

COLCHESTER BOROUGH HOMES LIMITED COMPANY LIMITED BY GUARANTEE

Annual Governance Statement

Year ended 31st March 2018

1. Scope of Responsibility

Colchester Borough Homes (CBH), formed in October 2003, is the Arms-Length Management Organisation of Colchester Borough Council (CBC), responsible for the management and maintenance of the Council's homes and transferred general fund services. In 2017/18, these were primarily financed from the Council through a Management Fee of £9,253,561. This fee also includes Property Services professional fees, Corporate Facilities management fee and CBH Revenue work costs. Property Services also manages capital and revenue work costs paid directly by CBC, totalling £4,669,200.

There is a formally binding Management Agreement between the Council and CBH in place until August 2023, with a review in 2020. This clearly sets out the governance arrangements that should apply between the two parties and complies with national best practice.

CBH is managed by a Board comprising at least three Council nominees, three tenants, three independent members and the Chief Executive. The Memorandum and Articles of Association were revised and approved in 2017 to change the number of members on the Board, and to give the flexibility to add member(s) of the Executive Management Team. In discharging this overall responsibility, Colchester Borough Homes is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Three committees reported directly to the Board: Finance & Audit, Governance & Remuneration and Operations. Additionally, there is also a Business Opportunities Panel. These all have formal, approved terms of reference, which have been reviewed biennially.

2. The Purpose of the Governance Framework

Good governance leads to good management, good performance, good stewardship, good public engagement and ultimately good outcomes for citizens and the service user. Good governance enables the Company to pursue its vision effectively, as well as underpinning that vision with mechanisms for control and management of risk.

The governance framework comprises the systems, processes, culture and values by which the Company is directed and controlled and its activities through which it accounts to, engages with and serves the community. It enables the Company to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process, designed to:

- identify and prioritise the risks to the achievement of the Company's policies, aims and objectives
 - to evaluate the likelihood of those risks being realised and the impact should they be realised
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- to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Homes for the year ended 31 March 2018 and up to the date of approval of the financial statements of accounts.

Colchester Borough Homes exercises control through:

- Corporate governance arrangements outlined in the Memorandum & Articles of Association, the Code of Governance and the Standing Financial Instructions.
- The employment of suitably qualified and experienced staff to take responsibility for key areas of the business. This is supported by a formal annual appraisal system.
- The preparation of forecasts and budgets that allow the committees and the executive officers to monitor the key business risks and financial objectives, and identify variances arising during the monthly reporting cycle.
- Business planning is based on an approved Strategic Plan that sets out key actions to enable CBH to achieve its goals for the ensuing year (effective from 1 April 2018). This complements the Medium Term Delivery Plan that was approved by CBC. This cascades through supporting Service Plans and individual performance appraisals. The key aims of the new Strategic Plan are:
 - ✓ Customer Plan
 - To deliver services that reflects the needs and diversity of our customers
 - To make it easy for customers to do business with us
 - To improve Customer Satisfaction
 - ✓ Value for Money, Technology and Investment Plan
 - To invest money in a way that helps customers and communities
 - To use technology to do things better
 - To get the most for the money we spend
 - ✓ People Plan
 - To support our staff to do the best job possible
 - To make CBH a great place to work
 - ✓ Business Development Plan
 - To protect services by looking after the future of the business
 - To bring in extra income to invest in our services

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✓ Leadership Plan

- To show we can be trusted to do what say we will
- To be clear about our organisational goals and how to achieve them

✓ Community Plan

- To raise awareness of our work in the community
- To bring together organisations and residents for the benefit of the community

The Executive Management and the Board will carry out regular reviews of performance against objectives and targets detailed in the Strategic Plan.

3. Review of Effectiveness

Colchester Borough Homes conducts, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Executive Directors and Senior Management Team within the Company, who have responsibility for the development and maintenance of the governance environment. This is supported by the Internal Audit's annual report, and by comments made by external auditors and other review agencies and inspectorates.

The company has produced a Strategic Plan, setting out the direction of the company until 2022. This now complements the Medium Term Delivery Plan which also runs until 2022. From the Delivery Plan, Key Performance Indicators (KPIs) and projects are produced, relating to the Company's obligations to provide core services to the Council. A performance and scrutiny framework is in place to review and monitor delivery against these. This is a combination of Company, tenants and CBC scrutiny as well as benchmarking against other providers. The Strategic Plan is a wider document and sets out an overarching framework within which CBH can develop and improve as a well-established organisation both within the Council's service delivery arrangements and in obtaining contract work for other clients.

CBH's internal arrangements for ensuring the effectiveness of its governance arrangements during the year consisted of:

- The Operations Committee receiving quarterly performance reports. (Committee dissolved in May 2018, to be replaced by a Resident Services Panel from July 2018)
- The Governance & Remuneration Committee monitoring the implementation of the Governance Action Plan and significant staffing matters. (Committee dissolved in March 2018, and replaced by an Appointments and Remuneration Committee from 1 April 2018. Governance matters to be dealt with by Board).

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- The Finance & Audit Committee considering Internal Audit reports throughout the year, reviewing how well strategic risks are identified and managed, and monitoring financial performance against budgets.
- The Finance & Audit Committee monitoring the regular review of key policies against an agreed policy review timetable.

As stated above, CBH reviewed its governance arrangements during the year and approved the changes to take effect from 1 April 2018. CBH will ensure that its measures to monitor the effectiveness of its governance arrangements remain in place and reflect best practice and are appropriate to oversee the approved Strategic Plan and Medium Term Delivery Plan.

Internal Audit

Internal Audit is delivered through a contract with Mazars LLP (Mazars). A five-year risk-based Strategic Audit Plan was initially approved by the Finance and Audit Committee in June 2016, following the successful re-appointment of Mazars in April 2016. This is refreshed on an annual basis in consultation with the Directors Management Team. The updated plan was approved by the Finance & Audit Committee in March 2018.

The audit plan was delivered, with reports issued to senior managers at the conclusion of each audit highlighting internal control weaknesses identified and the actions required to address them. Recommendations were also reviewed to ensure they were implemented properly by the due date. Reports were presented to each Finance & Audit Committee of progress against the audit plan as well as the status of outstanding recommendations.

The Head of Internal Audit prepares an annual Head of Internal Audit Opinion (HOIA) report that includes an overall opinion on CBH's internal control environment based on the results of the audit work completed. This was considered by the June 2018 Finance & Audit Committee.

Internal Audit performance is subject to annual review by the external auditor of CBH in order that they can place reliance on its audit work. The Company provided the Council with the following assurance regarding the robustness of its governance arrangements during the year:

- Internal Audit reports
- Summary results of Manager Assurance Statements
- The Annual Report, which incorporates the Head of Internal Audit's annual report (including an opinion on the effectiveness of the company's systems of internal control)

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External Audit

External Audit of the annual financial statements is undertaken by Scrutton Bland LLP with a view to expressing an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK).

In carrying out the audit work, Scrutton Bland LLP will consider whether the financial statements are free from 'material misstatement'. Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item will normally be considered material if its omission would reasonably influence the decisions of those using the financial statements.

Scrutton Bland LLP will issue a report to management at the conclusion of the audit work. This will include a management letter that will contain comments and recommendations for improvements in operations and internal control in respect of the Company. This will be discussed with management prior to the issue of the final report. The report will also include details of significant adjusted and unadjusted items that arise as a result of the audit work.

The Finance & Audit Committee considers the external auditor's report and recommends adoption of the financial statements to the Board.

4. Significant Governance Issues from 2016/17 - Update

Insurances

In the 2016/17 Annual Report the key issue with the insurance audit was regarding the timing of the renewal process. As a consequence of the audit, we commenced the annual process for 2017/18 a month earlier than previously to ensure adequate review and approval of the insurances recommended by the broker were both fit for purpose and value for money.

Payroll

CBC provide the payroll function on behalf of CBH. In April 2016, CBC commenced the transition to a new system, which resulted in the short-term use of a payroll bureau system whilst the new system was being developed. The system is now embedded with appropriate control frameworks now established which are reviewed thoroughly by Internal Audit.

5. Significant Governance Issues 2017/18 – Nothing to Report

CBH is pleased to report that it received Full Assurance for its Budgetary Control, and Substantial Assurance on the remaining areas reviewed.

CBH has an effective Risk Management Strategy in place where the Board and Finance & Audit Committee review the Strategic Risk Register at each meeting and gives members a solid foundation for effective decision making. In the year, an emerging risk register was produced for the first time, that allows for pro-active planning and mitigations to be put in place where appropriate. The strategy provides a solid foundation for communicating the importance of risk to staff and is key to strong governance on risk management.

**COLCHESTER BOROUGH HOMES LIMITED
COMPANY LIMITED BY GUARANTEE**

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Signed: _____
(Chair of the Board)

Signed: _____
(Chair of the Finance & Audit Committee)

Signed: _____
(Chief Executive Officer)

