy e.g. when information is inputted and/or at each key milestone. When incorrect data or other scheme changes are identified, we would ask that you keep systems updated accordingly.</p> <p>For reference see question and Independent Auditor response below- Question 12- Interim payment (SOS)/final cost (PCF) claims – were IMS scheme details submitted in accordance with published guidelines set out in the relevant Contract and CFG?</p> <p>Independent Auditor Response- This is dealt with in more detail as part of the responses to questions 7 & 8. In summary:</p> <ul style="list-style-type: none">- the first payment was made on 21 September 2016, however site possession for the main contract was 26 September 2016, whilst the car park contract was dated 6 October [REF 7a]- The practical completion recorded in IMS, and final grant payment, is 21/03/17, but as explained in response to question 8, above, the practical completion certificate date was 22nd June 2017 and the evidence is at [REF 8a]



Breach 3

IMS Scheme ID	730717
Scheme Address	Cotswold Supported Housing, Chorley Council 2015-17, Cotswold Road, PR7 3HW
Breach Type	Quality and regulation
Breach Text	32. At PC grant claim: a) There was no evidence of building regulations approval; b) There was no evidence of Building Regulations sign off Completion Certificate; c) House builder warranty(NHBC or equivalent) final certificate not granted
Breach Comment	<p>The Capital Funding Guide (CFG) states on developments for which Grant has been requested, funding at practical completion (PC) grant claim stage is conditional upon providers ensuring that they have obtained building regulation approval prior to drawing down grant. The Capital Funding Guide (7.1.1 https://www.gov.uk/guidance/capital-funding-guide/8-procurement-and-scheme-issues) states providers must have obtained building regulation approval prior to the completion of the development.</p> <p>The certificate of completion from building control is dated 21st July 2017. However the date for practical completion recorded in Homes England Investment Management System (IMS) is 21st March 2017. Therefore the building regulations approval had not been signed off before the date submitted in IMS, and is recorded in IMS three (3) months prior to the final building regulations sign off referred to above. The documentation provided refers to a canopy that was the only outstanding works that needed to be installed, and this was to be carried out by a Specialist Contractor before the building could be signed off by building control. Nevertheless this does not comply with the requirements of the CFG (7.1.1), therefore on the evidence available at the time of writing, one high severity breach has been reported; this is due to having no building control sign off in place at the time of drawing down the PC payment.</p> <p>We would ask that for future schemes the contractual requirements of the AHP are adhered to.</p>

Provider's Acknowledgement of Report

The contents of this report should be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement should be record in the IMS Compliance Audit Module by your CA Provider Lead on behalf of your Board's Chair. Online acknowledgement should be completed within one calendar month of the report email notification being sent.

Report acknowledged

by:

Date:

Compliance Grade Definitions

Green Grade	The Provider meets requirements: Through identifying no high or medium breaches, the Compliance Audit Report will show that the Provider has a satisfactory overall performance, but may identify areas where minor improvements are required.
Grade Amber	There is some failure of the Provider to meet requirements: Through identifying one or more high or medium breaches, the Compliance Audit Report will show that the Provider fails to meet some requirements, but has not misapplied public money. The Provider will be expected to correct identified problem(s) in future schemes and current developments.
Grade Red	There is serious failure of the Provider to meet requirements: Through identifying one or more high level breaches, the Compliance Audit Report will show that the Provider fails to meet some requirements and there is a risk of misuse of public funds. The Provider will be expected to correct identified problem(s) in future schemes and current developments.

APPENDIX TWO

Date: 30/05/18

Town Hall
Market Street
Chorley
PR7 1DP

Dear Jane Castor,

Response to Compliance Audit 2017/18

Thank-you for your letter dated 18th May 2018 that outlines the concern from Homes England that Chorley Council received funding in advance of need.

The response from Chorley Council to the independent auditor's findings made it clear that the project was split into two phases. The first phase related to the original grant bid however it was agreed with Homes England that as the expected project expenditure would be approximately £200k under budget, the remaining money could be reinvested into a second phase of works to the same property that wouldn't complete until after March 2017.

The final tranche of grant claimed only relates to the first phase of works as these were the works included in the original grant bid. These works were almost completed by the end of March 2017 with only a veranda outstanding that unfortunately could not be completed due to a delay in receiving the necessary materials. This was explained to the Homes England grant manager when this individual rang the council on 21 March 2016. It was his verdict that this constituted completion and therefore the council officer marked the project as complete.

It is disappointing to me that Chorley Council should be given a red grade with the subsequent 'serious concerns' when this outcome was the result of being given inappropriate advice by a Homes England representative.

In March 2017 a different Homes England grant manager contacted the council for an update regarding the progress of the council's Primrose Gardens Retirement Village project. The council officer reported that a pre-construction services agreement (PCSA) had been signed and the site had been cordoned off with works due to begin. This was deemed sufficient by the Homes England representative to constitute a start on site and so the grant funding was released in the 2016/17 financial year.

The council's Financial Services Manager contacted the Homes England grant manager by email in June 2017 for confirmation that the PCSA was accepted as a start on site. The response was that grant managers do not advise on such matters and that it is up to the council to interpret the Capital Funding Guidance and make the appropriate claims on IMS.

I have serious concerns that the council will receive a red grade for the audit of this project and that it will once more be a result of receiving poor guidance from Homes England.

I would like the following points to be communicated to the necessary representatives at Homes England:

When bidding for grants from Homes England there has been no mention of these audits or training offered so that the council could prepare the necessary information as the project was undertaken. It is not sufficient to simply mention the possibility of an audit in the grant agreement. Training from Homes England for these audits are only to be provided after the audits are announced. It is also noted in these sessions that Local Authorities often fail the first audit. This is not surprising if they are not sufficiently briefed when accepting the grant.

It seems there is pressure placed on grant managers at Homes England to encourage projects to be marked as started or completed. Presumably this is to ensure the cash is paid over to the recipient in the financial year Homes England has budgeted for it to be released. The contact with Homes England representatives is almost exclusively over the phone. I would like confirmation that Homes England is looking into these practises as I deem them as unacceptable.

Yours sincerely

Gary Hall
Chief Executive
Chorley Borough Council