

Report to the Board

22 November 2018



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**Title:** Governance Review

**Report of:** Director of Business and Development

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**Purpose of Report**

1. To propose to Board a scope for a review of the company's current governance arrangements.

**Background**

2. The social housing sector has experienced significant change over the past three years, including major changes to national policy and legislation; shifting need and demand for services and types of home; reductions in income; and an increasing focus on the compliance and health and safety of homes and buildings.
3. The Government is currently considering an extension of the focus and powers of Regulator of Social Housing (RoSH) to more adequately encompass local authorities and their managing agents (including ALMOs).
4. Gateshead Council is classed as a Registered Provider (RP) of social housing and as such is currently subject to regulation by the RoSH on the basis of its compliance with the Consumer Standards. This includes tests of quality of outcome in relation to home, tenancy, neighbourhoods and community and tenant involvement and empowerment.
5. Proposals, set out in the recent Green Paper - *A New Deal for Social Housing* suggest an extension of the regulator's powers to cover the governance practices of Council landlords and their managing agents; their approach to risk management and safeguarding social housing assets and the reputation of the sector financially and in terms of compliance and health and safety.
6. RoSH regulates the governance practices of providers on the basis of the good governance codes set out by the National Housing Federation and the UK Corporate Governance Code. In accordance with these codes, RoSH expect that providers of social housing demonstrate good governance arrangements by:
  - Establishing and maintaining clear roles and accountabilities for the Board
  - Reflecting the good governance code in their practices and behaviour

- Undertaking an assessment of performance and adherence to the preferred code or rules every year
  - Supporting the Board to develop and maintain a robust, prudent business planning, risk and control framework
7. In accordance with RoSH expectations, a regular governance review provides an opportunity for the company's major decision makers to reflect on the effectiveness of the arrangements the company uses to:
- Manage and keep pace with change both within the business and in the external environment
  - Identify and manage risks to the business through a robust internal control assurance framework
  - Adhere to legislation and regulation requirements
  - Ensure the company is accountable to tenants, the regulator and relevant stakeholders
  - Safeguard rent and taxpayers interests and the reputation of the social housing sector
  - Protect social housing assets
8. There is no prescribed format for undertaking a governance review and it can cover a range of areas including Board effectiveness; meeting arrangements; provision of information to support decision making; approach to recruitment of members; and induction programmes.
9. A large-scale governance review may consider these issues, but also bring into scope the company's formal governance arrangements including the size and make-up of the Board and sub-committee structures.
10. The Board discussed the proposals set out in the Green Paper and the findings of the National Federation of ALMOs (NFA) review of ALMO governance arrangements at their away day on 4 October 2018. The NFA review was completed in 2016 and found that:
- More ALMOs are undertaking reviews of their governance arrangements as their business models change
  - Board sizes have started to change from original models
  - Committees are becoming more focused on finance, risk, audit, performance, remuneration and HR
  - There are differences in terms of office for different representative groups
  - Recruitment processes are evolving and focusing more on skills
  - The importance of a mix of skills on Boards and undertaking regular appraisals was increasing
11. The Board also considered the NFA's findings that many ALMOs have opted to diversify their business models and have taken on additional responsibility for services. Corporate strategies and business plans have changed as a result and strategic risk registers for the ALMO sector have become more complex.
12. Governance arrangements have also evolved to match the different strategic objectives taken on by the ALMOs, their increased responsibilities and more complex strategic risk registers. Changes in governance structures have included

an increased emphasis on skills; regular performance monitoring of strategic risk registers and maintain control of financial plans to safeguard social assets.

13. The Board discussed undertaking a review of the company's current governance arrangements at the away day on the 4 October 2018; and provided suggestions as to the scope of the review and its potential format. The Board also considered that:

- As the Council wholly owns the company, a large-scale review would need to encompass the Council's views on the company's governance arrangements.
- The relationship between the company and the Council is defined in the Management Agreement, which is due for renewal in 2020.
- The company is limited by guarantee, does not trade for profit, issue share capital or dividends, which is reflected in its governance arrangements
- The company is currently managed by a Board of directors, which includes tenants, independents and local authority nominees.
- The company's governance activities are enshrined in a memorandum and articles of association, which effectively form its constitution
- A large-scale review of governance arrangements may be premature before the outcomes of the Government's consultation on the role of the RoSH in regulating Councils and their managing agents are known
- A review of specific elements of current governance arrangements could be beneficial to the company

14. The Board discussed the various ways a review of current governance arrangements could add value to the business and suggested that the review should consider:

- The potential impact of increased regulation on the company
- Board responsibilities
- The volume and purpose of the reports and information shared with the Board and committees and their value in assisting decision making
- Board induction processes and a skills audit
- Succession planning

15. The Board also discussed the potential format of a review of the company's governance arrangements and proposed:

- Interviews with Board members to discuss current arrangements in terms of what works well; not so well; and what could be improved
- A skills audit of current Board members to identify gaps and inform succession planning
- A review of key strategy and governance documentation and information
- Discussion with committee chairs and members the executive team and other key stakeholders (i.e. the customer scrutiny panel) to discuss type, length and usefulness of information provided to committees; purpose and frequency of meetings; and their outcomes
- A review of Board appointment and appraisal processes
- A review of induction and appraisal process and Board training and development plans

16. The review would take up to four months to complete, with the outcomes of the review and recommendations being provided to the Board in March 2019.

### **Link to values**

17. This report is aligned to the following company's values:

- Fair
- Customer focused
- Open and honest
- Accountable
- Inclusive, valuing diversity
- Innovative
- Passionate about what we do

### **Impact on tenants**

18. The company already engages customers in its governance arrangements. A review of governance arrangements would enable the company to be sure that customers are at the heart of decision-making.

### **Risk Management Implications**

19. The governance review would allow the company to test its current arrangements against the company's change requirements and strategic risk register.

20. The governance review would:

- Assist the company in planning to safeguard its income.
- Effectively inform decision making in relation to resources, demonstrating value for money
- Effectively manage the organisation's capacity by targeting people resources on priorities
- Assist the Board in making important decisions about resources and strategic direction, ensuring the highest standard of corporate governance practices are employed.

### **Financial Implications**

21. There are no financial implications in undertaking a governance review other than that of officer time (Business Development Director and Governance and Risk Lead).

22. The outcomes of the review may have financial implications, which would be reported to Board alongside recommendations for consideration.

### **Equality and Diversity Implications**

23. The diversity makeup of the customer profile and employee profile will be considered in the governance review and its recommendations. A range of stakeholders will be encouraged to engage in the review.

### **Value for Money Implications**

24. Stakeholders expect the group to demonstrate value for money in services and use of assets; and are maximising the use of resources. The governance review will seek to ensure the company's governance arrangements are fit for purpose in mitigating risks; managing financial business plans; and delivering strategic objectives.

### **Health Implications**

25. There are no health implications to undertaking the governance review.

### **Environmental Implications**

26. There are no environmental implications to undertaking the governance review.

### **Consultation carried out**

27. The reasons for the governance review, the proposed scope and format have been consulted on with Board at their away day on the 4 October 2018.

### **Recommendations**

28. It is recommended that Board:
- (a) approve the proposed scope of the governance review;
  - (b) approve the proposed format and timescale for the completion of the governance review.