

BOARD EFFECTIVENESS REVIEW

Report of the Finance Director & Company Secretary

1. SUMMARY

- 1.1 As part of our commitment to the National Housing Federation's (NHF) Code of Conduct 2015 as adopted by the Board in 2015, the Board considers its own effectiveness each year and addresses any issues that it feels require action. This report sets out some current issues for the Board to consider as its review this year.

2. RECOMMENDATION

- 2.1 That the Board debates its position with respect to the draft NHF Code for 2020 and any other issues relating to its own effectiveness that it might wish to consider.

3. REASON(S) FOR RECOMMENDATION

- 3.1 An annual consideration of Board Effectiveness is expected under the 2015 NHF Code.

4. MATTER FOR CONSIDERATION

Regular review

- 4.1 Each year the Board considers its own effectiveness through considering different issues. Originally it was intended to have an exchange through Peer Review as we did with Rykneld Homes a few years ago, but this has had to be postponed as a result of the COVID-19 pandemic and the inability to properly visit and meet.

NHF Code of Governance

- 4.2 This year does, however, mark a significant development in terms of the likely publication of a new, updated, National Housing Federation (NHF) Code of Practice for Governance. The Board adopted the latest NHF Code in its year of publication – 2015, and it is worth considering the latest draft against our own position as this year's reflection on our Board Effectiveness. The Board considers a detailed analysis against the criteria each year (usually in May) to inform its affirmation each year that we are abiding by that Code – albeit sometimes with explained non compliances – which have been exclusively connected with Board membership beyond 9 years but in line with the constitution.

4.3 The NHF introduces the improvements to the latest draft thus:

This new 2020 code requires those adopting it to make sure that:

- The views and needs of their residents and other customers are at the heart of strategic decision-making.
- That there is robust oversight of measures to keep residents, other customers and staff safe.
- That boards exert a firm grip of risk, including thoroughly testing the impact of potential risk scenarios on the organisation's future plans.

4.4 The NHF expects to publish its new code in November this year but circulated what was described as a final draft in August this year (attached at Appendix 1).

Main Changes in the new NHF code

4.5 The contents of the new code are mostly consistent with the current one but with some areas considerably strengthened – notably:

- Equality, diversity and inclusion.
- Accountability to residents.
- Changes in the sector risk landscape.

These are all areas that have developed considerably in the last five years and are worth considering further whether our current approach is adequate to be compliant and where further improvements might be made.

4.6 In addition to these new areas – explored below – the other major change proposed is to shorten the expected maximum period for a Non-Executive Director from 9 years (3 periods of 3 years) to 6 years (2 periods of 3 years) with the caveat that former Directors can return after one period off the Board. This issue remains particularly difficult for Derby Homes (and other ALMOs) with a constitution requiring a third each from tenants, councillors and independents. As the constitution overrides the Code, the Board can respond to this element in several ways:

4.6.1 It could continue as now with an expectation of nine years and non-compliance statements that would increase from the current level

4.6.2 It could reduce the normal renewal period from 9 to 6 years with some or no exceptions.

4.6.3 It could stick with the 2015 Code.

4.7 The last option (sticking with the older code) is not recommended as other improvements in the new code would not be incorporated into the formal code of governance in line with the latest sector approach. The Board should discuss whether it feels that 6 years is enough for most members to serve consecutively, bearing in mind that there remains an opening to return after a further cycle. The shorter period would 'refresh' the Board more quickly, but this must be balanced against the need to retain continuity and experience.

Significant areas of expansion in the new Code:

4.8 Equality, diversity and inclusion

The new code proposes the following new section 1.3:

Equality, diversity and inclusion: the board demonstrates a clear commitment to achieve equality of opportunity, diversity and inclusion in all of the organisation's activities, reflecting the diversity of the communities it serves. It has policies and statements which actively demonstrate this commitment and sets priorities and objectives for the organisation to achieve.

- (1) The board seeks regular assurance about how these commitments and objectives are being delivered in practice, and tracks progress against the priorities it has set.
- (2) The organisation at least annually publishes information about its work to deliver these commitments and objectives and the progress it has made.

4.9 The Board has recently appointed the Chair of Governance Committee as the Equalities Champion and relaunched the Equalities Forum to address these very matters. Derby Homes has made a Black Lives Matter statement for staff and will shortly be making one for tenants. Tracking progress could come from a report back to the Board from the Equalities Forum in a similar manner to the Health and Safety Forum. Data on equalities is already gathered and published to the Operational Board but could be more widely shared. The Board already publishes its Gender Pay gap information in line with its legal requirements.

Accountability to residents

4.10 The new section 1.2 on resident focus is as follows:

Resident focus: the views, needs, safety and aspirations of the organisation's residents and other customers are placed at the heart of the board's decision-making.

- (1) There are policies, frameworks and opportunities that enable, encourage and support residents and other customers to engage with, influence and contribute to strategic decision-making, and in particular to decisions that affect their interests.
- (2) The board is regularly provided with insights and concerns from its residents and other customers and uses these to inform decisions where appropriate.
- (3) Ensuring the safety of residents and other customers (and that of the workforce and the wider public) is an overriding priority.
- (4) The organisation regularly reports to its residents on how its commitments to resident focus have been delivered

4.11 Derby Homes has a good track record in both Resident Involvement and health and safety of both its employees and tenants and should be able to respond to these areas positively. Our annual reports are regularly nominated for awards but that does not mean that further improvement in communication both from and to tenants is not possible.

Changes in the sector risk landscape

4.12 Section 4.3 of the draft code covers risk:

Risk: the board retains ultimate responsibility for risk management and ensures that appropriate risk management arrangements are in place.

- (1) The board may delegate the detailed scrutiny and evaluation of risk to a committee.
- (2) The board has a suitable risk management framework in place; it understands the organisation's risk profile and the effectiveness of key controls.
- (3) The board establishes and documents its appetite for the risks the organisation faces in pursuit of its strategy.
- (4) The board ensures that the organisation is resilient to the risks it may face, with appropriate mitigations and a robust, tested and up-to-date business continuity plan.
- (5) The board includes members with skills and experience appropriate to the level and type of risks faced by the organisation.
- (6) The board regularly reviews the risks the organisation faces and how they are being managed; this includes the risks associated with activities carried out by subsidiaries or partnership vehicles.
- (7) The board regularly participates in robust stress-testing of its plans to identify the risks (or combination of risks) that may pose a material threat to the business and ensure that appropriate mitigations are in place.
- (8) The organisation's annual report includes a statement about the risk management work of the board.

4.13 All of these points are ones that are already addressed by the Board and the Audit Committee which looks at risk registers every year. Stress testing is a regular feature of our budgeting process and while Derby Homes has a significant pension fund deficit, its core activity still returns a surplus - albeit under 5% of turnover - and has sufficient cash reserves to continue for around four months which should be adequate in most foreseeable scenarios. The additional emphasis of the new code is understandable when many businesses have experienced significant financial pressure this year and our own cash flow came under additional scrutiny from external auditors this year and will do in the future.

4.14 Overall, these new areas are mostly ones that we have already strengthened and have adequate or better systems in place to deal with.

5. OTHER OPTIONS CONSIDERED

5.1 To defer consideration until the NHF Code was finalised. It is suggested that early discussion helps to understand any likely impacts of the proposals.

5.2 The existing 2015 NHF Code of Governance which the Board has adopted also requires that the Board considers its own effectiveness on a regular basis, and the Board has reviewed issues every year since then.

IMPLICATIONS

6. LEGAL AND CONFIDENTIALITY IMPLICATIONS

- 6.1 While not a formal regulatory requirement, compliance with the NHF Code of Governance is seen by the Regulator of Social Housing as a positive indicator of good governance arrangements.

7. EQUALITIES IMPLICATIONS

- 7.1
- Has an Equality Impact Assessment been completed? No
 - If no Equality Impact Assessment has been completed, please provide a summary of the equalities' implications: Good governance is essential to any organisation and should ensure that equality matters are considered in making significant decisions.

8. RISK IMPLICATIONS

- 8.1 Good governance is an element of one of our Strategic Risks and is essential in managing risk properly.

The areas listed below have no implications directly arising from this report:

Consultation
Financial and Business Plan
Council
Personnel
Environmental
Health & Safety
Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

David Enticott / Finance Director & Company Secretary / 01332 888523 / Email
david.enticott@derbyhomes.org

Background Information: Draft NHF Code of Governance 2020
Supporting Information: Previous reports on Board Effectiveness each September

This report has been approved by the following officers where there are financial or legal implications:

Finance Director/Derby Homes Accountant	David Enticott	14.09.2020
--	----------------	------------