



North Downs Housing: Governance

Assurance rating:



Guildford Borough Council
Internal Audit 2019-20

—
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Contents

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Distribution

To (for action):	CC (for information):
— Siobhan Rumble, Landlord Services Manager	— Claire Morris, Resources Director
— Ian Doyle, Service Delivery Director	

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Executive Summary

Conclusion

We reviewed the design and effectiveness of the governance arrangements used by the Council to manage North Downs Housing Ltd. ('NDH') and provided "partial assurance with improvements required" (**AMBER RED**). This is below management's expectations and is driven by the lack of consistent and regular performance management between the Council and the subsidiary as well as there being no formalised and approved terms of references for the NDH Board or the GBC Holdings Board .

We reviewed the governance arrangements at NDH and at the Council and how they relate to the management of NDH. Per Management there was a recent request for a presentation for an operational update on NDH to the Council's Overview and Scrutiny Committee. Our review of Committee meeting minutes supported this, showing that the presentation was made and there was subsequent discussion and challenge. This reporting is ad hoc and there is no formal mechanism for NDH to report on performance to the Council. The Council does not have a structure to ensure regular and consistent monitoring. Whilst NDH is a standalone entity, as the parent, the Council should be sighted of the financial, strategic and operational performance of the subsidiary and we recommend that formal reporting structures are established.

At NDH there are regular board meetings, key areas of discussion and appropriate attendance from key stakeholders. There are no established terms of references for the NDH Board or the Guildford Borough Council Holdings Ltd. ('GBC Holdings') Board to clearly set out the roles and responsibilities of the committees, including the information that is required to be reported and discussed at these meetings. This needs to be codified, formally approved and adhered to.

The NDH Board meets regularly every two months with agendas and minutes prepared for each meeting. These meetings are attended by appropriate individuals such as NDH Directors, the Landlord Services Manager, Lead Specialist Finance and Legal. We noted robust discussion and challenge around each agenda item, including operational updates on properties. Actions are identified and assigned a responsible individual, however there is no standalone action tracker which is monitored to ensure that actions are being adequately responded to and we recommend that a formal action tracker is implemented including detail on responsible individuals and due dates. Additionally we found from our review of the reports that go to regular Board meetings that there is an overlap in the information provided in the financial monitoring report and the operational update report provided by the Landlord Services Manager. This information includes specific property details such as purchase price and monthly rents. We also found that the operational update pulls this information from the Orchard housing management system whereas the financial monitoring report takes the data from the ledger. Information compiled and presented at the NDH board meetings should be clearly defined to ensure there is no duplication in reporting.

Objectives

The objectives of our work were:

Objective	Description of work to undertake
Objective One Design of governance arrangements	We reviewed the governance arrangements used by the Council to manage North Downs Housing Ltd and assessed whether they are sufficient to monitor the subsidiary's performance. To do this we reviewed: <ul style="list-style-type: none"> • The structure and responsibilities of committees, including reporting lines into committees; • The methods used to monitor subsidiary performance; • How actions are identified and monitored through to implementation; and • How issues are identified and escalated appropriately.
Objective Two Effectiveness of arrangements	We reviewed committee minutes and other supporting documentation to assess the effectiveness of how governance arrangements are operating. We considered whether information provided is sufficient, timely and appropriate to enable decision making relevant to the subsidiary's operation and performance.

Section One

Executive Summary

Areas of good practice

- ✓ The NDH Board meets regularly every two months with agendas and meeting minutes prepared for each meeting. These meetings are attended by appropriate individuals such as NDH Directors, the Landlord Services Manager, Lead Specialist Finance and Legal.
- ✓ We found that the Landlord Services Manager regularly presents at the NDH board meetings, providing an update on the operational aspects of NDH including a detailed spreadsheet showing properties purchased, with purchase price, % yield and properties in the pipeline.
- ✓ A detailed update was given to the Council's Overview and Scrutiny Committee at the July 2020 meeting; there was a robust discussion and questions from committee members.

Areas for improvement

- There is no formal mechanism for NDH to report on performance to the Council. The Council does not have a structure in place to ensure regular and consistent monitoring of NDH's performance. (**Recommendation One**).
- We found that there are no established terms of references for the NDH Board or the GBC Holdings Board which clearly set out the roles and responsibilities of the committees. (**Recommendation Two**).
- Whilst actions are identified at NDH board meetings, we found that there is no action tracker in place that ensures actions are assigned a due date, risk rating and are appropriately monitored and tracked. (**Recommendation Three**).

We have also raised one low priority rating relating to the duplication of reporting to the NDH Board.

Recommendations

We summarise below the recommendations raised as a result of our review:

	High	Medium	Low	Total
Made	1	2	1	4
Accepted	TBC	TBC	TBC	TBC

Acknowledgement

We thank the staff involved in this review who helped us complete our work.

Section Two

Recommendations

This section summarises the recommendations that we have identified as a result of this review. We have attached a risk rating to these recommendations as per the following table:

Risk rating for recommendations raised			
<p>1 High priority (one): A significant weakness in the system or process which is putting you at serious risk of not achieving your strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Council's strategic risks will occur. Any recommendations in this category would require immediate attention.</p>	<p>2 Medium priority (two): A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving your strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring.</p>	<p>3 Low priority (three): Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Council's strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.</p>	
#	Risk	Recommendation	Action, owner and deadline
1	1	<p>Terms of reference</p> <p>There are no formalised and approved terms of references for the NDH Board or the GBC Holdings Board which clearly set out the roles and responsibilities of the committees, including the information that is required to be reported and discussed at these meetings.</p> <p>We recommend that formal set of terms of references are established and approved for both the NDH Board and GBC Holdings Board. These documents should clearly state the frequency of meetings, roles and responsibilities for individuals presenting and attending meetings, individuals required for a quorum and the regular agenda items required to be discussed.</p>	<p>Agreed / Not agreed</p> <p>Response:</p> <p>Responsible Officer:</p> <p>Due date:</p>
2	2	<p>Governance around performance reporting</p> <p>There is no regularised mechanism for NDH to report on performance to the Council. The Council does not have a structure in place to ensure regular and consistent monitoring of NDH's performance. There was reporting on NDH performance at the July 2020 Overview and Scrutiny Committee, however this reporting is ad hoc.</p> <p>Whilst NDH is a standalone entity, as the effective parent in the company structure, the Council should be sighted of the financial, strategic and operational performance of the subsidiary.</p> <p>Formal reporting structures should be established to ensure that the Council is receiving regular updates on NDH performance and that the Committee's role and responsibility in terms of oversight of NDH performance is formalised per its terms of reference.</p>	<p>Agreed / Not agreed</p> <p>Response:</p> <p>Responsible Officer:</p> <p>Due date:</p>

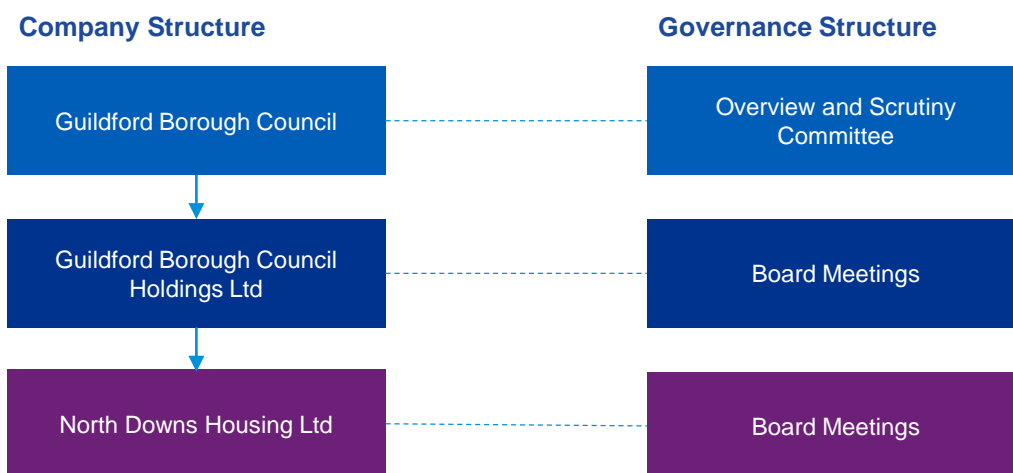
Section Two

Recommendations

#	Risk	Recommendation	Action, owner and deadline
3	2	<p>Action tracking and reporting</p> <p>From our review of NDH board minutes, we found that actions are identified and assigned to a responsible individual, however there is no action tracker which is monitored to ensure that actions are being adequately responded to.</p> <p>We found from review of chronological meeting minutes that it is not easily identifiable as to whether or not previously agreed actions had been addressed sufficiently at the next meeting. Without assurance that actions are being implemented, there is a risk that these actions remain unresolved.</p> <p>We recommend that a formal action tracker is implemented including detail on responsible individuals and due dates. Additionally, actions should be priority rated to ensure that highest propriety actions are being adequately monitored. The action tracker should be a standing agenda item for discussion at each NDH board meeting.</p>	<p>Agreed / Not agreed</p> <p>Response:</p> <p>Responsible Officer:</p> <p>Due date:</p>
4	3	<p>Reporting on NDH performance to Board Meetings</p> <p>There is an overlap in the information provided in the financial monitoring report and the operational update report provided by the Landlord Services Manager. This information includes specific property details such as purchase price and monthly rents. The operational update pulls this information from Orchard whereas the financial monitoring report takes the data from the ledger.</p> <p>We recommend that the information compiled and presented at the NDH board meetings by both the finance lead specialist and landlord services manager should be clearly defined to ensure that there is no duplication in reporting.</p>	<p>Agreed / Not agreed</p> <p>Response:</p> <p>Responsible Officer:</p> <p>Due date:</p>

Design of Governance arrangements

We reviewed the governance structures at the Council and North Downs Housing Ltd (NDH). We show this below in a graphic with the company structure for context; NDH is owed by Guildford Borough Council Holdings, which in turn is owned by Guildford Borough Council. We present the governance arrangements relevant to NDH with respect to the organisation they are aligned to.



Governance Feature	KPMG commentary
Overview and Scrutiny Committee	<ul style="list-style-type: none"> Through discussions with management and review of Council committee meeting minutes, we found that there is no regular and formal mechanism within the governance arrangements at the Council to effectively monitor NDH's performance. NDH was discussed at a recent meeting of the Overview and Scrutiny Committee, however this was an ad-hoc request and not a regular reporting slot at this committee. (Recommendation Two).
GBC Holdings Board meetings	<ul style="list-style-type: none"> ✓ The schedule of these meetings mirrors that of the NDH board meetings; they take place following each NDH meeting every two months. ✓ Meetings provide the GBC Holdings Board with an operational update on NDH. This includes the same information reported at the NDH Board meetings.
NDH Board Meetings	<ul style="list-style-type: none"> ✓ These meetings take place every two months with attendance from NDH Directors, Landlord Services Manager, Finance and Legal. ✓ The Landlord Services Manager will present at each meeting. They provide a detailed, live report that shows the operational progress of NDH. This includes, properties purchased, properties let, % yield, properties in the pipeline among many other operational details relating to the day-to-day running of NDH. ✓ The Finance Lead Specialist attends each meeting and presents a financial monitoring report. This includes projections for the year, annual report, budget and other financial information such as pay and transfer of money between GBC, GBC Holdings and NDH. <ul style="list-style-type: none"> Whilst the Landlord Services manager will report against a target rental yield (4.5%), there are no formally monitored KPIs, objectives or goals that are regularly monitored against at these or any other meetings. (Recommendation Two). The Council Solicitor has started to attend these meetings however they do not regularly and formally present information or reports. The governance requirements from their role are therefore unclear and not formally defined. (Recommendation One).

Effectiveness of Governance Arrangements

We reviewed agendas, minutes, terms of reference, reports and any other relevant information from the meetings highlighted in Appendix One to determine the effectiveness of governance arrangements identified.

Meeting	KPMG commentary
<p>Overview and Scrutiny Committee</p>	<ul style="list-style-type: none"> ✓ We reviewed the report on NDH made to this Committee and understood the nature of this report and presentation through discussions with the Landlord Services manager. The report clearly sets out its purpose alongside background information on NDH including its original business plan, objectives, financial assumptions and progress to date. There is also a presentation summarising this information. ✓ These meeting minutes show a detailed discussion with robust challenge from the Committee with questions around stability during COVID-19, funding mechanism via GBC Holdings and tenant management. <ul style="list-style-type: none"> ▪ The meeting minutes note that the Committee will support the four objectives of NDH, as set out in the 2016 business plan. The reporting to the Committee is not regular and is done on an adhoc basis. There is no formal monitoring against these objectives, embedded within the formal reporting structures between the Council and NDH. (Recommendation Two). ▪ We also note from review of the meeting minutes that the Chair of Directors of NDH offered to provide future updates on the company to the committee but we note that it has not been implemented as a regular item in the next meeting agenda. (Recommendation Two).
<p>GBC Holdings Board Meeting</p>	<ul style="list-style-type: none"> ✓ We have reviewed recent meeting agendas and minutes which show meetings were held subsequent to the NDH meetings as expected. The information reported on following the NDH Board meetings mirrors the information provided at those meetings. ▪ We have not been able to evidence that there is a terms of reference in place for these meetings. Therefore there is a lack of clarity around regular agenda items and the roles and responsibilities of individuals as well as the outcomes from these meetings. (Recommendation One).
<p>NDH Board Meeting <i>(continued overleaf)</i></p>	<ul style="list-style-type: none"> ✓ We have reviewed meeting minutes for 2019/20 and note that they are held broadly every two months as expected. <ul style="list-style-type: none"> ▪ We have not been able to obtain evidence that there is a formal terms of reference document in place for these meetings. This leads to an uncertainty in terms of the formal requirements of these meetings as well as a lack of clarity around the roles and responsibilities of individuals attending and presenting. (Recommendation One). ✓ Each of the meetings held over this time period had an agenda that contained all of the detail expected from a board meeting agenda: apologies, minutes of the previous meeting, declarations of interest, AOB and discussion of future meeting dates. ✓ Agendas also consistently contained points around areas pertinent to NDH: company accounts, share issues, potential development opportunities, resources, business plan, etc. ✓ We have reviewed a copy of a recent financial monitoring report that the Lead Finance Specialist provides before the meetings. This includes an overview of financial information relating to NDH such as the loan schedule for the borrowings between GBC and NDH, corporate overheads and property valuations. This detail ensures the relevant information is available to all board meetings. <ul style="list-style-type: none"> ▪ We were unable to obtain consistent evidence of discussion of the financial monitoring report in the meeting minutes and it is not clear whether this report is not being consistently presented to meetings and discussed in detail. (Recommendation One).

Effectiveness of Governance Arrangements

Meeting	KPMG commentary
<p>NDH Board Meeting <i>(continued)</i></p>	<ul style="list-style-type: none"> ✓ We have reviewed the most recent report on NDH properties prepared by the Landlord Services Manager. This shows purchased properties with detail such as purchase price, monthly rent, % yields and status (let/void). This also includes similar information for properties under offer. The data in this spreadsheet ensures meeting attendees have up to date and detailed information. ✓ Our review of the meeting minutes found that the spreadsheet on properties is regularly discussed at each meeting under the heading 'updates on property acquisitions' with detailed discussion around monthly incomes, rental arrears and the market in general. ▪ From a review and comparison of the operational update provided by the Landlord Services manager and the financial monitoring report from finance, we found that there is an overlap in the information provided here. This information includes specific property details such as purchase price and monthly rents. We also note that the operational update pulls this information from the Orchard housing management system whereas the financial monitoring report takes the data from the ledger. (Recommendation Four). ▪ From review of minutes we have obtained evidence that actions are identified through discussions of the agenda items. However, we found that these are not consistently followed up and do not have due dates and risk ratings attached. We also note that there is no standalone action tracker. (Recommendation Three).

Staff involvement and documents reviewed

We held discussions with the following staff as part of the review:

Name	Job title
Claire Morris	Resource Director
Ian Doyle	Service Delivery Director
Siobhan Rumble	Landlord Services Manager
Beejal Soni	Contracts, Projects and Procurement Lawyer
Andrea Carr	Democratic Services Officer
Victoria Worsfold	Lead Specialist (Finance)
Jude Aihie	Senior Specialist (Financial Reporting)

During our testing, we reviewed the following documents:

- Overview and Scrutiny Committee Meeting minutes and agendas
- NDH Board meeting minutes and agendas
- GBC Holdings board meeting minutes and agendas
- Financial monitoring reports
- Operational report from Landlord Services Manager
- Report on NDH to Overview and Scrutiny Committee
- NDH business plan



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