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Dear Councillor

SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 9TH DECEMBER, 2021

I refer to the agenda for the above meeting and attach papers in connection with the following item(s).

Agenda Item Governance Report

Yours sincerely

Darryl White
Democratic Services Manager

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Report to: **Audit Committee**

Date: **9 December 2021**

Title: **Governance Review – Community Housing Programme**

Portfolio Area: **Homes – Cllr Judy Pearce, Leader of the Council**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: N/A

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RECOMMENDATIONS:

That the Audit Committee consider the learning from the governance review of the Community Housing Programme and its application to the Council's wider programme management function.

1. Executive Summary

- 1.1. In light of a range of issues raised regarding the delivery of the Council's Community Housing Programme (CHP), the Chief Executive instructed the Director of Strategy and Governance and the Director of Strategic Finance, to undertake a review, focussed on the governance arrangements for the programme.
- 1.2. The following report sets out the key findings of the review and proposes a broad range of recommendations to improve the governance framework around the remaining projects, the majority of which have already been implemented.
- 1.3. The report does not focus on individual projects but focuses on the overall governance and systems to support the programme.

- 1.4. It is clear that there have historically been governance issues including a lack of clear organisational oversight and accountability.
- 1.5. The programme was too ambitious in its scale, and more projects were in scope than could be effectively managed at any one time by the Programme Lead (PL) ended up being pursued. This ambition was shared collectively throughout the organisation.
- 1.6. This in turn elevated political and community ambition and expectation. In doing so, it compounded the issue of scale and made it harder to scale back once committed, exposing the programme to greater risk.
- 1.7. A key weakness identified in the report is that the intelligent client function and rigour required by the PL to succeed using a lean client model, with wrap around professional services was inadequate.
- 1.8. One of the recommendations of this report is to integrate housing projects previously managed through the programme into the core housing function to support the Council's response to the declared housing crisis.
- 1.9. The Head of Assets, with the support of SLT has now, addressed a number of the issues identified and remaining projects are now being managed well, through a programme board with effective corporate oversight.
- 1.10. It should be noted that delivery against the Housing Crisis objectives is ongoing and will benefit from work undertaken at a project level (the delivery of rented houses in the district) under the former community housing programme. There was a separate report on the Executive agenda for the meeting that was held on 2 December 2021 setting out more detail on the Crisis (Minute E.70/21 refers) and members will be aware of a Council decision on the St Anns Chapel Housing Project.
- 1.11. A version of this report was also considered by the Executive at its meeting held on 2 December 2021 and that meeting resolved (Minute E.69/21 refers):
 1. *That the content of the report be noted and officers be instructed to implement the changes as set out within the published agenda report; and*
 2. *That the Audit Committee be **RECOMMENDED** to consider the learning from the Governance Review of the Community Housing Programme and its application to the Council's wider programme management function.*

2. Strategic Context and Purpose of Review

- 2.1. The Council's new corporate strategy – 'Better Lives for All' - sets out a range of themes and associated aims supported by thematic delivery plans which have now been adopted by Members.
- 2.2. 'Improving Homes' is a key theme, underpinned by our adopted Housing Strategy, and sets out a range of key deliverables.
- 2.3. Furthermore, in recognition of the ever increasing challenges around housing, the Council declared a Housing crisis on 23rd September 2021. In particular recognising the acute shortage of good quality, affordable, rented housing stock. The aspiration to deliver is embedded within the CHP and in other reports members can see details of delivery of projects which are now reaching the construction phase.
- 2.4. The purpose of the review is to look at the governance arrangements in broad terms and to recommend changes and improvements to the programme as a whole rather than focussing on a critique of individual projects.
- 2.5. It is important to note that the review coincided with officers implementing a range of changes to the governance and wider delivery arrangements for the programme. As a result, the majority of the issues identified have already been addressed. However, there remain additional improvements, which will further strengthen existing arrangements. It must also be recognised that some of the findings may also be applicable to other projects/programmes being delivered corporately.

3. Background

- 3.1. In 2017, the Government awarded grants from the Community Housing Fund (CHF) to SHDC of £1.88m. The CHF aimed to increase the number of additional homes delivered by local authorities, and to provide housing that is affordable at local income levels and remains so in perpetuity. It was targeted specifically at local authority and community-led housing projects as distinct from affordable homes provided by registered providers that are eligible for alternative grant assistance. The value of CHF grant awarded is based largely on housing affordability and the proportion of second homes in the district.
- 3.2. The Council's Community Housing Strategy sets out the approach to supporting the development of homes accessible to those with local connections for whom the cost of market housing (to purchase or rent) is beyond their reach. The CHF enables delivery of this

Strategy by providing financial support to existing and emerging local housing projects, although there is recognition that many community housing projects have wider delivery issues beyond funding. The role of Local Authorities in using the CHF to help achieve these projects is not precisely defined. It might include acquiring suitable sites; capacity building; providing direct development support or gap funding.

- 3.3. The Community Housing Programme is complex, involving multiple projects, each with its own requirements and issues. In general, delivery of such projects is via exception planning policy (“Exception Sites”), enabling affordable housing delivery through reduced land value. By definition it required strong programme management and leadership, and a Senior Specialist was appointed to that role (PL).
- 3.4. At a high level, there are three distinct funding stages to each project:
 - Project design and planning process up to the point a project has planning consent, has been fully costed and a contract is in place for the commencement of construction. This stage is being funded through the CHF grant with costs incurred to be reimbursed at the point of entering into a construction contract, so that these monies can be reinvested in subsequent projects thus recycling funding to enable the programme to continue;
 - Construction finance for the construction term, for example, using grants from Homes England or borrowing from the Public Works Loan Board; and
 - Long-term investment in completed rented property, where the net yield will cover the cost of the loan.
- 3.5. The first stage is made up of RIBA stages 0-4 (Strategic definition through to technical design) and contains within it the greatest uncertainty and greatest proportion of cost on professional services.
- 3.6. Each project has an individual mix of housing tenures, depending on need and financing requirements. They may be made up of any of discount purchase units, affordable rented units, shared ownership units and a small proportion of open market units, the latter being used to cross subsidise the provision of the affordable properties.
- 3.7. The intention is that the affordable rented proportion of projects will be acquired by the council upon completion and therefore contribute towards the authorities’ wider objective to build a portfolio of rented housing stock.

4. Approach and Findings

4.1. As part of the review, discussions were held with a range of officers directly and indirectly involved with the programme. In addition, a review of supporting documentation was undertaken. The following sets out in general terms the key observations and findings.

5. Roles and Responsibilities

5.1. The Community Housing Team (CHT) consisted of 1.5 FTE officers, until the end of March 2021. It included a Senior Specialist who was the Programme Lead (PL). The role was responsible for land assembly and co-ordinating the administration of the Community Housing Programme; including legal and financial matters, in liaison with colleagues and/or external consultants. The PLs key role was to provide project management and oversee the programme as a whole.

5.2. Professional services were engaged until early 2021 to provide, design and technical support for all projects. A fundamental role of the PL was to brief, scope, manage, cost control and ensure delivery of the consultancy team. In short to be the intelligent client and represent the interests of the Council.

5.3. The evidence gathered strongly suggests that inadequate programme management was in place and that the PL worked in isolation rather than alongside other colleagues and teams within the Council, but also that integration and acceptance of the programme was not universal across other services. Rather than being one of a range of options to deliver affordable housing based on housing need, it can be argued that the programme has in some instances been driven as the only option.

5.4. The PL, whilst professionally experienced, was new to local government and its associated procedures and practices, unfamiliar with how to operate and would have benefitted from further guidance and support in that context.

5.5. This would have highlighted the need for further challenge and rigour with which the professional services teams were managed and project delivery risks, including financial viability challenges identified earlier.

5.6. These issues may have been compounded by the fact that SLT had only 3 members from April 2019 and was operating under considerably reduced management capacity, which in turn stretched ELT members who were assisting to back fill as a result of change following T18 (the Council's Transformation Programme). In March 2020 SLT capacity was again reduced after the then Chief Executive

left, until the current Chief Executive joined in 2020. The Head of Assets post was filled in March 2020.

- 5.7. Responsibilities, reporting lines and authorisations had not been clearly defined. There was a clear focus on delivery, but there was little guidance on the wider decision making process (the difference between informal discussions and formal decisions) and the need for detailed due diligence.
- 5.8. The current Head of Assets Practice, working with SLT, has already taken action to address the issues identified, initially maintaining an overview of each community housing project being delivered.
- 5.9. The Head of Assets Practice in consultation with the Director of Place and Enterprise, has subsequently dissolved the Community Housing Team and brought the remaining officer, after the other left, into the Assets Service, allowing full integration with colleagues.
- 5.10. Projects are now driven by the 'housing need' as evidenced and agreed by the Head of Housing, who works closely with the Head of Assets.

6. Site Identification and Progression

- 6.1. During the early stages of the CHP there was no formal process for authorising the progression of each site through the key stages of a project, from an 'in principle' decision, to preparation and brief, then design and delivery. Verbal authority would be given to proceed, delay or cease a project, but there was no formal process and decisions were not consistently recorded.
- 6.2. The origin of sites and the reasons for progressing (or not) were not clearly defined and there was a lack of transparency and corporate buy in for sites. There appears to have been a culture of 'optimism bias' that impacted on the objectivity of the initial scrutiny on the feasibility for sites.
- 6.3. In early 2021, the Head of Assets advised the Community Housing Team that they should use a 'Gateway' process. A gateway is a decision point in a project lifecycle that determines if the project is ready to progress to the next stage or not. Gateways are designed to ensure that risks are managed, whilst a project also remains efficient and cost effective. Use of such a process should identify potential delays and avoid unexpected increases in development costs that make projects "borderline" or unviable. The process prompts the required authorisation to be obtained at each gateway, in order to move onto the next stage in the lifecycle.

- 6.4. There was a general culture of retaining the majority of information including decisions, supporting evidence and similar records in emails within individual email inboxes. These were not properly archived and there has been a lack of accurate and project specific record keeping.
- 6.5. Prior to the review, there were concerns that for some of the proposed developments, a case for housing need was being built around opportunistic land availability rather than the other way around. Since March 2021 procedures have been amended to prevent this.
- 6.6. As directed by the Senior Leadership Team, the Head of Housing, and the Housing team, are now solely responsible for identifying housing need in a community, which isn't already being addressed by a Registered Provider or an open market developer. Once they have done so, they will inform the project delivery team, who only at this point will make efforts to try and identify suitable land.
- 6.7. With the latter no longer involved in determining housing need, this removes the potential for conflict at a later stage of a development. The revised arrangement also addresses the previous concerns that there was no clear internal client for the CHP or exactly what their requirements were.
- 6.8. It should be noted that there is a need for speculative site identification, but it should be done so in a controlled and structured way, that allows the Council to understand the potential for a future pipeline, without a commitment to bring forward project until they have been corporately assessed.

7. Liaison with local communities

- 7.1 The review has identified that there had been a public engagement event and liaison with the relevant parish or town council and ward members, for each of the sites to ascertain whether or not there was community support in principle for the provision of housing. However, the approach was not consistent or sufficiently thorough and robust to reduce the risk of support being withdrawn at a later date, which it inevitably may be.
- 7.1 Although for each of the sites examined in detail, there was evidence that community consultation had taken place, as well as liaison with the town or parish council, the outcome of the consultation events was not always clearly recorded with the detail of the records varying from project to project.

7.2 It is recognised that an optimistic vision was communicated at an early stage to potential land owners and communities, which raised expectations at a community and political level. This optimism was not always well placed considering the challenges of delivering new good quality, low cost new homes.

8 Strategy and Management Oversight

8.1 The Community Housing Strategy originally proposed the delivery of five projects per annum, each consisting of between ten and twenty houses, from year two of the four year programme. With a focus on delivery of high quality and affordable 'intermediate' community housing using a replicable model, the PL was given target numbers of units to be delivered from year 2 of the programme. This resulted in numerous projects being progressed, all at different stages of the project lifecycle.

8.2 These projects were supported through professional services procured through a framework. In time that framework lapsed, and whilst the contract continued to operate using the framework rates, an exemption should have been put in place, to secure the continuity of the consultants.

8.3 With hindsight, the agreed targets appear to have been overly ambitious and have not been achieved to date. Without having established either housing need or site availability at the outset, it is not clear how the targets were developed and set in the first instance.

8.4 There appears to have been a lack of consistent oversight of the Community Housing Team's work. Up until mid 2020 there had been no project board or formally appointed group of officers tasked with directing and overseeing the delivery of the CHP. Update reports were taken to members but these primarily focussed on securing authorisation for expenditure. In addition members received regular updates on the programme through the Members' Bulletin.

8.5 The subsequent introduction of the 'gateway' process, the establishment of a CHP Board and regular updates to the lead Member and the Executive now ensures that there is adequate operational and strategic oversight of the remaining project. SLT consider project specific reports and there is a high degree of rigour and challenge as to the viability and likely success of each proposal.

9 Financial Management

9.1 The CHT relied on their own Excel spreadsheets for financial management of the programme, rather than the Council's financial system and ledger codes. At the outset the PL maintained their own financial records (built up from the projected costs for individual projects) rather than through the Council's financial ledgers. Critically,

these records did not include the employee costs of the Community Housing Team (CHT) or other costs such as land option agreements and purchase or professional services.

9.2 The team therefore had an incomplete view of the financial situation of the programme as a whole. Support and training had been provided from the finance team but this is another example of the CHT operating in isolation from the rest of the council.

9.3 Optimism bias has been identified within the financial forecasts provided by the professional services team. This was responsible for elevating delivery expectations at all levels and should have been identified and challenged.

9.4 The Head of Assets, in conjunction with the Head of Finance, has overseen a number of changes. As a result the team now have full access to all the relevant ledger codes and have received further training in the use of the financial ledger. A dedicated member of the finance team has responsibility for monthly monitoring of the Community Housing budget and maintains a spreadsheet which provides a detailed breakdown of actual and committed expenditure by project and a summary of project expenditure by delivery stage. This is presented to the Programme Board on a monthly basis. The finance officer holds regular meetings with the team, in order to ensure that the financial records of both teams are aligned and that expenditure is within anticipated budgets for individual schemes.

10 Recommendations

10.1 As previously stated there have been a number of changes and improvements to the way that the Community Housing programme, as was, originally operated. The original Community Housing Team has now been disbanded and the residual projects and officers brought back within the wider Housing functions of the council under the management of the Head of Assets and the Head of Housing.

10.2 The governance framework now in place offers a higher degree of confidence in terms of managing the remaining projects and associated risks and the successful delivery of rented housing should now be forthcoming. However, further recommendations for improvement are set out below;

- Clear identification of those officers and members responsible for over-seeing the projects and giving authority for the progression of projects from one stage to the next;
- Evidencing the assessment of each proposed site against an approved set of viability criteria;
- Ensuring that agreed and/or constitutional procedures are in place and followed, to protect the Council from accusation of

bias when considering planning applications submitted to support projects;

- Drawing up and maintaining an adequate Risk Register for each project;
- Generally better evidencing meetings, agreed actions, consultations etc.;
- Streamlining both update reports and financial reports, ensuring that these contain the information the intended audience wishes to receive;
- Managing all financial information through the Council's financial systems
- Regular reporting to both senior managers (via a project Board) and members via the Lead member and through the Executive as appropriate;
- Ensuring that any consultants or contractors used are procured in line with Contract Procedure Rules;
- Ensuring that appropriate staff resource is in place to be able to undertake 'intelligent client' management of contractors, and
- Ensuring that officers are required to declare, annually, any interests they have that may conflict with their role in projects of this nature (this is a recommendation that should be taken up corporately)

11 Proposed way forward

11.1 The Community Housing Strategy and the subsequent programme of projects that have been pursued over the past 4 years was, and remains, ambitious and innovative. However the programme has not been well managed and to the required level of detail and there was a lack of oversight and governance arrangements in place at its inception.

11.2 As detailed above the majority of these issues have now been addressed although further improvements are needed as set out in 11.2 above.

11.3 In order to consider the programme as a whole, the Executive has requested that the Audit Committee consider the learning from the governance review of the Community Housing Programme and its application to the Council's wider programme management function.

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	
Financial implications to include reference to value for money	Y	The financial management of the CHP is set out in Section 9 of the report. A separate report on the Executive agenda at its meeting held on 2 December titled: 'Housing Crisis update report' sets out the spend to date of the funding of £1.88 million.
Risk	Y	That the Council fails to deliver a Service that meets the expectations of Members and our Customers
Supporting Corporate Strategy	Y	Council, Homes, Environment, Enterprise
Climate Change - Carbon / Biodiversity Impact	N	No direct carbon or diversity impacts arise from this report
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		N/A

Supporting Information

Appendices:

None

Background Papers:

None

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