



Housing Revenue Account (HRA) Right to Buy Receipts

Guildford Borough Council

KPMG Internal Audit, Risk & Compliance Services

May 2021

Overall rating:	
	Significant assurance
	Significant assurance with minor improvement opportunities
>	Partial assurance with improvements required
	No assurance

Content

● — ○	01	Executive summary	3
● — ○	02	Findings and management actions	6
		Appendices	
● — ○	A	Detailed findings – design of process and controls	12
● — ○	B	Detailed findings – governance structure pre 01 March 2021	15
	C	Detailed findings – governance structure post 01 March 2021	18
	D	Timeline of events	21
	E	Scope extract	24
	F	Ratings definitions	26

Distribution list

For action:

Claire Morris – Director of Resources

For information:

Corporate Governance and Standards Committee

Report status

Closing meeting: 17 May 2021

Draft report issued: 19 May 2021

Final report issued: 26 May 2021

Corporate Governance and Standards Committee: 17 June 2021

Executive summary

01

Conclusion

We reviewed controls relating to monitoring and reporting spend of RTB receipts and corresponding repayment of unspent receipts to Government. We provide 'Partial assurance with improvements required' (**Amber Red**) which is in line with management's anticipated assurance rating. Our rating is driven by a lack of internal monitoring and reporting on spend of RTB receipts and repayment of RTB receipts during the period under audit, 01 January 2019 – 31 March 2021. This is as a result of the Council not having a policy setting out the required processes, not monitoring this area through formal risk escalation processes and a lack of awareness of the consequences of underspend. Whilst we note progress has started to improve awareness, reporting and monitoring, via the RTB Working Group, there have not been significant changes in process and implementation of policy to sufficiently mitigate the risks of RTB repayments and the risks of insufficient monitoring and reporting.

Finance is required to annually present the HRA Business Plan and Capital Programme to Budget Council. These reports include reference to the requirement to spend RTB receipts within three years and that unused receipts are to be repaid to the DLCCG with interest. Whilst these annual reports include this detail and the receipts used in year including estimates to 2023-24, there is no detail on actual or potential repayments to Government. Each quarter Finance internally monitors spend against RTB receipts using an externally developed model. There is no formal control that ensures that this is reviewed and approved. Management discovered it had been using an incorrect version of the model which meant that it was unaware of repayments required for May and July 2019 as the model hadn't predicted these. Finance became aware of these repayments as a result of the quarterly pooling returns to Government. During the period under audit, 01 January 2019 – 31 March 2021, whilst informal updates on RTB were provided by Finance to Housing, there were no formal groups and mechanisms for the monitoring and reporting on RTB receipts.

There is an inconsistent approach to the monitoring of risks relating to the spend of RTB receipts. Both the financial and corporate risk registers have no specific mention of RTB receipts. The Housing Management Service Plan includes 'Use of RTB Receipts' as a key issue / risk but this has not been developed in to a service risk register.

The Housing team are responsible for spending on capital programmes and properties that utilise RTB receipts. There is no formal monitoring between Housing and Finance with respect to the expenditure of RTB receipts and the consequences of this leading to potential repayments.

Acknowledgements

We would like to thank the following for their contribution during this internal audit:

- Finance
- Housing
- Councillors

Executive summary

01

Conclusion (cont.)

We reviewed the work of the RTB Executive Working Group that was set up in the wake of the detailing of the £2.344m of RTB repayments at the Council meeting in February 2021. We note a number of recommendations from this group, including proposed changes to Council governance structures to remedy a perceived lack of monitoring and reporting on RTB and therefore we have reviewed governance structures at the Council and set out this analysis before and after the formation of the working group.

Up until early 2020, around the start of the pandemic, the Major Projects Portfolio Board (MPPB) met bi-monthly to allow project managers for major projects to give summary updates on progress. From review of meeting minutes until early 2020 (when the Group paused meetings) we note that regular updates were given on Guildford park Cark Park; a project that management identified as one of the key projects with slippage in actual vs. planned expenditure which meant a significant underspend of RTB receipts. None of the reporting on this project, or others, includes reference to delays and the consequences of delays on RTB spend. A recommendation of the RTB Working Group is that the MPPB should include reporting on risk of project slippage and this should be captured as a key risk in project risk registers and reported at a summary level to the group. Review of the April 2021 meeting agenda and a report from this meeting 'Final Projects update summary report March 2021' shows that there is no reference to HRA, RTB and repayment of monies.

We reviewed financial monitoring reports to Corporate Governance and Standards Committee (CGSC) which, before the recommendations of the RTB Working Group, did not include detailed reporting on links and consequences between project slippage and RTB repayments. We note that from subsequent review of meetings held after the Working Group's recommendations, the financial monitoring reports now include more detail specific to RTB receipts, expenditure of those receipts and consequences of repayment.

We reviewed the work to date of the RTB Working Group. The Group was set up with a brief to answer key questions about historic repayments, understand what processes were and how this can be avoided in the future. The Group met twice in March 2021 with the majority of work revolving around an internal report on the use of RTB receipts. This report sets out 14 recommendations, which mostly are centred on immediate spend of RTB receipts and 2 recommendations related to the implementation of new monitoring and reporting processes.

Executive summary

Areas of good practice

- ✓ The Council quickly set up the RTB Working Group; the group met in March 2021 with relevant officers from Housing and Finance as well as Councillors in attendance.
- ✓ The RTB Working Group worked towards a defined brief and set out 14 clear and actionable recommendations which were subsequently approved by the Executive.
- ✓ As a result of one of the recommendations coming from the work of the RTB Working Group, Finance has started to include detail around RTB receipt spend and repayments in the regular financial monitoring reporting to CGSC.
- ✓ Finance has clear segregation of duties between the individual preparing the submission for the quarterly capital pooling return, and the individual reviewing and approving submission.

Out of scope

Our work is limited to the design and testing of processes and control. We have not substantively tested the year-end pooling return. Our review of minutes, papers and reports is limited to those groups and committees as agreed with management. Our interviews with key stakeholders is limited to those proposed by management and included within the terms of reference.

Summary of key findings

'Use of RTB receipts' Policy	2.1 The Council does not have a formal policy that sets out the roles, responsibilities, accountability and ownership throughout the process of monitoring and reporting on the spend of RTB receipts.
Finance – Monitoring of RTB Receipts	2.2 Controls in place for the monitoring potential RTB repayments do not sufficiently mitigate the risk of repayment and accurately capture repayments.
RTB Group Recommendations	2.3 The RTB Working Group has no plans to continue operating in order to see through implementation of its recommendations.
Housing – Monitoring of RTB Receipts	2.4 Monitoring processes within Housing do not include monitoring of RTB receipt spend.
Housing – Reporting of RTB Receipts	2.5 There are no formal reporting mechanisms for Housing to communicate project delays and other expenditure variance that leads to the risk of RTB repayment.
Training and Guidance	2.6 There is no formal delivery of training or provision of support and guidance relating to RTB receipts.
Use of Risk Registers	2.7 Risk registers are inconsistent across Housing and Finance as well as at a Corporate level with respect to risks around HRA and RTB receipts.

Findings and management actions

02

2.1 Formal 'Use of Right to Buy receipts' Policy

High

The Council does not have a formal policy that sets out the roles, responsibilities, accountability and ownership throughout the process of monitoring and reporting on the spend of RTB receipts.

The RTB working group discussed the need to create and implement this policy and the internal report prepared for this working group and Executive states that it is to be in place by Autumn 2021.

This policy should capture processes, roles, responsibility and accountability throughout the stages of RTB receipt spending, including:

- Clarity on the mechanisms to promote clear monitoring of forecasted spend of RTB receipts vs. actual spend, including the roles and responsibilities for ensuring that this information is captured accurately in models used to forecast RTB repayments in a timely manner;
- A clear process for the completion and review of the model used to forecast RTB repayments every quarter;
- The process for regular reporting through Council governance structures and the individuals and groups responsible for ensuring that this reporting operates effectively;
- The process for appropriate and timely escalation of risks of RTB repayments; and
- Clarity around where responsibility sits for each stage in the process, specific to the Housing or Finance teams.

Risk: Lack of ownership and understanding of process, roles and responsibilities across the Council, with regards to the monitoring and reporting of RTB receipt spend and subsequent actual/forecast repayments to Government.

Agreed management action:

Management consult with officers across Housing and Finance as well as Councillors to agree on roles and responsibilities. Clear processes and controls should then be agreed across Housing and Finance to ensure that robust monitoring and reporting is defined and set out in policy. The policy should then be drafted and approved by the appropriate group/committee.

Evidence to confirm implementation:

Consultation with relevant officers to draft process. Version history of the draft policy to show its development. Final policy approved by relevant group/committee.

Responsible person/title:

Director of Resources

Target date:

30 September 2021

Findings and management actions

2.2 Finance – Monitoring of RTB Receipts

Medium

Controls for monitoring potential RTB repayments do not sufficiently mitigate the risk of repayment and accurately capture repayments.

Through discussions with management, we note that the Capita model used to monitor and forecast potential RTB repayments was set up using an incorrect timescale for the period the Council is required to spend RTB receipts in.

It was set up with the assumption this was 5 years rather than 3 years. This meant that Finance was unaware of required repayments until it completed the quarterly pooling returns to Government, as the model at the time was not forecasting any required repayments.

The Council is now using the correct version of the model. Completion of the model is not subject to formal management review and approval. The Council acknowledges the complexity of the model and the knowledge of RTB receipt spend required of staff to accurately model repayments.

Risk: Due to the complexity of the model and lack of formal review of completion, it is not used appropriately to accurately forecast repayments.

Agreed management action:

Management should review the appropriateness of continuing to use the Capita model and consider whether the use of a simpler alternative would be more beneficial. There should be a formal management control to ensure that regular monitoring of potential repayments is reviewed and approved.

Evidence to confirm implementation:

Evidence of a formal decision made regarding the future mechanism for monitoring repayments, including evidence of this being approved at CGSC. This should be reflected in the new RTB policy.

Responsible person/title:

Lead Finance Specialist

Target date:

30 September 2021

Findings and management actions

2.3 RTB Working Group Recommendations

Medium

The RTB Working Group has no plans to continue operating in order to see through implementation of its recommendations.

We reviewed papers, agendas, and minutes of meetings of the RTB Working Group. We note that the meeting agenda from the 2nd meeting of this group (10 March 2021) states that the 3rd meeting would be the last. However, we note that the meeting on 10 March 2021 was the most recent at the time of reporting, with no plans for a 3rd meeting. We note that some of the recommendations of the group include Executive receiving outturn reports linked to RTB, the reinvigoration of the MPPB, the revitalisation of the Housing Working Group and the development of a new RTB policy.

Risk: Without the continuation of the RTB Working Group, proposed mechanisms for future monitoring and reporting are not achieved due to a lack of focused oversight.

Agreed management action:

Management should ensure that the implementation and effectiveness of recommendations approved by Executive are followed-up and reviewed by appropriate groups/committees within the governance structure of the Council.

Evidence to confirm implementation:

Evidence of further meeting minutes, agendas and papers of the RTB Working Group.

Evidence that progress against recommendations approved by Executive is monitored and reported on.

Responsible person/title:

Director of Resources

Target date:

30 September 2021

Findings and management actions

2.4 Housing – Monitoring of RTB Receipts

Medium

Monitoring processes within Housing do not include monitoring of RTB receipt spend.

There are mechanisms across both capital projects and the purchase of new homes to ensure that expenditure is monitored. This includes close monitoring of capital expenditure on major projects and maintaining records of all expenditure on new properties.

This monitoring does not take in to account expenditure against available RTB receipts with any focus on potential RTB receipts repayments. Management was unable to evidence reconciliation of the HRA budget and expenditure against budget between Housing and Finance during the period under audit. Officers within the Housing team are closest to the spend of RTB receipts and therefore best placed to monitor this spend.

The RTB Working group recommended to Executive and it was agreed that a previously operating Housing Working Group would be revitalised. This would be an ideal forum for relevant officers to work together in order to regularly, consistently and formally monitor spend of RTB receipts. We have seen no evidence of the implementation of this working group.

Risk: Staff within Housing that are purchasing homes and managing major projects are not aware of the makeup of their budgets with respect to RTB receipts and that they are unaware of how their capital expenditure is linked to the spend of RTB receipts.

Agreed management action:

The Housing Working Group should be stood up in order to formalise monitoring of capital expenditure and use of RTB receipts within Housing.

Evidence to confirm implementation:

Terms of reference, agendas, minutes and papers from the Housing Working Group. Evidence of formal implementation of regular monitoring of RTB receipt spend by Housing officers.

Responsible person/title:

Head of Housing

Target date:

30 September 2021

Findings and management actions

2.5 Housing – Reporting of RTB Receipts/ project slippage

Medium

There are no formal reporting mechanisms for Housing to communicate project delays and other expenditure variance that leads to the risk of RTB repayment.

The RTB Working Group recommended to Executive and it was agreed that the MPPB would extend the detail reported on major projects to include a link between project slippage and delays to the consequences of this on repayment of RTB receipts.

We note from review of meeting papers and agendas, for the meeting in April 2021, that the reporting has remained unchanged in nature since the last meeting in 2020.

There is no formal reporting of RTB receipts spend from Housing either to Finance or more widely through the Council governance structure.

Risk: Monitoring of RTB receipt spend by Housing is not reported on and therefore key groups and committees are not aware of the status of RTB spend and subsequent repayments so that they can be better placed to make strategic decisions around capital programme expenditure.

Agreed management action: The MPPB reporting should be updated to include the links between project delays and RTB spend, and the subsequent risks of repayments to Government.

Evidence to confirm implementation: Updated terms of reference stipulating the detailed reporting on RTB spend that is required.

Meeting minutes, agendas and papers that evidence the updated reporting.

Responsible person/title:

Housing Delivery Manager

Target date:

30 September 2021

Findings and management actions

2.6 Training and Guidance

Medium

There is no formal delivery of training or provision of support and guidance relating to RTB receipts. (Housing and Finance responsible officers)

Through our review of various reporting and discussions with management, we understand that there is a wide range in knowledge and understanding of RTB receipts across Housing and Finance, for officers and Councillors. Where there are gaps in knowledge it is often the case that individuals were unaware of the conditions of RTB receipts and how and when these are to be spent. Individuals are also unaware of the link between a slippage in capital expenditure and the subsequent need to repay RTB receipts to Government.

Risk: Without appropriate training and guidance, there are knowledge gaps that could lead to inadequate or inaccurate monitoring and reporting.

Agreed management action:

Management should assess the understanding of RTB receipts across all relevant groups. A formal schedule of training and guidance should be implemented based on the assessment of current understanding.

Evidence to confirm implementation:

Formal schedule for the delivery of training, training materials, evidence that current levels of knowledge have been assessed

Responsible person/title:

Head of Housing

Target date:

31 December 2021

2.7 Use of Risk Registers

Medium

Risk registers are inconsistent across Housing and Finance as well as at a Corporate level with respect to risks around HRA and RTB receipts.

Our review of the financial risk register 2019-20 and the corporate risk register form July 2020 show that there are no risks relating to HRA or RTB receipts. We reviewed the Housing Management Service Plan and note that this has identified 'Use of RTB receipts' as a key issue/risk, however this service plan has not been developed in to a service risk register.

Risk: Without inclusion on risk registers, potential risks of RTB repayments are not formally escalated across the Council, leading to a risk of

Agreed management action:

Management should regularly monitor risks surrounding use of RTB receipts and potential repayments through Corporate, Housing and Finance risk registers respectively.

Evidence to confirm implementation:

Updated risk registers, reports, agendas and minutes of meetings where risk registers are discussed and monitored.

Responsible person/title:

Head of Housing

Target date:

31 December 2021

Appendix A

Detailed findings – design of process and controls

Process	Control	KPMG Commentary
<p>The Finance team present the HRA Business Plan and Capital Programme to Budget Council each financial year.</p>	<ol style="list-style-type: none"> 1. The Capital and investment strategy is prepared and presented by the Finance team. 2. The HRA Budget was prepared and presented by the Housing Team. 	<ul style="list-style-type: none"> • We reviewed the reports and meeting minutes for the Budget Council meeting on 07 February 2018 and 26 February 2019 where the reports in controls 1 and 2 were presented for 2018-19 and 2019-20 respectively. • The 2018-19 HRA Budget contains a section on RTB sales, including reference to the requirement to spend RTB receipts within three years. • The 2018-19 HRA Budget has a section titled 'HRA Capital Programme and Reserves. In this section, a table is presented that shows the available reserves that can support the HRA Business Plan for each year up to and including y/e March 2023. This includes a column for 'Usable Capital Receipts (one-for-one) for which there is a footnote included stating that the Council is allowed to retain an element of the capital receipts that it receives from RTB sales and retained, unused receipts are to be repaid to the DCLG with interest. • The 2019-20 HRA Budget contains the same references and detail as the 2018-19 Budget. • The 2019-20 HRA Development Strategy (an appendix of the HRA budget) outlines a 10 year projection of resources that will be available to support a development programme. Of this total of £150m is £20m of RTB receipts based on an assumption of RTB sales continuing at 20-25 per year, generating a usable receipt of £100,000. • In the Housing Investment Programme 2018-19 to 2023-24: HRA resources and Funding Statement (appendix to the 2019-20 HRA Budget) 1-4-1 receipts and those used in year are presented as actuals for 2017-18 and estimates to 2023-24. – Neither the 2018-19 or 2019-20 HRA Budgets and Capital Programmes contain reference to how RTB receipts expenditure is to be monitored and reported on. The internal report initially presented to the newly-formed RTB working group (See Appendix C) states that a formal 'Use of Retained RTB Receipts' Policy will be adopted by Executive in Autumn 2021. This policy should be drafted and approved in a timely manner to introduce processes for monitoring and reporting to immediately mitigate the risk of future repayments. (Finding 2.1)

Appendix A

Detailed findings - design of process and controls (cont.)

Process	Control	KPMG Commentary
The Finance team monitor spend against RTB receipts using the Capita model (externally developed model to track repayment of RTB receipts).	No formal controls identified.	<ul style="list-style-type: none"> - There is no control of management review and approval following the completion of the Capita model each quarter. (Finding 2.2) • We reviewed copies of completed Capita model spreadsheets from January, April, July, August and September 2019. Repayments were made to the Government in May and July 2019. The January 2019 model did not show that any RTB repayments would be due in either 2018-19 or 2019-20, with the summary of the model showing repayment not necessary until Q3 2022-23. The model from January 2019 would have been the most up to date version in place at the time of reporting to the March 2019 CGSC. • The Capita models from April, July, August and October 2019 shows for Q4 2018-19, under the column 'Repaid to Gov', £245,762. The August and October 2019 models also show under Q1-4 for 2019-20 a total of £2.1m and £2m respectively, in the same column. The April 2019 version was updated during the 2018-19 closedown process prior to the May 2019 capital pooling return submission. The April 2019 version did not predict any further payments in 2019-20.. - Through conversations with the finance team we understand that they were not aware of the need for repayments made in May 2019 and July 2019 as a result of the Capita model and learnt of these as a result of completing pooling returns. As a result of this, Finance discovered that they were using a version of the model that set the period of time by which the Council could use receipts as 5 years rather than 3. The Finance team contacted Capita following the Q1 2019-20 capital pooling return submission to ask for assistance in understanding why the model hadn't predicted the repayments on Q1 2019-20. (Finding 2.2)
The Finance team complete quarterly capital pooling returns to Government.	No formal controls identified.	<ul style="list-style-type: none"> • The quarterly pooling returns are completed by members of the Finance team and approved via the Delta submission system by management within the Finance team.
Monitoring of risks relating to spend of RTB receipts and potential repayment of RTB receipts to Government.	No formal controls identified.	<ul style="list-style-type: none"> - We reviewed the financial risk register 2019-20. We note that, whilst this includes risks around capital programmes and potential slippage, there are no risks specific to or related to HRA and RTB. (Finding 2.7)

Detailed findings - design of process and controls (cont.)

Process	Control	KPMG Commentary
(cont.)	No formal controls identified.	<ul style="list-style-type: none"> – The Council recently implemented a new Service Planning and Risk Management Framework where each operational lead has their own plan. Housing are in the process of recruiting to the new Housing Development and Strategy Manager role and therefore are yet to develop a plan and risk register for that service. However, we reviewed the Housing Management Service Plan which includes 'Use of RTB receipts' as a key issue/risk, justification for the issue/risk includes reference to the need to return receipts to Government if not spent. The action to manage this risk is for Housing Development Programme monitoring and reporting to be reviewed and revised to provide clear systems. It sets out the responsibility for this risk to be with the new Development Manager role. We note that this is set out as part of high-level risks in the plan and not yet in a service risk register. (Finding 2.7) – We reviewed the corporate risk register from June 2020 which contains no reference to risks specific to HRA and RTB. (Finding 2.7) – We have reviewed the project risk register for Guildford Park Car Park from February 2018, the enabling works risk register from December 2019 and the risk register for the reinitiated project from February 2021. These contain no reference to HRA and RTB. (Finding 2.7)
Project managers monitor expenditure against budget.	Each quarter project managers liaise with Finance to reconcile the HRA budget for the project.	<ul style="list-style-type: none"> – Expenditure against budget is not reviewed at the RTB receipt level by the project managers; the budget provided is at the HRA level. Finance use this reconciliation for the completion of their quarterly pooling returns. (Finding 2.4) • We reviewed quarterly reconciliations between Housing and Finance from Q2 and Q3 2019-20 and Q1 and Q2020-21.
Housing purchase new homes in to the HRA.	Housing keep a record of all properties purchased that utilise the RTB monies.	<ul style="list-style-type: none"> • We reviewed communication from Finance to Housing staff around the lack of spending historically and how this has lead to repayment of RTB receipts. This communication highlights the amount required to be spent by Housing on new properties to avoid RTB repayments. – Whilst we recognise this one off reporting of the RTB situation, there is no regular, formal monitoring or reporting between Finance and Housing around the budget for HRA and/or RTB receipt spend. (Finding 2.4)

Detailed findings – governance structure pre 01 March 2021

We have set out appendices detailing the governance structure before and after the formation of the RTB Working Group on 01 March 2021.

Element	KPMG Commentary
Major Projects Portfolio Board (MPPB)	<ul style="list-style-type: none"> – We reviewed the monitoring report presented to this group at the February 2019 meeting. This report summarises each project giving an overview description of each project, an update on the key events since the last report, next steps, target completion date and a current status i.e. ‘experiencing obstacles’ or ‘on track’. The update on Guildford Park Car Park includes reference to delays in the scheme and the reasons why, however there is no mention of how this impacts on the actual spend of HRA/RTB monies. (See Finding 2.5). – Further to this summary monitoring report, we reviewed a report specific to the redevelopment of Guildford Park Car Park presented at the February 2019 meeting. Whilst ‘programme delay’ is highlighted in this report as a key risk/issue, this is not linked to HRA and there is no reference to spend of RTB receipts. (See Finding 2.5). – Minutes from the February 2019 meeting show an update on the Guildford Park Car Park scheme was provided. Whilst the minutes show reference to HRA apportioned project costs was made, there is no mention of project delays and RTB spend. (Finding 2.5) • The agendas from the February and April 2019 meetings show items such as finance review and budget, detailed focus on three developments, exception reporting and the projects subject to detailed focus at the next meeting. • The equivalent monitoring report from March 2019 shows the development as ‘off track’. • We reviewed the monitoring report from the meeting of May 2019. Guildford Park Car Park is reported as ‘experiencing obstacles’. – Minutes from the July 2019 meeting show similar project updates given however no mention of actual/at-risk delays and potential consequences on HRA/RTB spend and links to Government repayments. (Finding 2.5) – We reviewed the same report from August 2019. The Guildford Park Car Park project is reported as ‘off track’ however there is no reference to the consequence of delays with respect to the HRA/RTB spend. The only reference is noting that the HRA element will be directly funded by the HRA. (Finding 2.5) • We reviewed the same report from October 2019. The Guildford Park Car Park project is reported as ‘off track’. The report is almost identical in terms of narrative update to the August report.

Appendix B

Detailed findings – governance structure pre 01 March 2021

Element	KPMG Commentary
(cont.)	<ul style="list-style-type: none"> <li data-bbox="665 422 2440 515">– We reviewed minutes of the meeting from January 2020. This shows that the agenda item ‘Finance review’ was not discussed. The minutes show discussion of projects with Bright Hill noted as ‘progressing’ and Guildford Park Car Park as procurement and competition progressing. A ‘portfolio update summary’ report from the same meeting that notes no further updates on Guildford Park Car Park. (Finding 2.5) <li data-bbox="665 529 2440 622">– We reviewed minutes of the meeting from March 2020. There are no references to HRA and RTB monies and references to project delays are not linked to risks of repayment. We reviewed the projects update summary report from the same meeting – Guildford Park Car Park is reported as ‘off-track’. (Finding 2.5)
Capital Programme Monitoring Group	<ul style="list-style-type: none"> <li data-bbox="665 644 2440 736">– Monthly meetings between Finance and project managers to run through the capital programme (mainly covering General Fund). Updates from this were taken to CMT before the start of the transformation programme and stopped at that point. These meetings have no formal record such as an agenda, minutes, reports etc. (Findings 2.2 and 2.4)
Corporate Governance and Standards Committee (CGSC)	<ul style="list-style-type: none"> <li data-bbox="665 758 2440 908">– We reviewed the Financial Monitoring 2020-21: April 2020 to November 2020 report presented to the CGSC meeting on 14 January 2021 (before changes to reporting were made as a result of the RTB Working Group). This monitoring report includes an update on capital programmes, including variance between approved and outturn capital expenditure. An update on significant projects is provided. The monitoring in this report does not include detail on the links and consequences between project slippage and delays and RTB repayments, nor does it outline historic or future repayments of RTB receipts. (Finding 2.2) <li data-bbox="665 922 2440 1051">• We reviewed financial reports to CGSC and minutes from the following meetings during the period of audit: 19 November 2020, 24 September 2020, 18 June 2020, 15 January 2020, 19 November 2019, 19 September 2019, 30 July 2019, 28 March 2019 and 17 January 2019. These all include the same detail of reporting on capital programmes, again with no detail on the links and consequences between project slippage and delays and RTB repayments, nor do they outline historic or future repayments of RTB receipts. <li data-bbox="665 1065 2440 1186">• We reviewed papers and minutes of the meeting of 30 July 2020. Housing Revenue Final Accounts 2019-20 taken to this meeting reference the need to spend RTB receipts and the requirement to return receipts to Government if unspent within a timeframe set by Government. There is reference to interest charges arising from the return to unused on-for-one capital receipts to central Government meaning that investment income is £242k lower than budgeted.

Detailed findings – governance structure pre 01 March 2021

Element	KPMG Commentary
(cont.)	<ul style="list-style-type: none"> We reviewed meeting papers and minutes from the meeting of 13 June 2019. HRA Final Accounts 2018-19 presented at this meeting. This includes explanation of the ability of the Council to retain receipts to be spent on 30% of the overall cost of new homes and the requirement to return this to Government if not spent. There is no reference to actual repayments made.
Council, Budget Council	<ul style="list-style-type: none"> We reviewed papers from the meeting on 10 February 2021; the HRA Revenue Budget 2021-22 contains the previously seen footnote around setting out using RTB receipts to finance up to 30% of replacement social housing within three years otherwise receipts are repaid with interest. At this meeting, it was explained that RTB receipts can be used to reinvest in social housing within 3 years and can only account for 30% of spend on new housing, HRA always runs a respectable surplus, currently holds around £117m in reserves, includes £52m in new build reserves, so funds are available to build new housing or buy market housing. It was then stated that last year GBC had to repay £2.344m inc. interest to Government and that the Council only found out the amount of repayments last year.

Detailed findings – governance structure post 01 March 2021

Element	KPMG Commentary
RTB Working Group	<ul style="list-style-type: none"> • We reviewed the ‘brief’ for this working group dated 19 February 2021. This sets out key questions around the historic RTB repayments and what monitoring and reporting is done amongst other questions with a wider view to understand how the repayments occurred, what the processes were for reporting this throughout the Council and how this can be avoided in the future. • First met on 01 March 2021 for which we have reviewed the agenda. This includes points on review of position to date and objectives, deadlines/payment schedule for 2021/22, walk through of quarterly review spreadsheet, new proposed monitoring and reporting procedures and actions to address repayments in 2021/22. • Meeting minutes from the 01 March 2021 meeting show attendance from Councillors and relevant officers in both Housing and Finance. • The meeting minutes from 01 March 2021 show that a summary was provided of the reasons behind the repayment of £2.7m. These reasons were summarised as: variance between 2018-19 to date approved Housing Investment Programme (HIP) budgets and actual spend against those budgets, due to slippage in the Programme. • At the 01 March 2021 meeting, the Chair requested an action for the 23 March 2021 Executive meeting that provides: a simple historical explanation of how the Council got to the current position, clarification of when RTB receipts could be spent, proposed monitoring and reporting procedures to ensure a more transparent process going forward and clarification of roles and responsibilities for delivery of projects. • At the meeting of the group on 10 March 2021, an internal report ‘Review of the Use of Right to Buy Receipts and Appropriation of Land into the Housing Revenue Account’ was presented. The report summarises the 2019-20 repayments plus interest of £2.7m as well as outlining the reason for repayment: that the Council did not spend the money on its new build housing investment programme in the HRA within the required timeframe. The report sets out key explanations of how and when RTB receipts are to be spent in order to avoid repayment to Government. • This report makes recommendations to the Executive. The majority of these recommendations are around the Council ensuring future spend is within the HRA so that receipts are spent. Of the 14 recommendations in this report, one is around the re-invigoration of the Major Projects Programme Board, one for the formation of the Housing Working Group and one for the creation of a formal ‘Use of Retained RTB Receipts’ Policy.

Detailed findings – governance structure post 01 March 2021

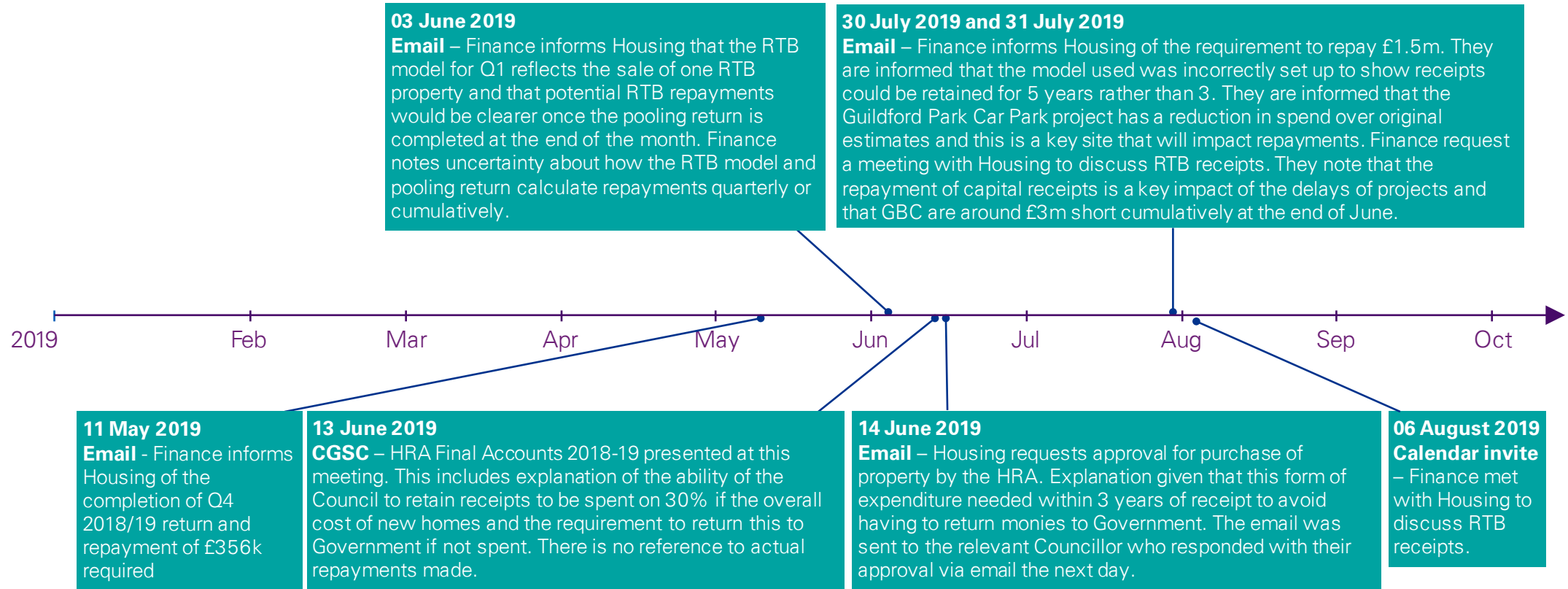
Element	KPMG Commentary
(cont.)	<ul style="list-style-type: none"> – We note that the report is limited in that is presenting the early findings from the working group. However, there are no specific mechanisms in the report or meeting minutes of the working group that clearly set out what the future monitoring processes will look like, including the roles and responsibilities for monitoring and reporting across the Council. The internal report states the Working Group is ongoing but the agenda for the 2nd meeting states the 3rd meeting is the last. We understand the Group has met twice at he time of reporting. (Finding 2.3) • The detail of the report goes on to explain, in detail, the exact conditions of spending the RTB receipts and the options that are available to the Council.
Corporate Governance and Standards Committee (CGSC)	<ul style="list-style-type: none"> • Through the RTB working group, it was agreed that future capital monitoring reports to CMT and ultimately to CGSC, needed to link the capital monitoring information with a proposed scheduled of RTB receipts and the deadlines by which they needed to be spent. It was stated that future CGSC monitoring reports should include a update that includes: under usable capital receipts, an additional line showing any repayments to Government going forward, a reconciliation of expenditure to the RTB model showing what needs to be spent from the approved programme in a financial year, what GBC are scheduled to spend, any variance, the repayment risk and where there is a risk, to identify actions to be taken to ensure monies are spent to avoid repayment. • We reviewed the Financial Monitoring 2020-21: April 2020 to January 2021 report presented to the CGSC meeting on 25 March 2021. This reporting includes, under the section 'Housing Investment Programme Approval Capital' a description of the portion of HRA that is funded by RTB receipts, the timeframes and conditions for using these receipts and the consequences of having to repay if they are not used. A new RTB schedule is then presented outlining the amount of expenditure required to avoid repayments. The narrative supporting this schedule clearly sets out that two projects, particularly, Guildford Park Car Park and Bright Hill, are partially funded by RTB receipts and that there is a significant risk that repayment of RTB receipts will b e necessary in 2021-22 and future years if project delivery continues to be significantly behind schedule. – The report includes a summary of HRA Capital expenditure and Financing that shows what is required to be spent as per the RTB model to avoid future repayments. Whilst this financial monitoring report has incorporated the majority of reporting outlined by the RTB working group, it does not specify actions to be taken to ensure monies are spent. (Finding 2.3)

Detailed findings – governance structure post 01 March 2021

Element	KPMG Commentary
(cont.)	<ul style="list-style-type: none"> We note a key difference in the financial monitoring reporting to CGSC between the meetings of 14 January and 25 March 2021. This includes the extension of the HIP approval capital section to detail RTB spend conditions and consequences as well as the clarification of the current position supported by the new table showing required spend to avoid repayments.
Housing Working Group	<ul style="list-style-type: none"> The internal report states that this working group was disbanded in 2017-18 but would be reinvigorated with appropriate officers covering housing strategy, housing development, tenant services and the finance team. It is proposed that the head of housing leads this group. We note that this is a recommendation of the internal report approved at Executive however this working group is yet to be set up. (Finding 2.4)
Executive	<ul style="list-style-type: none"> The report taken to executive at the meeting of 23 March 2021 states that the consequences of underspending on the capital programme in terms of repayments or RTB receipts will be regularly highlighted in outturn reports to Executive. We reviewed the agenda and reports pack for the Executive meeting on 20 April 2021 which does not include any items relating to RTB. (Finding 2.3)
Major Projects Portfolio Board (MPPB)	<ul style="list-style-type: none"> At Councillor level, the monitoring of major projects is within the remit of this group. The group receives a summary update from each project manager however this does not include key risks identified on the project. The internal report on RTB receipts use states that the risk of project slippage on an individual project funding stream should be captured as a key risk in a project risk register and reported at summary level to this group. We reviewed the agenda for the meeting on 22 April 2021. This shows attendance from relevant Councillors. The agenda shows the presentation of the MPPB terms of reference (dated November 2020). These do set out one of the duties of this board to monitor finances, however there is no reference to the level of detail required for monitoring financial progress on schemes. The terms of reference require progress on schemes to be reported but not the impact any delays could have on HRA/RTB spend. (Finding 2.5) The agenda includes an item for the review of all projects. In reference to this item, we have reviewed a document titled 'Final Projects update summary report March 21' which was presented at this meeting. Under 'Housing Development Programme' the project manager presented both the Guildford Park Redevelopment Scheme and Bright Hill Development as 'On-track'. Whilst we recognise this is the first meeting of the MPPB since the RTB working group was formed, there are no references to HRA, RTB and repayment of monies in the terms of reference or the April 2021 meeting agenda and report. (Findings 2.3 and 2.5)

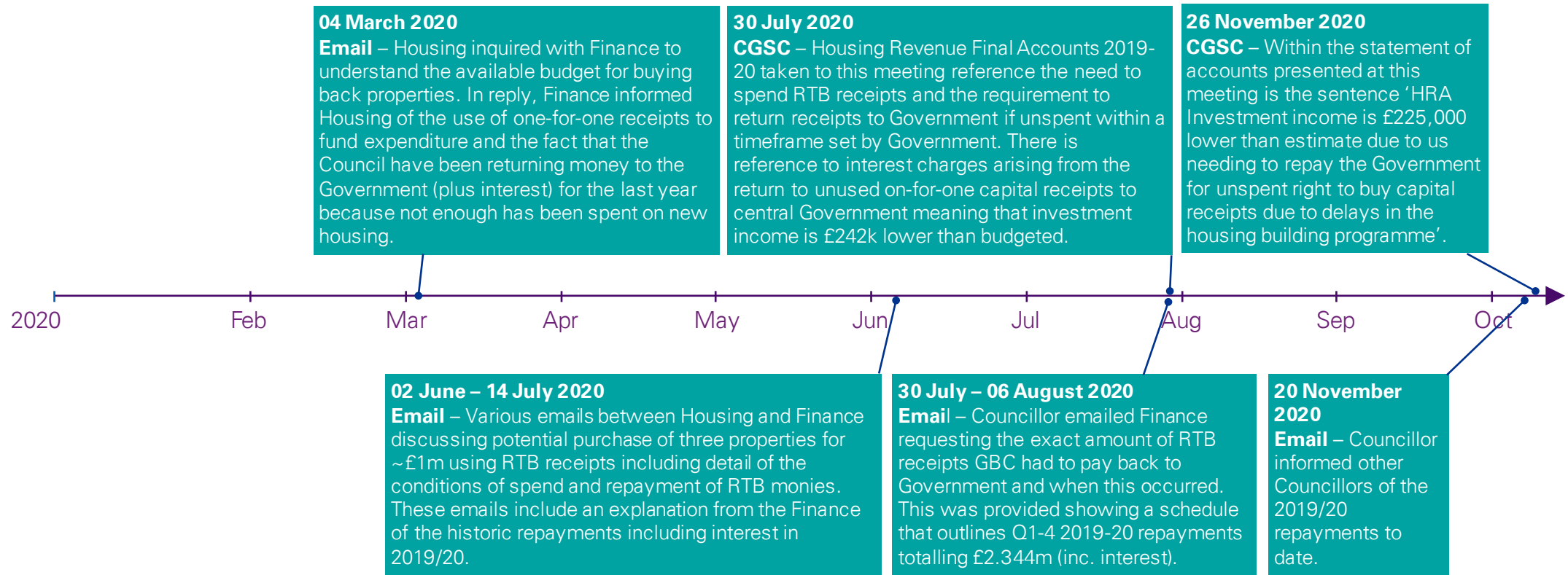
Appendix D

Timeline of events - 2019



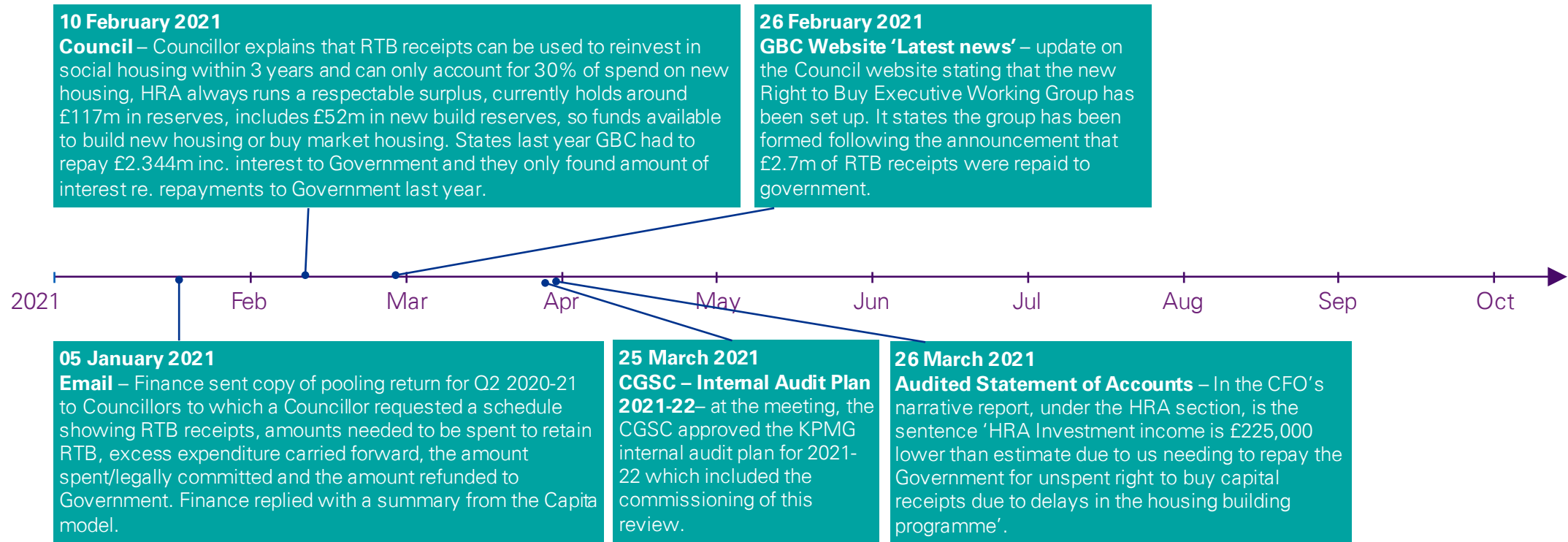
Appendix D

Timeline of events - 2020



Appendix D

Timeline of events - 2021



Appendix E

Scope extract

Background of the internal audit

In Q4 of 2018-19 and Q1-4 of 2019-20, the Council had to repay a total of £2.7m RTB receipts back to Government. Officers and Councillors expressed concerns around the robustness of processes and controls in place for the monitoring and reporting of the HRA Capital Programme, specifically the use of RTB receipts.

Scope of internal audit

- The scope of the Housing Revenue Accounts (HRA) Right to Buy Receipts will include consideration of:
- How progress was monitored internally, from 01 January 2019 (Q4 2018/19) to 31 March 2021;
- The process for identifying potential repayments arising, using the Capita RTB model, from 01 January 2019 (Q4 2018/19) to 31 March 2021; and,
- How data related to RTB was reviewed by management prior to the quarterly pooling return from 01 January 2019 (Q4 2018/19) to 31 March 2021 (we note that the year end pooling return is subject to external audit so we will not perform substantive testing on the return).
- We will document the process for monitoring potential repayments arising against the RTB monies from 01 January 2019 (Q4 2018/19) to 31 March 2021. We will

review the Council's corporate records to evidence whether stated processes were adhered to. We will assess how recent changes from March 2021 in monitoring RTB monies could highlight in a timely fashion the risks of RTB repayment.

- We will document the process for reporting within the governance structure to ensure timely sight of potential repayments arising against the RTB monies from relevant groups and committees, including the process for bringing key issues or concerns to attention in a timely fashion, from 01 January 2019 (Q4 2018/19) to 31 March 2021. We will review the Council's corporate records to evidence whether stated processes were adhered to. We will assess how recent changes from March 2021 in monitoring RTB monies could highlight in a timely fashion the risks of RTB repayment.
- We will document the process for timely escalation of risks associated with not meeting spending expectations and the arising risk of RTB repayment within the governance structure from 01 January 2019 (Q4 2018/19) to 31 March 2021. We will review the Council's corporate records to evidence whether stated processes were adhered to. We will assess how the recent changes from March 2021 in reporting and monitoring RTB monies could highlight in a timely fashion the risks of RTB repayment.

Key risks identified

- 1 There is not a robust internal monitoring process for the receipt of and spend against RTB monies
- 2 There is no consistent codified process to identify potential RTB monies repayments arising
- 3 Data relating to RTB receipts and potential repayments is not reviewed by management prior to the quarterly pooling return
- 4 There are no consistent codified governance structures in place for the monitoring and oversight of RTB monies and potential repayments
- 5 The Council's corporate records do not support identified processes operating effectively



Scope extract (cont.)

Our approach

Our work will involve the following activities:

- Meetings with the key staff involved in the HRA and RTB process;
- Walkthroughs of the HRA and RTB repayment monitoring processes, including governance structures;
- Desktop review of documentation supporting the internal controls and governance framework;
- Sample testing where appropriate

Appendix F

Ratings definitions

We have set out below the overall report grading criteria and priority ratings used to assess each individual finding.

Overall report rating	Definition
Significant assurance	The system is well designed and only minor low priority management actions have been identified related to its operation. Might be indicated by priority three only, or no management actions (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
Significant assurance with minor improvement opportunities	The systems is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two management actions. (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
Partial assurance with improvements required	Both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two management actions that taken cumulatively suggest a weak control environment. (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
No assurance	The system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more priority one management actions and fundamental design or operational weaknesses in the area under review. (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).

Finding priority rating	Definition
Low	Issues arising that would, if corrected, improve internal control in general but are not management actions which could improve the efficiency and / or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.
Medium	A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.
High	A significant weakness in the system or process which is putting you at serious risk of not achieving its 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 your strategic risks will occur. Any management action in this category would require immediate attention.





kpmg.com/uk



This report is provided pursuant to the terms of our engagement letter dated 12 April 2018. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in our engagement letter. This report is for the sole benefit of Guildford Borough Council. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Council, even though we may have been aware that others might read this report. This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than Guildford Borough Council) for any purpose or in any context. Any party other than the Council that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through the Council's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Council. Any disclosure of this report beyond what is permitted under our engagement letter may prejudice substantially our commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If Guildford Borough Council receives a request for disclosure of the product of our work or this report under the Freedom of Information Act 2000 or the Freedom of Information (Scotland) Act 2002, having regard to these actionable disclosure restrictions the Council should let us know and should not make a disclosure in response to any such request without first consulting KPMG LLP and taking into account any representations that KPMG LLP might make.

This report has been prepared solely for Guildford Borough Council in accordance with the terms and conditions set out in our engagement letter dated 12 April 2018. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | CREATE: CRT128147