



Northumberland County Council

Forensic Independent Review Advance Northumberland Group

KPMG LLP

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This report contains 117 pages

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1 Introduction

1.1 Terms of reference

1.1.1 This report is strictly private and confidential and has been prepared by KPMG LLP (“KPMG” or “we”) for Northumberland County Council (“NCC” or “Council”) in accordance with our Statement of Works dated 29 September 2020 (“the Engagement Letter”) and varied in our email exchange dated 8 November 2020.

1.1.2 You have requested that a forensic review is undertaken at one of the Council’s subsidiary organisations, Advance Northumberland Ltd (“Advance”) (formerly known as Arch (Corporate Holdings) Ltd (“Arch”)) in order to understand whether there are appropriate standards of governance over the decisions taken at this entity.

1.1.3 Advance is a property investment and management company which operates through a series of group companies (collectively “Advance group”), all of which are 100% owned by Advance Northumberland Ltd and which are detailed below:

- Advance Northumberland (Housing) Ltd (“Advance Housing”)
- Advance Northumberland (Commercial) Ltd (“Advance Commercial”)
- Advance Northumberland (Developments) Ltd (“Advance Developments”)
- Advance Northumberland (Financial) Ltd

1.1.4 During 2018, NCC established Advance as a wholly owned subsidiary. This was in response to the findings of an internal audit review conducted in relation to its predecessor company, Arch, regarding concerns expressed over the governance of the entity, as detailed in the NCC Internal Audit Final Report – Review of Arch Arrangements dated October 2017 (the “2017 Internal Audit report”). At the time of Advance being established, the operating activities, the systems and many of the staff were transferred from Arch into the new company, Advance.

1.1.5 Our work has considered the Advance group of companies, which includes both the holding company and its related entities, as set out above.

1.1.6 As set out in the statement of work, we have been instructed to address the following areas:

1. Have the property transactions which were identified in the 2017 Internal Audit report been appropriately reflected in the books and records of Advance Northumberland and its related group of companies?
2. Is the fixed asset register complete and are procedures for keeping this up to date satisfactory?
3. Are all properties which have been purchased by either Arch or Advance Northumberland correctly registered as belonging to the Advance group at the Land Registry?
4. Are external legal fees paid by Advance Northumberland for conveyancing during 2018/19, 2019/20 and 2020/21 to date accurate?
5. Regarding the specific Empire Court development referenced in the 2017 Internal Audit report, have arrangements for Stamp Duty Land Tax been correctly applied?
6. Do pay and reward arrangements at Advance Northumberland group have proper governance arrangements and are expected controls being applied as documented?
7. Are the procedures for amendment to senior staff salaries documented clearly, bearing sufficient segregation of duties, and formally agreed; and are agreed procedures being applied as documented?
8. Are staff benefit (pay and reward) schemes correctly accounted for and in compliance with HMRC requirements? Is a schedule of taxable benefits in place?
9. Are there adequate property fixed asset procurement procedures in place and are these being adhered to by all entities within the Advance Northumberland group?
10. Are all aspects of the property portfolio (across all property rental sectors managed by the group) now subject to the same monitoring and reporting

arrangements and is the system of monitoring and reporting considered adequate to exercise required governance and control?

11. Are property rental arrears appropriately managed and is a suitable recovery strategy in place and enforced?

12. Have all property transactions by Advance regarding purchase of housing as a registered social landlord been completed appropriately?

1.1.7 It was subsequently agreed with NCC that item 12 in the list above would be removed from the terms of reference on the basis that Advance is not registered as a social landlord.

1.2 Structure of this report

1.2.1 In addressing the questions outlined in the terms of reference, we have held discussions with various individuals within Advance and been provided with a range of documents to support these discussions.

1.2.2 For each of the scoping questions, we have set out our understanding of the processes and procedures which are in operation at Advance, together with the results of the testing we have performed to confirm whether these processes and procedures are operating as described to us. This is set out in Sections 2.1.1 to 11 and follows the order of the questions outlined in paragraph 1.1.6 above. In Section 2, we set out an overall summary of our findings.

1.2.3 In performing our work, we have sought to focus on the recent transactions and operations within Advance in order to assess whether the governance-related issues identified in the 2017 Internal Audit Report are still prevalent in the way in which the company is managed and governed by its current management team.

1.3 Limitations

1.3.1 This report should not be construed as advising on matters of law or providing any legal opinion or advice.

- 1.3.2 We have not audited or otherwise verified information contained in this document. The scope of our work is different from that for an audit and does not provide the same level of assurance as an audit.
- 1.3.3 In undertaking our work, we have relied on the information and explanations provided to us by representatives of Advance and NCC. The content of this report is based on the information provided to us.
- 1.3.4 This report sets out our findings as at the date of the report. Should further information come to light, we may need to change the findings outlined in this report.
- 1.3.5 KPMG accepts no liability for and has not undertaken work in respect of any events subsequent to the date of this report which may affect our comments in this document.
- 1.3.6 This engagement was carried out entirely through remote working during the period November 2020 to February 2021 because of the lockdowns imposed by the UK Government. Consequently, access to personnel and documentation was, in some instances, restricted because of NCC and Advance's own response to the Covid-19 pandemic ("Covid-19") and we have adapted our style of working to accommodate this.

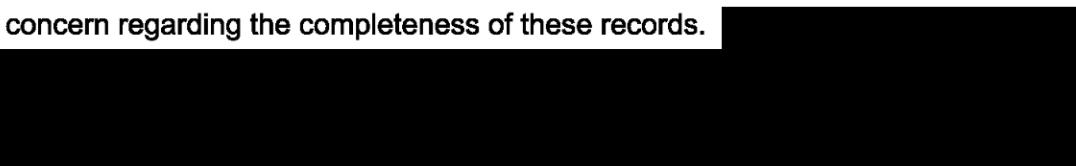
1.4 Confidentiality and restrictions on liability


- 1.4.1 This report has been prepared on the basis set out in our Statement of Works with NCC dated 29 September 2020 and subsequently varied in our email exchange on 8 November 2020 and should be read in conjunction with this agreement.
- 1.4.2 This report is strictly private and confidential and has been prepared for the benefit of NCC only, to enable NCC to give preliminary consideration to the findings based on the fieldwork carried out to the date of this report and for no other purpose. It is not to be shown or copied, in whole or in part, to any other party or otherwise referred to, without our written consent, nor used for any other purpose.

- 1.4.3 This report has not been designed to be of benefit to anyone except NCC. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from NCC, even though we may have been aware that others might read this report. We have prepared this report for the benefit of NCC alone.
- 1.4.4 This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than NCC) for any purpose or in any context. Any party other than NCC that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through NCC'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 NCC.
- 1.4.5 In particular, and without limiting the general statement above, since we have prepared this report for the benefit of NCC alone, this report has not been prepared for the benefit of any other local authority nor for any other person or organisation who might have an interest in the matters discussed in this report.

2 Executive summary

- 2.1.1 Following concerns raised during an Internal Review in 2017, you have requested that a forensic review is undertaken at Advance Northumberland. The purpose of this review is to assist you in understanding the standards of governance in place over certain decisions taken at Advance Northumberland and whether these are appropriate for an organisation of this size and nature. To help structure this review, you outlined 11 specific questions which you requested we address as part of our work and these are detailed at section 1 of our report.
- 2.1.2 In performing our work, in order to answer the questions you have raised and reach a view on the standards of governance applied within the business, we have spoken to the operational directors of the company, requested copies of documented processes and procedures, and undertaken sample testing on the application of these. The findings of our work in relation to each of the 11 specific questions are set out in more detail in each of the sections within our report.
- 2.1.3 Our work was performed during the period November 2020 to February 2021. As such, our work was conducted remotely due to the restrictions imposed by the UK government in response to Covid-19. As a result, we have relied on the information and documentation provided to us during remote interviews with employees of Advance Northumberland and in response to our questions and challenges without being able to access personnel, systems and records directly.
- 2.1.4 Our work found that, whilst there are not detailed, documented processes and procedures for each of the areas we examined, the individuals involved in the various activities do appear to follow a reasonably well-defined process. Where required, these informal processes do include the preparation of business plans or monthly reports and other records, such as key performance indicators, which are discussed in formalised meetings attended by a range of individuals from within Advance Northumberland and, in some cases, representatives of Northumberland County Council. This would suggest that there is a certain level of governance and scrutiny being applied to the business activities within Advance.

- 2.1.5 However, whilst we can see such documents being presented to the various governance forums operating within Advance (for example, performance clinics, Senior Leadership Team meetings, Nomination & Remuneration Committee, and the Advance Board) and there is evidence that these meetings took place on a regular basis, very few of the meetings record any detail in relation to discussions on specific issues. As such, it is very difficult to evaluate whether the appropriate level of governance has been applied as we have been unable to assess the level of discussion and challenge which took place during these meetings or, where issues were raised, how these were resolved in reaching the decision that is recorded in the minutes. This is not to suggest that these discussions did not take place. However, the scope or level of discussion is not captured in sufficient detail to enable a reader of the minutes to understand the basis for – or the level of scrutiny or challenge involved in - reaching the decision.
- 2.1.6 However, we have observed that there has been an improvement in the level of detail recorded within the Board minutes documented by the Advance management team, when compared with that captured whilst the business was operating under Arch's management. We have seen in the Advance Board minutes more evidence of the discussions that have taken place and more detailed performance updates provided, together with the introduction of specific performance indicators in accordance with the Operating Agreement.
- 2.1.7 In respect of our work on the property assets of the business, there are processes in place for maintaining an accurate register which appear to operate in practice. However, the property titles / descriptions in the Land Registry documents for Advance Commercial and Advance Developments do not always "map" to the descriptions in Advance Northumberland's books and records. As such, in performing our work, we have been reliant on information and explanations provided to us by the CFO and have been unable to form a wholly independent view. However, throughout our work, we did not identify any significant areas for concern regarding the completeness of these records.
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- 2.1.8 It should also be noted that, in areas such as human resources and in the management of arrears, steps have been taken to start to introduce new processes and procedures or increase the number of resources operating in these areas, which demonstrates that management have recognised areas of weakness and are taking steps to address these. However we noted that where a new policy had been introduced regarding the use of consultants, we noted one instance where there was a lack of documentation to fully support the actions taken.
- 2.1.9 In respect of the final two areas of our work, our review of the legal costs which have been incurred in respect of conveyancing costs did not suggest any inaccuracies in the amounts recorded during the period since 2018. In addition, our review of the documents made available relating to the Empire Court development suggested that the arrangements for stamp duty land tax (“SDLT”) had been correctly applied.

3 NCC 2017 Internal Audit report

3.1 Introduction

3.1.1 In this section, we consider NCC Question 1: **Have the property transactions which were identified in the 2017 Internal Audit report been appropriately reflected in the accounting books and records of Advance and its related group of companies?**

3.1.2 The 2017 Internal Audit report references issues in relation to the following properties:

- A property belonging to the previous Chief Executive Officer (“CEO”) of Arch, being [REDACTED]
- A property at [REDACTED] and
- Certain properties purchased by Arch³.

3.1.3 We consider each of these properties in Sections 3.2 to 3.4 respectively.

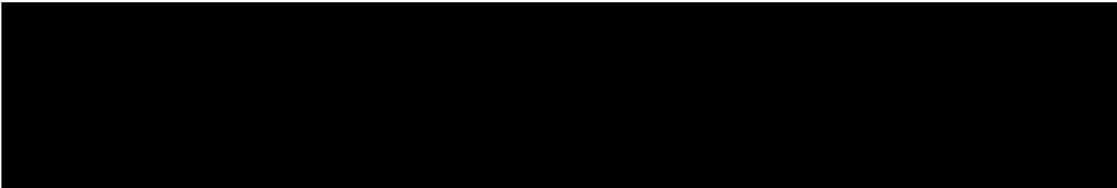
3.2 [REDACTED]

3.2.1 [REDACTED]

¹ Referred to as “property X” in the 2017 Internal Audit report, page 52 onwards

² Referred to as “property Y” in the 2017 Internal Audit report, page 52 onwards

³ Referred to as properties 1 to 4 in the 2017 Internal Audit report, page 42

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- 3.2.2 Advance provided a copy of the Land Registry title for this property (Title Number [REDACTED]). This shows that the property was bought by Advance Housing for £395,000 on 29 July 2016. We note from a review of the Advance Housing Fixed Asset Register ("FAR") that the date this property was entered into the FAR was 25 July 2016 and the value attributed to the property at that time was £417,742. Advance also include, in the value recorded on the FAR, the cost of legal fees and disbursements, stamp duty, Land Registry fees and other costs noted on the completion statement. The value of £417,742 was consistent with the findings of the 2017 Internal Audit report which stated that a deposit of £39,500 being 10% of the purchase price, was advanced on 18 July 2016 with a further payment of £378,242 being made on 28 July 2016.
- 3.2.3 When a property is purchased, the receipt of the completion statement will trigger a transaction being recorded on the QL system, which is Advance's finance system. The payment will be posted to Advance's cashbook and the property added to fixed assets in the balance sheet. The property will also be added to the FAR.
- 3.2.4 The FAR is contained on a spreadsheet and we are advised by Advance's Finance team (the "Finance team") that it is updated manually by the Management Accountant when properties are purchased, sold, revalued, etc. The FAR is reconciled to the Fixed Asset total in the Advance balance sheet each month. Therefore, if a property sale or purchase has been posted but not recorded in the FAR, a difference will be recorded and investigated.
- 3.2.5 In Section 4 of this report, we conduct our own reconciliation of the total values recorded in the FAR to those in the management accounts and financial statements. We discuss the results more fully in that section but, in summary, we were able to reconcile and agree the values across the FAR, management accounts and financial statements.

- 3.2.6 We understand from the Chief Finance Officer (“CFO”) that funding would have been received from NCC to purchase the property, as was the case with all properties. We understand from the Finance team that the process for recording such loans will be to record the loan in the QL system with the loan proceeds being posted to the cashbook and NCC recorded as a creditor in the balance sheet. We were advised by the Finance team that a register of loans received from NCC is maintained. Each quarter, NCC will send a list of the loans outstanding and their balance. The Finance team will reconcile the NCC list with its own register and any anomalies noted will be investigated.
- 3.2.7 We can confirm that the appropriate accounting entries for this property were made in the FAR and recorded in the financial statements. However, given that this purchase involved the CEO as the seller, we would have expected this transaction to have been highlighted in the notes to the financial statements. Accounting standards⁴ require that any transactions with “key management personnel” should be disclosed as a “related party transaction”. There is no such related party transaction recorded in the financial statements for the year ending March 2017.
- 3.2.8 We also note that, by way of the annual revaluation exercise, the FAR shows that the property was revalued to £400,000 in financial year ending 31 March 2018, being a reduction of £17,742. There was a further reduction in value to £370,000 in financial year ending 31 March 2019. This could suggest that the initial value attributed to this asset was overstated. It is not clear to us how the value was determined at the time of acquisition although we note that, in the 2017 Internal Audit report, it is commented that the property was initially marketed at a value higher than it was purchased for.
- 3.2.9 We noted, from our review of the Advance Housing FAR, that this property was sold on 14 February 2020 when the net book value of the property was £370,000. We were provided with a copy of the completion statement for this sale which shows that the property was sold for a price of £305,000. We have also independently reviewed the title number for this property at Land Registry which

⁴ Financial Reporting Standard 102

shows that the title is now in the name of another (independent) party and that a price of £305,000 was paid on 14 February 2020.

- 3.2.10 On the sale of the property, this transaction would be recorded against the cashbook and fixed assets accounts on QL and any profit or loss made on the sale would be posted to the profit and loss account. At the same time, the entry in the FAR would be updated to show that the property had been sold. When a property is sold, the outstanding amount of the loan from NCC is repaid out of the proceeds from the sale thereby reducing the liability in Advance's books and records. If the proceeds are not enough to cover the outstanding loan amount, this will be met from Advance's cash reserves. The profit or loss on the sale of the property will be written off to the profit and loss account, in line with accepted accounting practice.
- 3.2.11 We would normally expect that the FAR would be integrated into the accounting system and we understand from the Finance team that Advance is looking to incorporate this facility into its QL system.
- 3.2.12 We note that the accounting entries to record the purchase and disposal of this property are consistent with what we would expect to see. On this basis, we conclude that the property transaction has been appropriately reflected in the accounting records of Advance, with the exception of the requirement to include a disclosure note in the annual financial statements as the transaction involved a member of key management personnel, namely the CEO.

3.3

- 3.3.1 The 2017 Internal Audit report noted that the tenancy on this property was given to an Arch consultant, but the title of the property was registered in the name of Persimmon Homes who had built the property and not Arch. This raised concerns in relation to who owned the title of this property.
- 3.3.2 We have been provided with a copy of the Land Registry document for this title by Advance which shows that the property is registered in the name of Advance

Housing. We have independently reviewed the title (Title number [REDACTED] for this property at Land Registry. This shows that Advance Housing paid the sum of £180,000 for the property on 30 September 2016.

- 3.3.3 This property forms part of the housing stock of Advance. As such, we would expect to see it as an entry in the FAR and the title of the property registered to Advance. Our review of the FAR shows that this property was added to the FAR on 3 October 2016 at a value of £206,269. The title included in the FAR is [REDACTED]. As noted above in paragraph 3.2.2, the value in the FAR will include legal and acquisition costs. We note that the value paid for this property, as reported in the 2017 Internal Audit report, was £204,109 when the transaction occurred on the 3 October 2016. We have not investigated the reason for the £2,000 difference at this stage. We further note that, as part of the annual revaluation exercise over the last three years, the recorded net book value of this property has fluctuated up and down and is recorded as at 31 March 2020 with a net book value of £195,500.
- 3.3.4 In summary, our review of the title shows that the property is registered in the name of Advance and is appropriately reflected in the books and records of Advance.

3.4 Properties purchased by Arch

- 3.4.1 The 2017 Internal Audit report identified errors found in four completion statements relating to properties purchased by Arch. The 2017 Internal Audit report noted that this was despite the invoices being marked with an internal checking statement. Inaccuracies in the recording of these properties in the Housing FAR were also noted.
- 3.4.2 NCC has provided us with details of the four properties and copies of the completion statements referred to above. The table below summarises this information, including the arithmetical errors that were identified in the 2017 Internal Audit report:

Table 1: Analysis of completion statements for properties 1 to 4

Property	Details included on original completion statement			Correct Balance to pay	Difference
	Purchase price including fees	Deduct deposit	Balance to pay		
	£	£	£	£	£
	129,140	(12,500)	166,640	116,640	50,000
	78,782	(7,613)	78,782	71,170	7,612
	114,139	(11,046)	88,551	103,093	(14,542)
	156,142	-	166,142	156,142	10,000
Total	478,203	(31,159)	500,115	447,045	53,070

3.4.3 A review of the Advance Housing FAR showed that all of these properties were added to the register in financial year ending 31 March 2017 at cost plus legal fees, stamp duty, Land Registry fees and any other direct costs associated with the purchase of the properties, and that the properties are still held by Advance Housing.

3.4.4 We understand that receipt of the completion statement will trigger the properties being added to the FAR and the accounting transactions will be posted to the cashbook and fixed assets in Advance's accounting books and records. In respect of the four properties in table 1 above, the incorrect values were initially recorded in the accounting records (see table 2 below). As such, we would expect to see corrective entries to correct the values included in fixed assets in the balance sheet and also in the FAR.

3.4.5 It is noted that the original values included in the FAR for each property were subsequently amended in the year ending 31 March 2018 as follows:

Table 2: Analysis of FAR entries for properties 1 to 4

Property	Financial year ending 31 March				
	Purchase price from table 1 above £	Value added to FAR 2017 £	Adjustment made to FAR 2018 £	Revised Value in FAR at 2018 £	Valuation in FAR at 2018
[REDACTED]	129,140	182,813	(44,394)	138,420	135,000
[REDACTED]	78,782	88,403	(5,697)	82,707	95,000
[REDACTED]	114,139	103,038	13,141	116,179	120,000
[REDACTED]	156,142	157,982	(410)	157,572	170,000
Totals	478,203	532,236	(37,360)	498,878	520,000

3.4.6 It can be seen from the above table that adjustments appear to have been made to rectify the errors included within the completion statements and to the reflect the actual purchase price (including legal costs) in the FAR. It is noted that the revised values are still slightly higher than the actual purchase price but ultimately this has been adjusted for through the valuation performed at the end of financial year 31 March 2018. This valuation is performed by an independent external third party on an annual basis.

3.4.7 We independently reviewed the Land Registry title for each of these properties and can confirm that all are registered to Advance Housing. We also reviewed the FAR and noted that entry of both [REDACTED] and [REDACTED] was made on 7 December 2016 when the purchase date on the Land Registry title was 10 March 2017. The date noted on the FAR for the other two properties were the same as those on the Land Registry titles.

3.4.8 We note therefore that, while the incorrect values were initially posted in the accounts and records of Advance, an adjustment was subsequently made to correct these errors and we conclude that these assets are appropriately recorded in the books and records of Advance. We would also note that, as property portfolio assets are revalued each year, had this error not been corrected at the time, the

value of the property would have been correct in any event by virtue of the fact that an independent valuation had been performed at the financial year end.

3.5 Summary

- 3.5.1 In summary, from the information available to us, it would appear that the property transactions identified in the 2017 Internal Audit report have been appropriately reflected in the accounting books and records of Advance and its related group of companies. However, we would have expected there to be an accounting disclosure note in the statutory accounts for year ending 31 March 2017 to reflect the related party transaction involving a member of key management personnel. This disclosure notice does not appear to have been made in Advance's financial statements.

4 Fixed asset register

4.1 Introduction

4.1.1 In this section, we consider NCC Question 2: **Is the fixed asset register complete and are the procedures for keeping this up to date satisfactory?**

4.1.2 For the purpose of our review, we have primarily focused on the recording of property assets in the FAR.

4.1.3 The CFO provided us with a copy of the FARs for Advance Housing and for Advance Commercial. The FARs for Housing and Commercial property are contained on excel spreadsheets and are updated manually. The two documents are similar in terms of content and provide details of all assets, including the properties held by the Advance group. The accounting net book value⁵ at the end of each financial year is also shown on the FAR.

4.1.4 The FARs contain details of all assets held, purchased and sold for the period from 1 April 2014 to 31 March 2020. The format of the FAR was changed in around 2014/2015 to ensure that each property was recorded on one line, as previously some had been grouped together while others had multiple lines reflecting various payments made in respect of the property.

4.1.5 We were advised by the CFO that a new company was created to replace Arch on 22 January 2018. This new company changed its name to Advance Northumberland Ltd on 20 April 2018. The subsidiaries of the Arch group of companies were transferred to Advance and changed their names from Arch to Advance on 19 November 2018. All assets held by Arch and its subsidiaries were transferred to Advance at the value held in the accounting records of Arch. The FAR does not reflect this transfer in that it is a continuous record from 1 April 2014.

4.1.6 We were also provided with a copy of the FAR for Advance Developments but noted that this does not contain any property-related assets. Instead, the only fixed

⁵ Being cost/revaluation less depreciation

assets held by Advance Developments are in relation to Motor Vehicles and Photovoltaics. As such, for the purpose of our review, we have not considered this document in detail.

- 4.1.7 In Section 4.2, we consider the process for updating the FAR in relation to properties purchased and sold, development properties and the revaluation of properties.
- 4.1.8 In Section 4.3, we consider the interaction between the FAR and the financial statements.
- 4.1.9 In reviewing the completeness of the FAR, we have also considered records held at Land Registry. This is addressed in Section 5 below.
- 4.1.10 We present our conclusions in Section 4.4.

4.2 Updating of the FAR

- 4.2.1 In this section, we consider the process for updating the FAR.

Properties purchased and sold

- 4.2.2 We held discussions with representatives from both the Housing and Commercial divisions of Advance in order to understand the process in place for the purchase and sale of properties. We also held discussions with the CFO to understand how this process would feed through to allow the Finance department to then update the FAR.
- 4.2.3 The detailed procedure for the purchase and sale of property is contained in Section 9 below. In summary, the process involves the presentation of a Business Plan to the Advance Board to approve the proposed purchase or sale of a property. If the purchase/sale is approved by the Board then, once the sale/purchase has been agreed and the transfer of funds is made to the seller/purchaser, the FAR will be updated to reflect the transaction.

- 4.2.4 The CFO is not formally notified of the proposed purchase or sale of a property by the Housing or Commercial divisions. However, the CFO does attend the Advance Board meeting where the approvals of a purchase/sale are made and will therefore be notified at that time.
- 4.2.5 The payment or receipt of funds for any purchase/sale will be processed through the Finance department and entered onto the QL system which will update the cashbook and fixed assets in the accounting records. The completion and release of funds for a purchase will be authorised by the CFO following receipt of the completion statement for the purchase. Prior to authorising the release of funds, the CFO will confirm that approval was granted for the purchase by the Advance Board. Such approval is required in order to apply for and receive the requisite funding from NCC in order to pay the purchase price.
- 4.2.6 The FAR is updated manually by the Finance team Management Accountant when the transaction is processed through the QL system by the Finance team accounts assistant. Each month, a reconciliation is performed by the Management Accountant between the value of the fixed assets held in the management accounts and the value held in the FAR. If a property has not been removed from or added to the FAR, the reconciliation will show the discrepancy and will be investigated by the Finance team. This reconciliation is reviewed on a monthly basis by the CFO, who is accountable for ensuring the FAR is accurate and complete.
- 4.2.7 This reconciliation should ensure that any assets posted through the accounting system are not omitted from the FAR. We performed a reconciliation between the FAR, management accounts and financial statements to test the robustness of this reconciliation process as set out below, together with our findings.

Development projects

- 4.2.8 We understand from our discussions with the CFO that Development Projects, i.e. those where land has been purchased and subsequently property has been built on that land; are recorded differently. The initial acquisition of the land will be included within fixed assets and on the FAR of the relevant entity (Housing or

Commercial) at the time the land is acquired. If the land is subsequently developed, the land is moved to work in progress ("WIP") and the costs associated with the construction of the development are recorded in the accounting records of the Advance Developments division of the group. This will be recorded as work in progress or stock within the financial statements of Advance Developments.

- 4.2.9 Once a development is complete, the total cost associated with that development is transferred from Advance Developments to Advance Housing or Advance Commercial (depending on who will then manage the property) and recorded in the respective FAR, combined with the value of the original land held in WIP. The transfer of costs will be performed by the Management Accountant in Developments. An invoice will be raised by Advance Developments and will be processed in the Finance department to transfer the costs between the relevant divisions.
- 4.2.10 Accounting standards allow for development costs to be held in work in progress. However, the accounting treatment of such costs ultimately depends on the end use to which the end asset is to be put, i.e. whether it is kept as an investment (i.e. a housing or commercial development) or is to be sold to a third party. In this instance, when a development is completed it is either (i) transferred to Advance Housing or Advance Commercial to be held as an investment, or (ii) remains within Advance Developments until it is subsequently sold.

Revaluation of properties

- 4.2.11 We are advised by the CFO that, each year, the properties contained in the FAR are revalued by RICS⁶-accredited surveyors from an independent, external third-party valuation agency and that all valuations are performed to RICS' valuation standards in accordance with UK GAAP (FRS102)⁷ regulation. A property will not be valued in a year where:

⁶ Royal Institute of Chartered Surveyors

⁷ General Accepted Accounting Principles (Financial Reporting Standard 102)

- a. A property has been purchased and added to the FAR in that year, unless it has been held for most of the year (a judgement call is made in this respect);
 - b. A development project has been completed in that year; or
 - c. The property has been sold.
- 4.2.12 The appointment of a third party to perform the valuations is made through a tender procurement process known as the “NEPO framework” each year. Selection is based on quality and cost criteria. The CFO advised that valuations are not performed in detail for each property but will be based on an external inspection of properties and reference to comparison with similar properties on Zoopla.
- 4.2.13 Where a street of properties is owned by Advance, a valuation of one property will be applied to all the properties in that street. The CFO acknowledged that this approach did not take account of the fact that the size of the properties in the location may vary.
- 4.2.14 The CFO explained that, given the volume of properties held by the group (being 1,177 Housing properties and 135 Commercial properties and land, as at 31 March 2020), it was impracticable and cost prohibitive for each property to be visited. At the end of the valuation process, the CFO will receive a draft valuation report from the independent third party. This report will be reviewed, and the values agreed, unless any are queried as being too high or too low. We note that the results of the exercise conducted in March 2020 were presented to the Board at the 1 May 2020 board meeting.
- 4.2.15 The valuations in the final report will be used to adjust the value of the properties in the FAR and in the fixed assets account held on QL, either increasing or decreasing the holding value of the property. In this way, each property listed in the FAR should reflect its current market value. The Finance team will post the relevant adjustments to the profit and loss account and the revaluation reserve in the balance sheet. The FAR will be updated manually by the Finance team. Any

discrepancy between the entries posted in QL and made in the FAR will be identified through the monthly reconciliation process mentioned above.

4.3 Reporting of fixed assets in the Statutory Accounts

- 4.3.1 Whilst the section above addresses the recording of property assets in the FAR, it is also important to consider the extent to which the FAR reconciles with Advance group's published financial statements. We would expect to see the net book value of the assets in the FAR corresponding to the net book value of the assets in the financial statements as at the balance sheet date. We would also expect to see that it corresponded to the net book value in the management accounts, given the reconciliations that are performed each month.
- 4.3.2 In order to determine whether the fixed assets (particularly in relation to property), contained in the Housing and Commercial FARs were correctly reported in the financial statements and management accounts, we have performed a reconciliation of the values contained in the FAR to those contained in the financial statements.
- 4.3.3 We performed this reconciliation for financial years ending 31 March 2017 to 31 March 2020 across all asset categories contained in the financial statements. We also agreed these values to those contained in the management accounts for the same period in order to identify any audit adjustments that had been made to the fixed assets when the financial statements were being prepared.
- 4.3.4 In summary, other than some (nil net value) reclassification of assets between asset categories, the values contained in the FAR, management accounts and financial statements agreed for the three financial years ending 31 March 2017, 2019 and 2020. However, the reconciliations for the year ending 31 March 2018 highlighted some differences for both Housing and Commercial and we discuss these in turn below.

Housing Reconciliation

4.3.5 The following table shows that, while the values contained in the FAR agree to the financial statements, the management accounts contained a different value for financial year ending 31 March 2018, as follows:

Table 3: Housing Reconciliation for year ending 2018

Asset Category	Fixed Asset Register ("FAR") £000	Management accounts ("MA") £000	Financial Statements ("FS") £000	Difference between FS and MA £000
Investment Properties	91,415	92,279	91,415	(864)
Other Plant and Machinery	21	21	21	-
Total	91,436	92,300	91,436	(864)

4.3.6 We were advised by the CFO that the adjustment of £864k was attributable to two adjustments requested by the auditors and a revaluation adjustment following the month end, as follows:

Table 4: Explanation of difference

Reason for adjustment	Amount of adjustment £000s
Accrual for purchase of Newbiggin Library from Developments to Housing requested by auditors	637
Accrual for sale of Empire Court from Housing to Developments requested by auditors	(1,300)
Revaluation adjustments following month end	(201)
Total adjustment	(864)

4.3.7 In respect of the first adjustment for Newbiggin Library, the CFO advised that this was an accrual for the sale of a development being constructed by Advance Developments which was subsequently transferred to Advance Housing and Advance Commercial. The development consisted of commercial retail units on the lower level and housing on the upper level. The housing part of the development was completed before the financial year end and was generating

revenue, so the cost was transferred from Advance Developments to Advance Housing. The commercial part of the development was not completed until after the year end and the cost of this part of the development remained in Advance Developments.

4.3.8 In respect of the second adjustment relating to the Empire Court property, the CFO explained that this property was originally part of an Executive portfolio which did not return the expected yields when rented out. It was decided to transfer this to Advance Developments in order to perform some renovations and then sell the properties. The transfer was due to take place before the financial year end and was therefore accrued and adjusted in the FAR and the financial statements, but not in the management accounts at that time. The transaction was actually delayed and did not happen until the following financial year and, as such, the financial statements for each individual entity would have been inaccurate. However, as this was a transfer between group companies it would have had a nil impact overall on the consolidated position of the Advance Group.

4.3.9 With the exception of the adjustment referred to above, our review shows that the values contained in the Advance Housing FAR agree to the Advance Housing management accounts and ultimately the Advance Housing financial statements. This gives us comfort that the Advance Housing FAR reconciles to the balances reported in the Advance Housing financial statements.

Commercial Reconciliation

4.3.10 Our reconciliation shows that, while the values contained in the FAR agree to the financial statements in total, there was a reclassification of £5k between Investment Properties and Other Plant and Machinery in year ending 31 March 2018. We do not consider this to be material or a cause for concern.

4.3.11 However, the values contained in the management accounts showed a more significant difference in financial year ending 31 March 2018 when compared to those contained in the FAR and the financial statements as follows:

Table 5: Commercial Reconciliation for year ending 2018

Asset Category	Fixed Asset Register ("FAR") £000	Management accounts ("MA") £000	Financial Statements ("FS") £000	Difference between FS and MA £000
Investment Properties	199,380	198,354	199,385	1,031
Land and Buildings	1,785	2,738	1,785	(953)
Other Plant and Machinery	455	782	450	(332)
Total	201,620	201,874	201,620	(254)

4.3.12 The CFO explained that the adjustments made above were in relation to the following:

- a. A reclassification of £843k from Land and Buildings to Investment Properties;
- b. A reclassification of £332k from Other Plant and Machinery to Investment Properties; and
- c. An audit adjustment of £254k which comprised the following:

Table 6: Summary of adjustments

Reason for adjustment	Amount of adjustment £000s
Removal of Arriva land asset to WIP following audit review	(110)
Revaluation adjustment following audit review	(144)
Total adjustment	(254)

4.3.13 Whilst we have agreed the adjustments requested by the auditors to the FAR, we have not agreed the revaluation adjustment of £144k as this is spread over a number of properties and, as such, it is not possible to do so with the information available to us.

4.3.14 Our review shows that the values contained in the Advance Commercial FAR agree to the Advance Commercial management accounts and ultimately the Advance Commercial financial statements. This gives us comfort that the Commercial FAR reconciles to the balances reported in the Advance Housing financial statements.

4.4 Summary

4.4.1 In summary, we have reviewed the procedures for recording property assets in the FAR and these appear to be satisfactory. It is the responsibility of the CFO to ensure that the FARs are kept up to date, complete and accurate through the monthly reconciliation process that occurs between the FAR and the accounting records. The entries are driven by transactional activity processed by the Finance team and any adjustments are made by reference to third party valuations.

4.4.2 In the following section, we consider the registration of property titles at the Land Registry. As part of this exercise, to the extent that the information enabled us to do so, we have considered whether there are any properties registered as belonging to the Advance group which are not included in the FAR.

5 Registration of property assets

5.1 Introduction

5.1.1 In this section, we consider NCC Question 3: **Are all properties purchased by Arch/Advance correctly registered as belonging to Advance group at Land Registry?**

5.1.2 As mentioned in Section 4.4, in addition to considering whether (on a sample basis) property assets included in the FAR (having been purchased by Arch/Advance) are registered as belonging to Advance group at Land Registry, we have also considered whether (on a sample basis) property assets registered at Land Registry in Advance group's name are recorded in the FAR or WIP balances.

5.1.3 In Section 5.2, we consider the reconciliation undertaken by Advance in November 2018.

5.1.4 In Section 5.3, we set out the findings of our own review in relation to Advance Housing.

5.1.5 In Section 5.4, we set out the findings of our own review in relation to Advance Developments.

5.1.6 In Section 5.5, we set out the findings of our own review in relation to Advance Commercial.

5.1.7 In Section 5.6, we consider property assets held in former registered names of Arch or joint ventures in which Arch and its associated businesses were involved.

5.1.8 We summarise our conclusions in Section 5.7.

5.2 The Advance reconciliation

5.2.1 We were advised that, in November 2018, following the transfer of the business from the Arch group to the Advance group of companies, the CFO conducted a

PN1 search at Land Registry. A PN1 search involves submitting a request to Land Registry to obtain a list of all the titles held in the name of a specific entity or person.

5.2.2 We were advised by Advance that the purpose of conducting this search was to ensure that all properties contained in the FARs were appropriately registered to Advance. We were further advised that the properties returned from the PN1 search performed by Advance had been reconciled to those properties either contained in the FAR or land contained in work in progress/stock (the "Advance reconciliation").

5.2.3 When conducting the PN1 search, searches were conducted both under the name of Advance (including its various divisions) and under the previous name of Arch and its associated divisions. This was to ensure that any property that had not been transferred from Arch to Advance was identified and the matter addressed.

5.2.4 Advance has provided us with a copy of the PN1 search conducted in November 2018 in relation to the Housing and Commercial property portfolio (the "November 2018 search"). We noted from our review that the November 2018 search had been updated to reflect some additions since November 2018. However, it should be noted that our review of the updated November 2018 search did not reflect any disposals that had occurred since November 2018.

5.3 KPMG review - Housing

5.3.1 To test the completeness of the current Advance records and to ensure that all properties purchased by Arch and Advance are held in the name of Advance, we have conducted our own PN1 search.

5.3.2 In conducting our own PN1 searches, we searched under the various corporate names which had been included in the PN1 search performed by Advance to ensure completeness of the searches. These included the names of each of the Advance and Arch group of companies but also the names of the joint ventures that Arch had been party to.

5.3.3 The table below provides a list of the corporate names searched and the number of titles that were returned for each name.

Table 7: Land Registry Titles

Name of Entity	Number of titles
Advance Northumberland Ltd	-
Advance Northumberland (Housing) Ltd	319
Advance Northumberland (Commercial) Ltd	147
Advance Northumberland (Developments) Ltd	25
Arch (Corporate Holdings) Ltd	-
Arch (Housing) Ltd	9
Arch (Commercial Enterprises) Ltd	-
Arch (Developments Projects) Ltd	-
Northern Coalfields Property Company Ltd	-
Wansbeck Life Ltd (previous name of Arch (Commercial Enterprises) Ltd	1
SLJH Ltd (joint venture)	2
Prudhoe Estates LLP (joint venture)	1
Total number of titles	504

5.3.4 The purpose of searching under these different entities was to ensure that any properties that had previously been held in the name of Arch had been appropriately transferred to Advance. In respect of the joint ventures, this was to ensure that property held in the name of a joint venture, where Advance was no longer involved, was not recorded in the FARs of Advance.

5.3.5 Once we received the results of our own PN1 search, we conducted a reconciliation of those titles to those contained in the November 2018 search. The results of our reconciliation are detailed below.

5.3.6 The information provided to us on our PN1 search of Land Registry only returns the title number of the asset owned by the entity. There is no other information provided such as the address of the property, the date it was purchased, or the consideration paid. This information would only be available to us by making an individual request to the Land Registry by reference to the title number to obtain the information.

5.3.7 Our approach to this reconciliation has been to seek to account for each of the titles returned in our PN1 searches to the information held by Advance and

obtaining explanations for where there are differences between the titles returned to us from our search and those undertaken by Advance. This exercise is not straightforward as the FAR / WIP does not display Land Registry titles and, in the case of Commercial and Developments, the description in the FAR / WIP record bears little resemblance to the address/description contained on the Land Registry documentation.

5.3.8 As such, in order for us to reconcile the downloaded list of Land Registry titles we have necessarily relied on the Advance reconciliation.

Reconciliation of Housing Titles

5.3.9 We conducted a PN1 search under the names of Advance Northumberland (Housing) Ltd and Arch (Housing) Ltd. This returned the following results:

Table 8: Summary of housing titles registered

Name on title	Number of Titles
Advance Northumberland (Housing) Ltd	319
Arch (Housing) Ltd	9
Total number of titles	328

5.3.10 We compared the titles returned in our search to those identified in the Advance reconciliation. We noted that the number of titles contained in the Advance reconciliation was 303. The table below summarises the reasons for this difference and further narrative is set out below:

Table 9: Reconciliation of KPMG PN1 Search to Advance Reconciliation

	Number of entries
A - Total number of titles returned on the KPMG search	328
B - Titles where property had been sold after Advance reconciliation	8
C - Properties which did not have a title on Advance reconciliation	(32)
D - Additional title returned by KPMG search	(1)
E - Titles returned in KPMG search but not on Advance reconciliation	(7)
F - Titles on Advance reconciliation but not returned in KPMG search	7
Total of titles on Advance reconciliation	303

A - KPMG search

5.3.11 Within the KPMG PN1 search which returned 328 titles, we identified that nine properties⁸ were registered in the name of Arch Housing rather than in the name of Advance Housing. These titles need to be transferred to Advance Housing.

B - Properties sold after Advance reconciliation performed

5.3.12 We identified eight properties that had been sold by Advance Housing after the date of the Advance reconciliation and, as such, were still included in the Advance reconciliation. These titles were not returned in the KPMG search. We checked each title and confirmed that these had been transferred to another third party. We also noted that each of these properties was included as a disposal in the Housing FAR.

C - Properties that did not have a title on the Advance Reconciliation

5.3.13 Our PN1 search returned 32 titles which were not on the Advance reconciliation. However, the addresses attached to these titles did match to properties contained in the Advance reconciliation. There was an annotation against each of these properties on the Advance reconciliation that stated that the title number was “to be confirmed”. These properties were purchased throughout 2017, 2018 and 2019. We confirmed that these 32 properties are included in the Advance Housing FAR.

⁸ Title numbers [REDACTED]

5.3.14 We were advised by the CFO that these titles were being confirmed with the relevant sellers' solicitors. We understand that it is the responsibility of the solicitors to transfer the title of the property when it is sold. We were advised by the CFO that the solicitors were being chased for a reply.

D - Additional title returned by KPMG search

5.3.15 One property in our search returned two different titles. These were titles [redacted] and [redacted] both for [redacted]. The first title, number [redacted] is contained in the Advance reconciliation whereas the second title, number [redacted] is not.

5.3.16 Title number [redacted] relates to:

"The leasehold land shown edged with red on the plan of the above titles filed at the Registry and being [redacted]"

5.3.17 Title number [redacted] relates to:

"The Freehold land shown edged with red on the plan of the above title filed at the Registry and being [redacted]"

EIF - Properties in the Advance Reconciliation with Different/Additional Title Numbers)

5.3.18 We have combined these two categories as, in some cases, we found that different title numbers relate to the same property. The first five properties shown in the table below had different title numbers returned in the KPMG PN1 search to those included in the Advance reconciliation. The last two properties in the table were included on the Advance reconciliation with title numbers that were not returned in the KPMG PN1 search.

Table 10: Differences in titles returned in KPMG and Advance PN1Search.

Property	Title number as per KPMG PN1 search	Title number as per Advance reconciliation	Property to which Advance title number relates

5.3.19 In summary our review found the following:

- a. For five properties, our PN1 search returned a different title number to that contained on the Advance reconciliation;
- b. One title noted in the Advance reconciliation was in the name of Advance Developments;
- c. One title noted in the Advance reconciliation was in the name of Advance Commercial.

5.3.20 In respect of those five properties with different title numbers (being the first five properties listed above), we note that:

- Title numbers [REDACTED] and [REDACTED] were returned in the KPMG PN1 search but each was allocated to two separate properties in the Advance reconciliation. Title [REDACTED] was allocated to both [REDACTED] in the Advance reconciliation, while title [REDACTED] was allocated to both [REDACTED] in the Advance reconciliation. These title numbers should only have been allocated to [REDACTED] respectively. Whilst the title numbers allocated to [REDACTED] and [REDACTED] in the Advance reconciliation are not correct, they do not represent additional titles and do not form part of the difference set out at paragraph 5.3.10. We also note that the correct title number for [REDACTED] (being [REDACTED] is in the name of Arch Housing and not Advance Housing.

- In respect of [REDACTED] it is noted that title number [REDACTED] has a reference to title number [REDACTED] stating "Note: Copy filed under [REDACTED]". It would therefore appear that these two titles are connected. This may be land which Advance had purchased and then built upon, with the land having title number [REDACTED] and the building now having the title [REDACTED].

- When viewed, the title numbers in respect of properties [REDACTED] Hexham shown on the Advance reconciliation were not in the name of Advance and related to different addresses. Advance explained that the builder's solicitors had registered the properties next door to each other to the corresponding wrong people/company. Advance advised that the correct title numbers have now been assigned – these being titles [REDACTED] and [REDACTED] for [REDACTED] and titles [REDACTED] and [REDACTED] for [REDACTED].

5.3.21 We also identified two titles which were not returned in the KPMG PN1 search for Housing but were included on the Advance reconciliation. It should be noted that these titles were returned in the KPMG PN1 search for Commercial and Developments. These titles relate to properties held in the name of Advance

Developments (Title number [redacted] and Advance Commercial (Title number [redacted] as follows:

Title number [redacted]

5.3.22 Title number [redacted] is in the name of Advance Northumberland (Developments) Ltd and, on the Advance reconciliation, relates to properties [redacted]

[redacted]
The description on title number [redacted]
[redacted]

5.3.23 The CFO advised that this was land on which houses had been built by Advance Developments and that this title related to the properties at [redacted]. We have been unable to independently verify this.

5.3.24 The CFO has provided a copy of a Land Registry form TR1⁹ which records that title number [redacted] should be transferred from Advance Developments to Advance Housing. The form notes that the transfer was effective on 8 October 2018. However, the title number at Land Registry is still registered with Advance Developments.

5.3.25 The CFO advised that title number [redacted] (and not [redacted] applied to the properties at [redacted]. The description on this title states [redacted]. The CFO advised that, again, this was land that had been purchased and developed as housing. The properties were subsequently named [redacted].

5.3.26 We were provided with a plot schedule for the Nelson Village development by the Housing Manager. The schedule contains the plot number and the respective name of the property. There are 28 plots on the schedule and the property addresses are listed as [redacted]. We note that, in the Advance reconciliation, the title number [redacted] is allocated

⁹ FormTR1 - Transfer of whole of registered titles

against the properties at [REDACTED]. On this basis, we have gained comfort that the title number against the properties [REDACTED] in the Advance reconciliation should also be title number [REDACTED] which was returned in our PN1 search for Advance Housing.

Title number [REDACTED]

5.3.27 Title number [REDACTED] was included in the Advance reconciliation against properties [REDACTED]. This title number was not returned in our PN1 search for Housing.

5.3.28 We independently reviewed this title on Land Registry and noted that it was in the name of Advance Commercial. A review of the title for this property showed that, in addition to [REDACTED] the title also relates to [REDACTED].

5.3.29 We can find no entry on the Advance Housing FAR for this latter entry. The CFO has advised that the title covered both residential and commercial units; the latter being on the lower level with the address of [REDACTED] and the former being on the upper level with the address [REDACTED]. The CFO advised that the commercial units would be included within the Commercial FAR, which we have confirmed.

Additional properties on Advance Reconciliation not yet registered

5.3.30 In addition to the above findings, we noted that there were 20 other properties on the Advance reconciliation which did not have title numbers and had been purchased between December 2019 and July 2020. No titles were returned for these properties in our own PN1 search.

5.3.31 We were advised by the CFO that these were relatively new additions and the titles had not yet been provided by the solicitors, whose responsibility it is to update the Land Registry records as part of the completion process so that new titles can be issued, although the CFO advised that this was being chased. We noted that 16 of these properties were included in the copy of the Housing FAR provided to us by Advance. This FAR only covered the period to 31 March 2020 and, as such,

the remaining four properties were not included in this version of the FAR as they were purchased in July 2020.

Cross-check of FAR to Land Registry

- 5.3.32 In addition to the above review, we also picked a sample of entries from the Advance Housing FAR and agreed this to a Land Registry title (using the title number included in the Advance reconciliation) to ensure that the property was correctly registered at Land Registry. A reverse sample was also performed, with a sample of title numbers obtained from our PN1 search and compared to the entries in the FAR (matching our title number to the one in the Advance reconciliation).
- 5.3.33 We selected a sample of 15 properties from the Advance Housing FAR and sought to trace these to the Land Registry. We found that, in one case, the description contained on the Land Registry title related to the land on which the property had been built, rather than the actual address of the property itself. No other issues of note were identified from our review.
- 5.3.34 We selected a sample of 15 different properties from the Advance reconciliation¹⁰ in order to conduct our checks from the Land Registry to the FAR. In each case, the details on the titles selected matched those in the FAR.

¹⁰ As described above, in some cases, the descriptions in the FAR differed from those at the Land Registry. As such, for the purpose of our review, we relied on descriptions in the Advance reconciliation

5.4 KPMG review - Developments

5.4.1 Our PN1 search for titles associated with Advance Developments returned the following results:

Table 11: Summary of Advance Developments titles registered

Name on title	Number of Titles
Advance Northumberland (Developments) Ltd	25
Arch (Developments Projects) Ltd	-
	<hr/>
Total number of titles	25
	<hr/> <hr/>

5.4.2 We have sought to reconcile these title numbers to the records maintained by Advance. In the majority of cases, these titles are associated with land which is part of development projects and recorded in the work in progress (“WIP”) balance within the Advance Developments financial statements. However, we have also identified a couple of titles which have been transferred to Advance Housing or Commercial.

5.4.3 In order perform the reconciliation, we have been reliant on the Advance reconciliation (and subsequently updated) which maps Land Registry titles to development projects. Unlike for Housing, in many cases there is no clear link between (i) the title number and description / location of each plot of land, as recorded in the information provided by Land Registry, and (ii) the project name used as the basis for recording the items within the WIP and accounting records. In many cases, there are multiple plots of land (and therefore titles) which are assigned to single development projects.

5.4.4 Where our reconciliation did identify a Land Registry title that we could not directly tie back to the records provided to us by Advance, we have sought further evidence to validate that it is correct to assign it to one of the development projects. Through this approach, we have been able to reconcile the 25 titles obtained from Land Registry to the records of Advance.

5.5 KPMG review - Commercial Properties

5.5.1 We conducted PN1 searches under the names of Advance Northumberland (Commercial) Ltd and Arch (Commercial Enterprises) Ltd which returned the following results:

Table 12: Summary of commercial titles registered

Name on title	Number of Titles
Advance Northumberland (Commercial) Ltd	147
Arch (Commercial Enterprises) Ltd	-
Total number of titles	147

5.5.2 The Advance reconciliation addressed the land and properties held at Land Registry in the name of Advance Northumberland (Commercial) Ltd and Arch (Commercial Enterprises) Ltd. This reconciliation identified that 143 titles had been returned from Advance’s PN1 search. Of these 143 titles, Advance identified that 107 were related to properties / land contained within the Commercial FAR and 36 related to land/property contained within Commercial WIP.

5.5.3 Those titles which related to land in the Advance Commercial WIP were held in WIP for the same reasons as those held in Advance Developments, i.e. the land had been purchased and either no development had yet been commenced or a development was in progress.

5.5.4 Our PN1 search returned 147 titles for Advance Commercial, being four more than in the Advance reconciliation. From our discussions with the CFO, we identified that these four titles related to property/land that were part of larger developments recorded in the books and records. We were able to trace three of these titles to items in the Commercial FAR and one title to items in the Commercial WIP.

5.5.5 In respect of the 143 titles on the Advance reconciliation, we encountered the same difficulties in trying to match the titles returned from our PN1 search to those contained on the Advance reconciliation. Again, in order to perform the

reconciliation, we have been reliant on the Advance reconciliation (subsequently updated) which mapped Land Registry titles to commercial projects.

5.5.6 Where our reconciliation did identify Land Registry titles that we could not easily tie back to the records provided to us by Advance, we have sought further evidence to validate that it is correct to assign it to one of the development projects. Through this approach, we have been able to reconcile the 147 titles obtained from Land Registry to the records of Advance.

5.6 Joint ventures and previous company names

5.6.1 For completeness, our PN1 search also included joint ventures (which we had identified from the financial statements) in which Arch was involved, together with the previous names of Arch Housing and Arch Commercial. This returned the following results:

Table 13: Summary of Other titles registered

Name on title	Number of Titles
Northern Coalfields Property Company Ltd	-
Wansbeck Life Ltd	1
SLJH Ltd (joint venture)	2
Prudhoe Estates LLP (joint venture)	1
Total number of titles	4

5.6.2 Northern Coalfields Property Company Ltd was the former name of Arch Housing and our PN1 search returned no properties under this name. Wansbeck Life Ltd was the previous name of Arch Commercial and returned one property. This was title number ND160665. The title describes the property as follows:

“...being land and buildings on the south side of Green Lane, Ashington.”

5.6.3 We note that the title to this property was registered from 30 January 2009. We note from a review of the Commercial FAR that there is an entry for “Green Lane – Offices”. For the reasons outlined in section 5.4 above, we have been reliant on

the Advance reconciliation and the CFO matching Land Registry title descriptions to properties listed in the Commercial FAR. We are advised by the CFO that the above title does relate to the entry of "Green Lane – Offices" in the Commercial FAR. This title needs to be transferred into the name of Advance Commercial.

5.6.4 In respect of SLJH Ltd, this was a joint venture which Arch was previously party to but subsequently left on 15 February 2019. We note from a review of Companies House records that the current ownership report for this company does not include any reference to Advance. However, we also note that Arch's Director of Finance was a director of SLJH Ltd until 30 April 2019. We were advised by the CFO that these titles remain with SLJH Ltd.

5.6.5 Prudhoe Estates LLP is another joint venture that was entered into by Arch. We note from a review of Companies House and the financial statements of this company as at 31 March 2019, that two of the directors of Prudhoe Estates LLP are the Head of Estates and Director of Economic Growth and Investments at Advance. The financial statements for this company show that it is involved in property investment. We were advised by the CFO that this is a joint venture to build a retail park and the titles are held in the name of Prudhoe Estates LLP. Advance's interest in the joint venture is recorded within Investments in its Balance Sheet.

5.7 **Summary**

5.7.1 In summary, we have conducted a review of the property assets recorded in the books and records of Advance in order to establish whether they are correctly registered as belonging to Advance group at Land Registry. In addition, we have performed a sample check of the assets registered in the name of Advance and its group companies, together with Arch (and its former registered names) and joint ventures in which Arch was involved, in order to ensure that these are recorded in Advance's books and records.

5.7.2 In respect of Housing we note that, other than for the nine property titles which are still shown in the name of Arch Housing and which should be transferred to

Advance Housing, we have not identified any significant areas for concern in relation to property assets held in the books and records of Advance which are not correctly registered at the Land Registry.

- 5.7.3 As discussed throughout this section, there is a lack of traceability in being able to easily map the Land Registry titles to the assets held in the FAR and WIP of Advance Commercial and Advance Developments. Whilst we have not identified any significant areas of concern in performing our work, we have been reliant on the information and explanations provided to us by the CFO and have been unable to form a wholly independent view.
- 5.7.4 This is an area where we recommend further improvement is made to enhance the traceability and ensure there is a clear audit trail between the Land Registry records and the FAR and WIP records maintained by Advance.

6 External legal fees

6.1 Introduction

6.1.1 In this section, we consider NCC Question 4: **Are external legal fees paid by Advance Northumberland for conveyancing during 2018/19, 2019/20 and 2020/21 to date accurate?**

6.1.2 We detail our approach in Section 6.2 below and summarise our findings in Section 6.3.

6.1.3 In Section 6.4, we have set out an additional review that we have performed in relation to historical legal fees incurred. The purpose of this review was to identify whether there may be any additional property assets for which legal fees have been incurred, but which are not recorded in the FAR. In Section 6.5, we have considered a sample of completion statements in order to determine the accuracy of the legal fees recorded, when compared with source documentation. This was an area of concern that had been highlighted in the 2017 Internal Audit Report, with four completion statements identified that contained arithmetical errors and the entries in the FAR for these properties also being incorrect.

6.1.4 We summarise our findings in Section 6.6.

6.2 Approach

6.2.1 In addressing NCC Question 4, we have sought to review the nature of the fees incurred, the accuracy of the amounts recorded in the books and records of Advance, the arithmetical accuracy of the invoices, and the corresponding entries on the FAR.

6.2.2 We requested and were provided with detailed ledger account printouts of all professional fees in relation to the Housing and Commercial divisions of Advance. The ledger accounts provided recorded legal and other professional costs (from law firms, estate agencies, property agents, building consultants, surveyors and

architects) incurred from 3 April 2014 through to 20 January 2021 for Housing, and 13 March 2014 to 17 February 2021 for Commercial.

6.2.3 We have confirmed that these ledgers reconcile to the management accounts as follows:

Table 14: Reconciliation of ledger totals to management accounts – Advance Housing

	Ledger (A) £	Management Accounts (B) £	Difference (A-B) £
Year ended 31 March 2019	65,778	65,778	-
Year ended 31 March 2020	36,369	36,369	-
Year ended 31 March 2021	11,122	9,867	1,255

6.2.4 We note that the difference of £1,255 for year ending 31 March 2021 is a timing difference in respect of two journal entries posted in the ledger but not reflected in the management accounts. These entries are in respect of £900 of legal fees in respect of the sale of a property at [REDACTED] and a court application fee of £355 in respect of property [REDACTED]. It should be noted that the figures included in the year ending 31 March 2021 in the table above are only up until 31 October 2020. At the time of our review, this was the latest set of management accounts available to conduct this reconciliation.

6.2.5 We also reconciled the management accounts to the financial statements for the year ending 31 March 2019¹¹. We were advised by the CFO that the legal fees are contained within Administrative Costs in the financial statements. The total Administrative Costs in the management accounts was £1,935,398, compared with a figure of £1,111,314 in the financial statements (a difference of £824,084).

6.2.6 We were advised by the CFO that, when the revaluation of properties is performed each year, any reduction in the value of assets is reflected in Administration Costs

¹¹ The management accounts for the years ending 31 March 2020 and 31 March 2021 were not available at the time of our review

in the management accounts and any gain in value is reflected in Reserves in the Profit and Loss account.

6.2.7 However, the CFO further advised that, when preparing the statutory accounts, the total change in the value of the properties is shown as a separate line within the profit and loss account and not included within Administration Costs. The CFO advised that the difference of £824,084 reflects this change in presentation and we have not identified any concerns in respect of the accounting entries associated with this.

Table 15: Reconciliation of ledger totals to management accounts – Advance Commercial

	Ledger (A) £	Management Accounts (B) £	Difference (A-B) £
Year ended 31 March 2019	279,889	279,889	-
Year ended 31 March 2020	294,100	294,100	-
Year ended 31 March 2021	60,193	60,193	-

6.2.8 It should be noted that the figures included in the year ending 31 March 2021 in the table above are only up until 31 October 2020. At the time of our review, this was the latest set of management accounts available to conduct this reconciliation.

6.2.9 We reconciled the management accounts to the financial statements for year ending 31 March 2019. Again, legal fees are contained in the category of Administrative Costs in the financial statements. The total Administrative Costs in the management accounts was £26,284,266 while the value in the financial statement was £11,410,060. This gives a difference of £14,874,206. The CFO explained that the reason for this difference was the same as that noted above for Housing. The CFO has explained the accounting entries to reflect this change in presentation and we have not identified any concerns in respect of those entries.

6.2.10 To test the accuracy of the legal fees listed in the ledger, we selected a sample across each of the years from 2014 to 2020 and requested copies of the relevant

invoices. We extended our sample to years prior to our specific review period in order to recognise a concern that was expressed to us during our scoping exercise, in that there may be other assets that had been purchased or sold that were not recorded in the FAR of Arch/Advance, which might be identifiable through a review of legal costs.

6.2.11 In respect of the sample of invoices that were selected, where the description made reference to a particular property or portfolio of properties, we checked the relevant FAR to ensure that the property was included and that any purchases of property had been correctly accounted for within the Advance accounting records.

6.2.12 In addition, we obtained copies of the completion statements in relation to a sample of acquisitions and disposals of property in respect of the Housing and Commercial portfolios. This was to confirm that there were no arithmetical errors in the values within the completion statements and that the value of the asset purchased had been correctly reflected in the Housing and Commercial FARs.

6.3 Legal fees - findings

6.3.1 In this section, we set out the findings of our review in respect of invoices for legal costs and completion statements.

Appointment of legal and professional advisers

6.3.2 Advance will select legal and professional advisers who have been appointed to the North East Procurement Organisation (“NEPO”) panel which allows it to utilise a select panel of professionals at preferential rates. We understand from Advance that the NEPO framework is an arrangement whereby a tender process is followed (which is in accordance with public procurement regulations) to select and approve a panel of suppliers. Advance advised that this framework allows a significant reduction in the time/cost associated with the process of appointing individual suppliers and also results in a large discount on rates as the panel is procured for a wide range of public owned bodies.

6.3.3 We were advised by the Head of Estates that the law firm DWF LLP (“DWF”) is generally used for matters involving commercial properties due to their knowledge of the commercial property market. Advance advise that DWF is a member of the NEPO panel.

6.3.4 The Housing Manager advised that previously, under Arch, the preferred supplier was Bradley Hall, but under Advance this is no longer the case and legal advisers would be drawn down from the NEPO framework as and when required. The Housing Manager advised that no new business has been conducted with Bradley Hall since 2017, the only activity since this date has been to complete existing transactions approved under Arch.

Review of Legal Invoices and findings

6.3.5 We selected a sample of 15 out of a total of 287 invoices for Housing and 15 out of a total of 1,063 invoices for Commercial from the ledger print of legal costs provided by Advance. We based the sample on those transactions which were above £1,000 and where the description was indicative of the expense being in relation to a property-related transaction and not associated with more general legal costs that are incurred, such as court fees.

6.3.6 As noted above, the sample covered the years from 2014 to 2021. We were advised by Advance that invoices prior to 2017 had been archived and would take some time to retrieve. This was further complicated by the restrictions currently in place due to Covid-19. As a result, we limited our review to those invoice documents that were readily available. Where an invoice/charge in our sample related to an earlier period, we held discussions with the CFO to understand the nature of the transaction and sought to verify this to other supporting documentation, including agreeing the details to the FAR where appropriate.

Housing Sample

6.3.7 Out of our sample of 15 transactions, we received three invoices in respect of Housing legal costs. We reviewed the invoices in order to confirm that:

- The amount on the invoice agreed to that recorded in the Advance ledger;

- The arithmetical accuracy of the invoice was correct;
- Where the invoice referred to property, this property was included in the FAR.

6.3.8 The results in respect of the Housing sample were as follows:

Table 16: Sample of Housing Legal Fees invoices

Supplier Name	Invoice value	Invoice date	Ledger amount agrees to invoice	Calculation correct	Relates to property on FAR
Ward Hadaway	£4,053	14/02/18	✓	✓	✓
DWF LLP	£6,000	30/05/19	✓	✓	✓
Strutt & Parker	£6,606	01/04/20	✓	✓	✓
Total value	£16,659				

6.3.9 Our review found that all three invoices agreed to the amount contained in the ledger account of Advance and the calculation of the invoice was correct. Each of these invoices related to property and we agreed for each invoice that the property noted on the invoice was recorded in the Housing FAR.

6.3.10 We note that an invoice for Strutt & Parker in our sample relates to legal fees incurred in relation to the sale of the former CEO's house¹². This invoice was arithmetically correct and the Housing FAR reflected that this property had been sold. As for the other invoices reviewed, the invoices were arithmetically accurate and the Housing FAR reflected these properties.

Commercial sample

6.3.11 Out of our sample of 15 transactions, we were provided with eight invoices in respect of Commercial legal costs. We reviewed the invoices in order to confirm that:

- The amount on the invoice agreed to that recorded in the Advance ledger;
- The arithmetical accuracy of the invoice was correct;

¹² See Section 2

- Where the invoice referred to property, this property was included in the FAR.

6.3.12 The results in respect of the Commercial sample were as follows:

Table 17: Sample of Commercial Legal Fees invoices

Supplier name	Invoice value	Invoice date	Ledger amount agrees to invoice	Calculation correct	Relates to property on FAR
George F White	£8,100	06/01/17	✓	✓	✓
DWF LLP	£2,932	31/03/17	✓	✓	n/a
Mail Solutions Europe Ltd	£4,010	07/03/18	✓	✓	✓
RD Professional Ltd	£13,000	21/03/18	✓	✓	✓
DWF LLP	£7,229	30/04/19	✓	✓	n/a
BNP Paribas Real Estate Advisory Ltd	£20,000	19/12/19	✓	✓	✓
BNP Paribas Real Estate Advisory Ltd	£10,000	19/12/19	✓	✓	✓
Savills (UK) Ltd	£13,516	22/06/20	✓	✓	✓
Total value	£78,787				

6.3.13 Our review of these invoices indicated that all agreed to the amount contained in the ledger account of Advance and the calculation of each invoice was correct. Six of these invoices related to property and we agreed for each invoice that the property noted on the invoice was recorded in the Commercial FAR.

6.3.14 The narrative included on the DWF LLP invoice dated 31 March 2017 states "Joint venture with [REDACTED] We were advised by the Finance team that these costs were related to a development project and should have been charged to Advance Developments. The costs were in relation to a feasibility and development fee which is incurred when an assessment is made of the suitability of a site for a potential development. The Finance team advised that, following this assessment, it was decided not to go ahead with the development.

6.3.15 The narrative included on the DWF LLP invoice dated 30 April 2019 is for "Plot 2 Portland Park – [REDACTED] We have reviewed the Commercial FAR but cannot see an entry for Portland Park. Advance advised that Portland Park

was the name of a development where numerous plots had been purchased and was recorded in the Commercial WIP balances under the heading of "Ashington NE quadrant Development". We were advised by Advance that these legal fees relate to the drawing up of a contract regarding the sale of Plot 2 Portland Park to [REDACTED]. The contract includes the construction of a retail building by Advance. Therefore, once the building has been constructed, both it and the land, together with title, will pass to [REDACTED].

6.4 Historical invoices not recovered

6.4.1 With regard to the balance of 12 Housing (with a total value of £162k) and seven Commercial (with a total value of £219k) legal fee invoices that could not be retrieved by the Advance team, we held discussions with the CFO and obtained other supporting documentation in order to understand the nature and background of these transactions.

Housing invoices

6.4.2 From our discussions with the CFO, we were able to align eight (with a total value of £39k) of these legal costs directly with items within the FAR on the basis that the description included reference to a particular property that we could trace to an entry in the FAR. For the remaining four invoices, we were provided with the following explanations:

1. DWF invoice dated 3 June 2014 for "Purchase of Kings Manor Portfolio" - £13,376 excluding VAT. Advance advised that this fee related to a portfolio of properties purchased in 2014. Advance provided a report dated November 2013 from estate agents Knight Frank which detailed a portfolio of 30 residential properties which were being offered for sale by Kings Manor Properties, which the report states is a wholly owned subsidiary of Newcastle Building Society. We were able to match all of these properties to entries in the Housing FAR. The date on which these properties were entered into the FAR was 3 June 2014, which is consistent with the date of the invoice from DWF;

2. DWF invoice dated 22 October 2014 for "Purchase 7-13 Main Street, Tweedmouth" - £6,870 excluding VAT. Advance advised that this property is rented from Advance Housing to Advance Commercial. The property comprises shops on the ground level and flats above which were named "McGregor Court". We found that the entries for the flats were contained in the Housing FAR and an entry for Main Street, Tweedmouth is contained on the Commercial FAR. Advance provided a copy of the lease between Housing and Commercial and a copy of the title plan which provides references to both Main Street and McGregor Court.
3. GVA invoice dated 8 March 2016 for "Legal Fees – TT Portfolio" - £44,400. We were advised by the CFO that this was a portfolio of properties that were not purchased by Advance. The CFO provided a list of the properties included in this portfolio. We compared this list to the entries in the FAR and confirmed that these properties were not included in the register.
4. Bradley Hall (Newcastle) Ltd invoice dated 26 January 2018 for "Sale fee for land at Beadnell" - £57,900 excluding VAT. We were advised by the Finance team that this was in relation to land being purchased at Beadnell. Advance ultimately decided not to progress with the purchase but this was at a very late stage when contracts were due to be signed. Due to the very late nature at which Advance withdrew from the transaction, it incurred a penalty for pulling out of the contract which was paid to the seller.

Commercial invoices

6.4.3 Based on our discussions with the CFO, we were able to align five (with a total value £107k) of the seven legal fees directly with items within the FAR on the basis that the description included reference to a particular property that we could trace to an entry in the FAR. For the remaining two items in our sample, we were provided with the following explanations:

1. DTZ invoice dated 15 December 2014 for "Hansteen" - £94,000 excluding VAT. Advance advised that this related the purchase of a portfolio of properties at a number of sites, namely Ashington Jubilee, Merchant Court, Bassington

Industrial Estate, Enterprise Court, South Nelson Industrial Estate, Mailing House, Seaton Delaval Trading Estate, Bedlington Barrington Industrial Estate & Blyth Cowpen Industrial Estate. All of these properties can be traced to the FAR and have a reference to "Hansteen". Advance provided a letter from law firm Bond Dickinson LLP which relates to the completion of the sale of the properties. This letter lists the Hansteen properties as follows:

- (i) "The freehold property being land and buildings at North Seaton Industrial Estate, Ashington and Unit N2 North Seaton Industry Estate Ashington (known as Merchant Court) – Title Number ND60004 and ND54370"; and
- (ii) "The freehold property comprising Units 1 to 17 (inclusive) Terraced Factories Bassington Industrial Estate Cramlington NE23 8 AD – Title number ND116784."

As part of our work in Section 5, we agreed that Advance has ownership of these titles but, due to the difficulty in matching Commercial title numbers to entries in the FAR, we are dependent on the connection being made by Advance in matching the above titles to the estates detailed by them in the FAR.

2. DWF invoice dated 8 October 2015 for "DWF LLP" - £8,325. Advance advised that it had no information on what this invoice related to and would need to retrieve the invoice from its archive records. At the time of drafting this report, the CFO has been unable to verify the nature of this transaction.

6.5 Completion statements

- 6.5.1 We also obtained a number of completion statements. We received a total of 17 completion statements in respect of Advance Housing and 14 completion statements in respect of Advance Commercial and reviewed these to determine the accuracy of the legal fees recorded therein, when compared with source documentation. In respect of additions to each portfolio, we checked the relevant

FAR to determine if the correct value had been entered and correlated to the value detailed on the completion statement.

- 6.5.2 We note that the value recorded in the FAR includes not only the purchase price of the property, but also legal costs and disbursements of the law firm, stamp duty, Land Registry fees, engrossment fee¹³ and service charges.
- 6.5.3 Some of the sample properties selected were development projects that had been managed by Advance Developments. Once the development was complete, the property would be handed over to Advance Commercial to manage and rent out. In these instances, a completion statement was not available and an invoice transferring the cost of the project from Advance Developments to Advance Commercial was instead provided.
- 6.5.4 The findings from our review are set out below in respect of both Housing and Commercial properties:

Table 18: Review of Housing and Commercial completion statements

	Housing		Commercial	
	Additions	Disposals	Additions	Disposals
Total number in sample	10	9	8	9
Number of completion statements/internal invoices provided	9	8	7	7
Addition of statement/internal invoice provided is correct	9	8	7	7
Addition of statement/internal invoice is incorrect	-	-	-	-
Value on completion statement agrees to value in FAR	5	n/a	7	n/a
Deposit and purchase price shown separately in the FAR	4	n/a	n/a	n/a

¹³ An engrossment fee is a fee charged by a Solicitor for producing a fair copy of a legal document, such as a lease or conveyance, for signature by the parties.

Findings in respect of Housing

6.5.5 As can be seen from the table above, completion statements or alternative evidence was provided in relation to nine out of 10 of the Housing property additions and eight out of nine of the Housing property disposals in our sample.

6.5.6 In respect of four properties [REDACTED] we noted that the value contained on the FAR reflected the value on the completion statement less the deposit. We were advised by Advance that each deposit was held in a separate line of the FAR under the respective development name, these being "Fairmoor Deposit" and "Arscot Deposit". We reviewed the FAR and confirmed that these entries were as described.

6.5.7 Advance provided a schedule of the addresses to which the deposits applied. We confirmed that [REDACTED] was included in the Fairmoor Deposit list and [REDACTED] was in the Arscot Deposit list. We were further advised by Advance that it had been advised recently by its statutory auditors that these deposits should be allocated to each individual property that was purchased. Advance further advised that it had started this exercise, but it was not yet complete.

Findings in respect of Commercial

6.5.8 Completion statements or alternative evidence was provided in relation to seven out of eight of the Commercial property additions and seven out of nine of the Commercial property disposals in our sample.

6.5.9 In respect of one Commercial disposal, there was no completion statement but an invoice from Advance Northumberland Commercial to WM Morrison Supermarkets plc for the sale of land at Amble Coquet Enterprise Park for the sum of £869,215.60 plus VAT, giving a total of £1,043,058.72. The calculations and additions in this invoice are correct.

6.5.10 One disposal did not have a completion statement as it was a transfer of a property to NCC. This property was Alnwick Youth Hostel.

6.6 Summary

6.6.1 In summary, we have reviewed a sample of external legal fees paid by Advance Northumberland for conveyancing during 2018/19, 2019/20 and 2020/21 to date.

6.6.2 From our sample review, we have not identified any areas of concern in relation to:

- The accuracy of the recording of legal fees in Advance's books and records;
- The recording of legal fees in completion statements; or
- Noting that an inappropriate value has been recorded on the FAR.

6.6.3 Further, in reviewing a sample of historical legal fees recorded in Advance's accounting ledgers, we have not identified any property assets which were not included in the relevant FAR.

7 Empire Court Stamp Duty Land Tax

7.1 Introduction

7.1.1 In this section, we consider NCC Question 5: **Regarding the specific Empire Court Development referenced in the 2017 Internal Audit report, have arrangements for Stamp Duty Land Tax (“SDLT”) been correctly applied?**

7.1.2 We detail our approach in Section 7.2 below and summarise our findings in Section 7.3. The comments we have provided in this section of the report are based on the facts and documentation provided by Advance and NCC and our stated assumptions. We reserve the right to amend or update this section should further information become available or the information already provided is subsequently found to be incorrect as this could have a material impact on the advice we have provided.

7.2 Approach

7.2.1 Our initial approach was to understand the background to and implementation of the acquisition of the property at Empire Court, Whitley Bay (“the Property”), which we understand was as follows:

- In 2017, Arch Housing (“Arch”) entered into a contract to acquire the Property.
- Arch acquired the Property and the construction services to complete the development from the same party (“the Vendor”) under two separate contracts.
- The purchase price for the land was c£1.3m, payable on completion of the land acquisition contract. The cost of the construction services was c£2.4m, payable at trigger points over the construction period, with any balance payable on completion of the works.

- 7.2.2 For SDLT purposes, where there is one transaction (or “bargain”) between two parties but this is implemented by two contracts, one for the sale or lease of the building plot and one for the building works themselves, the amount of SDLT depends on the amount of the consideration, which in turn depends on whether the contracts can be shown to be genuinely independent of each other, i.e. whether the purchaser is in substance acquiring the completed development albeit prior to completion, or whether they are buying bare land and construction services.
- 7.2.3 If the two contracts are so interlocked that they cannot be said to be genuinely capable of independent completion (and in particular where if default occurs on either contract, the other is then not enforceable) SDLT would be charged on the total consideration for both contracts, whether the buildings are completed or not at the effective date of the acquisition, as if the parties had entered into only one contract.
- 7.2.4 However, if the two contracts can be shown to be genuinely independent of each other, SDLT is charged by reference to the consideration paid or payable for the land (and any building works on that land at the effective date of the land transaction), but any consideration for the development works to be carried out after the date of acquisition are outside of the scope of SDLT.
- 7.2.5 In this second scenario, where the sale of land and the construction contract are independent of one another there must be a just and reasonable apportionment of the total consideration given for all elements of the bargain in order to arrive at the chargeable consideration for SDLT. Additionally, the chargeable consideration must take account of the value of any works on the land at the effective date of the transfer.
- 7.2.6 We reviewed the available documentation to confirm the amount of SDLT as calculated by Arch, the basis on which it had been calculated and to ascertain if it was possible to determine if this was the correct amount from the information available. It should be noted that a key document, the sale and purchase agreement for this transaction, was not available to us as it could not be located by individuals at Advance or NCC. We would have expected this document to have

provided further clarity on the structure of the transaction which would have determined the basis on which SDLT would have been due. We have detailed our findings below, based on the available information.

7.3 Findings

- 7.3.1 The Heads of Terms provide for total consideration for both the acquisition of the Property and the provision of the construction services of £3.7 million.
- 7.3.2 The sum payable under the design and build contract is detailed in the document as being £2,497,500.
- 7.3.3 We understand that the purchase price for the Property was £1,202,500, based on the Board papers we have seen. However, the reconciliation statement shows a base purchase price of £1,305,000. It is not clear what the difference relates to, or where the price of £1,305,000 originates from, especially as the sale and purchase agreement has not been provided. As such, we are unable to confirm the correct purchase price.
- 7.3.4 The reconciliation statement provides that the SDLT payable was £49,625.
- 7.3.5 We have reviewed the design and build contract which has been drafted such that it appears that it is sufficiently independent of the sale and purchase agreement. If the sale and purchase agreement has also been drafted so that it is independent from the construction contract, SDLT should only be due on the price paid for the Property (assuming that the total consideration has been just and reasonably apportioned between the two contracts).
- 7.3.6 That the Heads of Terms gives a single price for the completed development of £3.7 million and £3.7 million is the figure in the approval documents is not, in itself, definitive for SDLT purposes. The design and build contracts have been drafted for an agreed amount, and there is no ability under these contracts for the Vendor to take back the land or Arch to put back the land to its former condition in the event of default – indicating that the design and build contract and the sale and purchase

agreement are sufficiently independent of each other, i.e. Arch is taking the development risk on the Property that it has purchased, rather than pre-buying a completed development.

- 7.3.7 Providing that there was nothing in the sale and purchase agreement which would allow either party to put back / take back the land in the event of default, then the chargeable consideration on which SDLT was due was that payable for the land. If that consideration was £1,202,500 (no VAT was charged), and that was a just and reasonable apportionment of the total amount payable for both contracts, then the SDLT amount of £49,625 shown in the reconciliation statement has been calculated correctly.
- 7.3.8 If the purchase price for the Property was £1,305,000 as provided in the reconciliation statement, the SDLT that should have been paid and returned is £54,750, reflecting an underpayment of £5,125.
- 7.3.9 If the sale and purchase agreement was not sufficiently independent of the design and build contract, such that the transaction was in substance a purchase of the completed development by Arch (albeit in advance of completion) then, on the understanding the total price for both contracts was £3.7 million and no VAT was charged, the SDLT that should have been payable assuming no reliefs were claimed would have been c£175k. Although, on the understanding that the units were partially completed at the date of acquisition, multiple dwellings relief may have been available to reduce this to c£156k.

7.4 Summary

- 7.4.1 Based on the information which has been made available to us, it would appear that the correct amount of SDLT has been applied at £49,625, as shown on the completion statement. However, it should be noted that a key document, being the sale and purchase agreement relating to this transaction, could not be located by either Advance or NCC. The provision of this document would have provided further clarity on the appropriateness of the treatment which has currently been applied.

8 Pay structure and employee benefits

8.1 Introduction

8.1.1 In this section, we consider the questions raised by NCC in relation to the governance at Advance surrounding pay and reward arrangements and whether there is clear segregation of duties in relation to any amendment made to the pay and reward of senior staff.

8.1.2 In Section 8.2, we address NCC Question 6: **Do pay and reward arrangements at Advance Northumberland group have proper governance arrangements?** We also address NCC Question 7: **Are the procedures for amendment to senior staff salaries documented clearly, bearing sufficient segregation of duties, and formally agreed?**

8.1.3 In Section 8.3, we consider whether any agreed procedures identified in Section 8.2 in relation to salary increases are being applied as documented.

8.1.4 In Section 8.4, we address NCC Question 8: **Are staff benefit (pay and reward) schemes correctly accounted for and in compliance with HMRC requirements? Is a schedule of taxable benefits in place?**

8.1.5 To answer these above questions, we held a number of discussions with the HR Manager at Advance and reviewed the various minutes of the Nominations and Remuneration committee ("Noms & Rems committee"). We discussed the structures and policies that are currently in place at Advance to govern staff pay and rewards, both at a senior level and for more junior levels as a whole.

8.2 Pay Structure of Advance

8.2.1 We were advised by the HR Manager that, whilst there is a policy for the recruitment of staff, there is currently no formalised pay structure or policy in place. The HR Manager further advised that Advance is currently conducting a review to address this in order that the Advance group as a whole has a clearly defined pay structure and a standardised form of progression through dedicated pay scales for

specific roles and grades of staff. In the following sections, we set out the current structures in place, together with details of the review currently being undertaken by Advance.

Current structure

- 8.2.2 The HR Manager advised that there are no salary scales in operation at Advance and employees only receive a cost of living increase each year. We understand from the HR Manager that they will mirror NCC scale rates where the job description is comparable but, it is Advance's opinion, that there are many instances where the roles are not comparable to those at NCC. Where they consider this to be the case, Advance will instead benchmark this to similar external roles – we discuss this process further below at section 8.2.7. As detailed in the Financial Delegated Authority policy, any increases to an employee's salary due to annual cost of living reviews, promotion, re-alignment of pay across similar job holders, or as a result of external benchmarking, need to be reviewed and approved by the Nomination and Remuneration ("Noms & Rems") Committee.
- 8.2.3 The Noms & Rems Committee was set up by Arch and its membership consists of the Advance Chairman, the leader of the NCC and two independent Board members. The terms of reference of the Noms & Rems Committee, in summary, include the following:
- a. Consider and agree the remuneration of the Managing Director ("MD");
 - b. Approve, based on recommendations from the MD, the Senior Leadership Team ("SLT") remuneration;
 - c. Oversight of the remuneration policy of the Advance group of companies;
 - d. Responsibility for the governance around the Company's remuneration protocols;
 - e. Lead the process for Board appointments and other senior positions; and
 - f. Have due regard to the wishes of the Company's shareholder.

- 8.2.4 Whilst the terms of reference state that the Noms & Rems Committee considers remuneration in respect of the MD and approves the MD's recommendations in respect of the SLT, this was only the case up until September 2019. Since September 2019, the Noms & Rems Committee has reviewed and approved alterations to any employee's pay, except that of the MDs which is considered by the Advance Board. This includes that of the SLT and more junior levels of staff.
- 8.2.5 Prior to September 2019, the review and approval of alterations to staff remuneration would be considered by a Human Resources Committee ("HR Committee"). The membership of this Committee included the Arch Chief Executive Officer, Directors of Arch and a representative from NCC. However, the decision was taken by the current MD to have all proposed changes to employee remuneration reviewed and approved by the Noms & Rems Committee and the last meeting of the HR Committee took place in September 2019. The purpose of this change was to introduce a more formal and independent process for the review and approval of changes to employee remuneration.
- 8.2.6 The Noms & Rems Committee also reviews and approves the annual cost of living increase paid to staff each year. This cost of living increase is based on the Local Government Services' Pay Agreement which is negotiated between the National Employers and the National Joint Council Trade Union. The Noms & Rems Committee will review and approve any promotion of staff, including pay rises given to staff on promotion.

Process followed to make referrals to the Noms & Rems Committee

- 8.2.7 The HR Manager advised that, where an employee is proposed to be promoted or receive a pay rise / realignment, a standard process will be followed. We were advised that this process had become more formal under the Noms & Rems Committee. A business case will be prepared and presented to the Noms & Rems Committee for consideration as to whether an increase or realignment should be approved. We were provided with a copy of a standard template which is in place for the business case. The business case template requires the following to be set out:

- a. The background and nature of the role and its importance within Advance;
- b. Details of the current postholder or employee to be promoted, how long they have been in post and the actions which justify an increase in salary and/or promotion to the role;
- c. Details of the salary being proposed and the financial implications in terms of the additional cost that will be incurred by Advance. This will include details of any benchmarking performed, including comparison with external organisations, discussions with recruitment agencies and, where the role is comparable to Council roles, a comparison to NCC pay scales will be made. Benchmarking will take into account the nature and location of the role, how easy it will be to recruit suitable candidates, the complexity of the role, degree of managerial responsibility, etc;
- d. Risks that may occur if the employee is not promoted or the salary increase approved, such as the impact the loss of the employee could cause in respect of knowledge or expertise, and the extent to which similar or more attractive opportunities may be available in the private sector which may persuade the employee to leave.

Current review of pay structures and pathways

8.2.8 It was noted at the beginning of this section that Advance is currently conducting a review of its pay structure. The HR Manager advised that there is currently a lack of clarity over how staff progress through the company and, as they do so, what pay scales they could expect to obtain. In this regard, Advance engaged an external HR company (the name of which was not provided) to consider a number of areas. These included:

- a. Map out and understand the current remuneration in the organisation across the various roles;
- b. Benchmarking of current remuneration both internally and externally; and

- c. Highlight equal pay issues, i.e. where there were differences in the pay of employees performing similar roles.

8.2.9 A report was prepared by the HR Manager following this review which is currently being considered by the Advance Board and, as such, we have not been provided with a copy. Whilst the specifics of the report are still being considered, the review by the external HR agency has led to the creation of “job families” with associated pay scales for the Advance group. This categorises the various roles within Advance into common areas of expertise and by level of seniority. This gives a hierarchy of job roles across the Advance group so, as staff progress in their careers, they can see what the next level of seniority will be and the associated pay scale for that grade.

8.3 Sample review of pay increases

8.3.1 In Section 8.2, we describe the governance that is currently in place around the pay and reward arrangements at Advance.

8.3.2 In order to test whether the procedures were followed as described, we requested a copy of the salaries paid to all employees during the financial years ending 31 March 2018 to 2020. For the purpose of our review, we selected all employees included within the SLT, together with a sample of more junior staff, and compared the salary of each employee year-on-year to identify any increases that had been made to the salary that were not explained by the normal cost of living increase (being 2% in both years ending 2019 and 2020).

8.3.3 In the paragraphs below, we have summarised the key findings from our review of changes to both senior and junior staff salaries on an exception basis.

Changes in SLT remuneration

8.3.4 Within our review population, we noted that [REDACTED] during this period. We set out below our observations in relation to the changes made and process followed for these two individuals.

[REDACTED]

8.3.5 In the period covered by our review, this individual was promoted from [REDACTED] in September 2017; to [REDACTED] in October 2018; and has subsequently had his position as [REDACTED] confirmed. On each occasion, the individual's remuneration has increased.

8.3.6 Contrary to the process set out above, there are no formal business case documents which set out the basis for each of these promotions or the associated remuneration package. In one instance, an undated document was provided to us which outlined the proposed new structure for the Finance function and showed the [REDACTED] role being replaced by a [REDACTED] role, with the assumption that the individual would move roles too. This document did not detail whether the skills and experience of the individual met the requirements of the role. For the second promotion, we were provided only with an undated email from the [REDACTED] (now the [REDACTED]) which the HR Manager advised was from August 2018, which confirmed the promotion.

8.3.7 Whilst there is evidence within the minutes of the HR Committee and the Noms & Rems Committee that sat during the period that approval was given for these promotions, it is not clear on what basis these decisions were taken as there is very limited information recorded in the minutes pertaining to these decisions.

[REDACTED]

8.3.8 In the period covered by our review, this individual was promoted from [REDACTED] to [REDACTED] for a limited period. This was subsequently extended before the individual was promoted to [REDACTED]

[REDACTED]

8.3.9 Whilst business cases could not be located for either promotion, the minutes of the Noms & Rems Committee record that approval was given. However, it is not clear as to the information that was presented to the Noms & Rems Committee or the basis on which approval was granted.

Other senior individuals

8.3.10 For changes in the remuneration of other senior individuals, we noted that there seemed to be some confusion over whether amendments to an individual's working pattern, such as a change in the number of days worked, require a business case to be submitted to the Noms & Rems Committee. In the two instances we identified, a Business Plan was prepared for only one of the cases, but both were minuted as having been discussed in the Noms & Rems Committee.

Junior personnel

8.3.11 In relation to changes in the remuneration paid to more junior individuals, i.e. those not part of the SLT, during the period under review, we noted the following exceptions.

8.3.12 For one promotion relating to the [REDACTED] we have not been provided with the business case or minutes from the Noms & Rem Committee to support the promotion. Similarly, for two other individuals, we were advised that no electronic documentation was available in relation to the proposed changes to their remuneration and that this was likely to be in hard copy format at the Advance office which could not be accessed at the current time.

8.3.13 For one individual, it was noted that a proposal for an increase in salary when moving from apprenticeship rate to full employment rate would not be subject to a formal business case as this was considered to be an operational matter, despite this being a significant increase for the individual.

8.4 Reporting of pay and reward to HMRC

8.4.1 We conducted an interview with a member of Advance's payroll team in order to understand the process in place for the reporting of pay and reward received by employees, including those in the SLT, to HMRC. We also discussed what benefits in kind were received by employees and whether there was any difference between those received by the SLT and more junior employees. The findings from our interview are detailed below.

Benefits in Kind

8.4.2 We were advised by Advance that all employees, including those in the SLT, receive the same benefits in kind. Advance has a document which sets out the benefits in kind that are available to employees as follows:

- a. Subsidised gym membership;
- b. Salary sacrifice schemes to access Home Electronics (through a specific website link), Cars and Bikes. The cost of these items is tax-free as the cost is deducted from gross pay;
- c. Access to cash plan to subsidise costs for healthcare such as dental, optical and therapies;
- d. An employer pension contribution;
- e. Employees can buy up to an additional five days holiday. Advance advised us that staff no longer typically buy holidays since the introduction of flexitime;
- f. Death in service benefit of four times salary.

8.4.3 We were advised by Advance that completion of a P11D form for each employee is carried out at the mid / end of June each year. The P11D form is a HMRC form prepared by an employer which records all benefits in kind that an employee has received during the previous tax year. These are submitted by an employer to HMRC on behalf of its employees and are used by HMRC to inform any adjustments required to the individuals' tax codes.

8.4.4 We were advised that a report of the benefits in kind received by each employee is generated from Advance's payroll system, which is called [REDACTED]. The P11D forms are then compiled from this report.

8.4.5 The list of benefits generated from the payroll system are checked to a number of external sources of information, as follows:

- a. Gym membership – the payroll team keeps a spreadsheet of those employees who have this benefit and for what period;
- b. Salary sacrifice schemes - the supplier of electronic equipment, bikes, cars etc provides the payroll team with details of the cost(s) to be deducted from the employee's gross pay;
- c. Where employees wish to use the salary sacrifice scheme to obtain a car, authorisation for this has to be given by the HR Manager.

Salary

- 8.4.6 In respect of salaries, P60 forms are completed at the end of the tax year for each employee. A P60 records the amount of salary paid to an employee in the tax year, together with the amount of tax and national insurance contributions that have been deducted. The P60s are automatically generated by Advance's payroll system and are sent out to employees.
- 8.4.7 The information generated by the payroll system is also used to populate the submissions made to HMRC at the end of each tax year. We were advised by the payroll team that all submissions to HMRC in respect of pay and reward were up to date.

Amendments to Payroll

- 8.4.8 We were advised by the payroll team that each month it will receive a Payroll Amendment Sheet which will detail any changes to an employee's pay, any new employees or any leavers. The Payroll Amendment Sheet is completed by HR and details of the pay of new employees will also be provided by HR. New employees will be entered onto the payroll by the payroll team.

Travel and Subsistence Policy

- 8.4.9 Advance has a travel and subsistence policy which covers the following expenses incurred in the normal course of business:
- a. Travel costs using public and private transport (own car and taxis);

- b. Subsistence allowance including meals;
- c. Hotel costs;
- d. Parking and tunnel and toll charges; and
- e. Any additional personal expenses incurred as a consequence of business travel.

8.4.10 Travel costs include a mileage rate which, up until November 2020, was 58.7 pence per mile which resulted in an additional tax burden for employees as this was above the HMRC tax free threshold. In November 2020, Advance changes its mileage rate to 45 pence per mile to align the rate with the HMRC threshold.

8.4.11 The payroll team advised that there was a pool of cars and vans which were used for the maintenance of properties and were only used during working hours. No employee had access to these vehicles for their personal use.

8.4.12 The payroll team advised that claims for travel and subsistence expenses have to be supported by a relevant receipt and the claim authorised by their line manager. We noted that it was not standard practice for the payroll team to check the claim to see whether it was within policy and relied upon the approval provided by the line manager.

Company Credit Card

8.4.13 There is a company credit card which is held by the payroll team member that we interviewed. This credit card can be used by employees but only where payment for any item cannot be made by any other means such as a bank transfer.

8.4.14 Where an employee requires the use of the credit card, they need to email the member of the payroll team to request the card and provide the reason as to why the card is required. This request must also be signed off by the employee's line manager. The card is returned to the payroll member once the relevant purchase has been made. We were advised by Advance that, when the credit card statement is received, this will be reviewed and all expenditure is tracked back to a receipt

and the pre-approval from the employee's line manager. Any items which are not pre-approved or traced back to a receipt will be queried with the relevant employee and line manager by the payroll team.

Purchase ledger expenses

- 8.4.15 The payroll team member advised that all staff included on the payroll are permanent staff, including the members of the SLT. We were advised that the payroll team is not involved in the payment of consultants. Invoices for consultancy services would be processed through the purchase ledger and managed by the relevant Management Accountant for the division of Advance that was engaging the consultant.
- 8.4.16 We noted that there was no review routinely conducted of the purchase ledger or general ledger to identify if there were any other items which may constitute a personal benefit in kind for an employee.
- 8.4.17 The payroll team advised that there was no business entertainment expenditure incurred, with the exception of the annual Christmas party and occasional attendance at business development events hosted by external parties. None of this was considered to be a benefit in kind.

Schedule of Taxable Benefits

- 8.4.18 NCC raised the question as to whether Advance has a Schedule of Taxable Benefits. Our understanding of this term is that this would be a table which sets out each benefit offered to employees and how each of these is treated for tax and NIC (i.e. are they included in payroll, reported via P11D, included in a PAYE Settlement Agreement or potentially (like an employer pension contribution) not taxable and therefore not subject to any tax via the payroll nor reportable on a P11D). The Schedule of Taxable Benefits would also normally show the payroll treatment of any deductions to pay made under a salary sacrifice arrangement.
- 8.4.19 We were advised by Advance that it does not have a Schedule of Taxable Benefits document (or equivalent) or a payroll parameter report which is used to check the tax and NIC treatment applied by the payroll software to each pay element. They

were reliant on the payroll software to ensure that current tax & NI rates, allowances and deductions are correctly applied each month. We understand that, if there are amendments made to any employee benefits which are not taxed via payroll, the payroll team will report these on the P11D (and HMRC will make an adjustment to the PAYE deducted via the employees tax code where appropriate).

- 8.4.20 However, by not having this Schedule of Taxable benefits, or regularly checking a payroll parameter report (or similar), it is not clear to us what steps are taken by the payroll team to ensure that tax & NIC rates and any allowances or deductions which are applied by the payroll system are correct and up to date and that taxable benefits are correctly reported on forms P11D. It would be expected that regular independent checks are performed by the payroll team against the standing data used within the payroll systems, to ensure that it is correct and that employees are being taxed appropriately.

8.5 Consultants

- 8.5.1 In light of some of the concerns which were raised in the 2017 Internal Audit report regarding the use of external consultants, we have sought to understand the current process for the engagement of consultants and tested whether this process is operating in practice.
- 8.5.2 We were advised by the payroll team that the payment of consultants would not be made through the payroll system. Instead, this expenditure would be paid as an invoice and charged to the purchase ledger. We were advised by the HR Manager that there is a procurement policy covering the engagement of agency staff and consultants and that this was first ratified by the Advance Board in September 2019. We were advised by Advance that NCC approved the policy.
- 8.5.3 The policy sets out the process for procuring such staff and the levels of authority required to approve such engagements, as follows:

- a. *“Up to £10k – expenditure can be approved by a member of the SLT or budget holder if they can demonstrate value for money and have considered use of competition.*
- b. *Between £10k and £50k – three quotes are to be obtained;*
- c. *Over £50k – competitive tender process needs to be put in place.”*

8.5.4 We were advised by the HR Manager that permission to procure under this policy is gained through the NCC Procurement team via the Advance Procurement team. We spoke with a member of this team who advised that, if a division wished to appoint a consultant, the head of that division would need to complete a business case setting out the rationale as to why the consultant was required, provide a gap analysis of the risks that would occur if the consultant was not appointed, details of any individual that had been identified and the associated costs.

8.5.5 The business case would be reviewed and approved by the MD and then forwarded to the Advance Head of Procurement who would, in turn, submit the business case to NCC for approval. Any questions or challenges raised by NCC would be fed back to the Advance Procurement team who would, in turn, take this up with the relevant head of division. When NCC approve the business case, this will be confirmed in writing to Advance. Standard templates were created for setting out the business case and for submission of this to NCC.

8.5.6 The Advance Procurement team advised that only one consultant had been appointed since the introduction of the new policy. The team advised that the consultant was recruited to temporarily cover the position of the [REDACTED] [REDACTED] as the current incumbent had resigned and a recruitment process was underway to find a replacement.

8.5.7 The papers provided included a copy of the Business Plan which outlined the rationale for appointing the consultant and that they would be in post for a maximum of 32 days between May 2020 and January 2021 at a cost not to exceed £20k. We note that the Business Plan is signed by the MD. We also note that the

Business Plan asks for an exemption from the normal process of acquiring three quotes as stipulated by the policy, due to the imminent departure of the [REDACTED]. The papers provided include evidence of the submission to and approval by Head of Procurement at NCC with a strong recommendation that the individual be appointed via payroll on a short-term contract as it would appear, that this individual would not satisfy the off-payroll requirements.

8.5.8 We understand from the information provided to us, that this recommendation was not followed, and that the consultant was not added to payroll. Instead two purchase invoices totalling c£4,000 were received and paid in July and August 2020 for these services. At this point in time we are not clear why the recommendation was not followed and have requested further clarification.

8.5.9 Our review of the papers provided, evidenced that the process described to us under the new policy appears to have been followed in that approval from NCC had been sought and given albeit we note the recommendation supporting this approval was not followed by Advance.

8.6 Summary

8.6.1 In respect of the governance for pay and reward arrangements and changes to the remuneration packages of senior employees, we have been advised there are no formalised processes or procedures in place when an individual is to be promoted or receive a pay rise above the cost of living increase. The only requirement is that a business case is to be prepared and presented to either the HR Committee or the Noms & Rem Committee for approval.

8.6.2 In the cases we have sampled, this requirement does not always appear to have been adhered to. Where there are documents presented which could represent a business case, they do not provide the level of detail that might be expected from these submissions, for example, setting out the rationale for the increase and why the individual being put forward for the role has the requisite skills and experience.

- 8.6.3 In addition, the minutes of the HR Committee and Noms & Rems Committee are not always sufficiently detailed to indicate what level of rigour and challenge was applied before the approval was granted.
- 8.6.4 We do understand from the HR Manager that new HR processes and procedures have been proposed and are due to be implemented which should seek to address these weaknesses. However, we have not seen the content of the report presented to the Advance Board to ensure this is being addressed.
- 8.6.5 We also note that in respect of the new policy which has been introduced regarding the use of consultants whilst this does appear to have been followed in a recent use of a consultant, the strong recommendation accompanying approval does not appear to have been followed. We would recommend the rationale for not following the advice given by NCC is clearly documented to provide a full and complete audit trail.
- 8.6.6 Our discussions with the payroll team indicated that, whilst the processes and procedures that we would expect to find within an organisation for correctly accounting for and reporting the benefits staff receive appear to be in place, there does not appear to be any independent checks performed on the underlying standing data (tax & NIC rates, deductions or allowances). The absence of these checks could result in employees being taxed incorrectly. We would recommend that a process is introduced which enables the payroll team to regularly check the standing data used within the payroll system.
- 8.6.7 We also noted two areas where further actions could be taken relating to (i) the checking of travel and subsistence claims to ensure they were within policy, and (ii) conducting a review of the purchase ledger for any other benefits in kind not identified through existing processes.

9 Property procurement and disposal

9.1 Introduction

9.1.1 In this section, we consider NCC Question 9: **Are adequate property fixed asset procurement procedures in place and are these being adhered to in respect of all property fixed asset procurement activity in the Advance Northumberland group?**

9.1.2 In addressing this question, we have sought to understand the policies and procedures which are in place. We have then tested, on a sample basis, the extent to which any processes and procedures have been followed.

9.1.3 We have held discussions with the Homes Manager from Advance Homes, the current Head of Estates from Advance Commercial, and the Director of Investment and Economic Growth (who was the previous Head of Estates).

9.1.4 We have also requested a copy of any policies held by these divisions in relation to the purchase and sale of property. We were advised that no formal written policies were in place, but that a set process is followed for the sale and purchase of property. We were advised by Advance that the purpose of this process is to ensure that any acquisitions and disposals are in line with the strategy and, in respect of an acquisition, would meet set targets in respect of yield. In addition, the process would consider all the financial, commercial, reputational risks associated with the acquisition/disposal.

9.1.5 We were advised by both the Homes Manager and Head of Estates that there had been no new purchases of property since Advance had been established and any acquisitions recorded in the FAR were the result of historical decisions taken by Arch.

9.1.6 In Sections 9.2 and 9.3, we consider the procurement process in relation to Advance Housing and in Sections 9.4 and 9.5, we consider the procurement process in relation to Advance Commercial.

9.1.7 In Sections 9.6 to 9.8, we have considered the process for the disposal of property by Advance. We were again advised by Advance that the disposal of property has mainly arisen from decisions taken under the Arch administration to streamline the portfolios in order to reduce the level of debt held by the Arch group prior to its transition to Advance.

9.2 Process for additions to the Housing property portfolio

9.2.1 Based on our review of the Housing FAR and our discussions with the Homes Manager, the Housing portfolio is made up of Private Residential Sector (“PRS”) and Affordable Housing. Under Arch, the portfolio also contained Executive housing, which was designed to offer large executive properties of a higher standard which could generate higher rates of rental income. The Executive housing portfolio was managed by an external property company, Bradley Hall, which was a preferred supplier until 2017.

9.2.2 Under Advance, the Executive portfolio has been subsumed into the PRS portfolio and these properties are now managed internally by the Advance Housing team. No Executive housing has been purchased by Advance and the focus is on PRS and Affordable Housing property.

9.2.3 As noted in above, there are no formal written policies for the purchase of property. Although Advance itself has not purchased any Housing property, the Homes Manager advised that the process which would be followed would be the same as that followed under Arch. The Homes Manager outlined the key stages in this process as follows:

Identification of property to be purchased

9.2.4 As well as the identification of property by Advance Homes itself, the identification of property for potential purchase can arise through various different channels, for example:

- a. Approaches from property developers regarding new housing developments they are constructing;

- b. Approaches from estate agents;
- c. Approaches from Homes England¹⁴ regarding properties that it is selling;
- d. Direct instructions from NCC which fulfil regeneration initiatives or create affordable housing.

9.2.5 Housing developments may also be constructed on land already owned by the Advance group, undertaken either by the in-house Development division or by an external property developer.

Preparation of Business Plan

9.2.6 Once a suitable property has been identified, a Business Plan will be prepared by the Homes Manager which sets out details of the property or properties to be purchased, the expected yield from eventual rental of the property, purchase price (usually at this point a price will be agreed in principal subject to approval by the Board), risks and implications associated with the purchase and the reasons why the property is considered a suitable addition to the Housing portfolio.

9.2.7 We understand from discussions with Advance that the Business Plan will always be reviewed by the MD and the COO before it is presented to the Board.

9.2.8 We were advised by Advance that there is not a template for the Business Plan and that each proposal is dealt with subject to market conditions and the unique characteristics of the scheme, although the details outlined at paragraph 9.2.6 are normally contained within the Business Plan.

9.2.9 We were also informed by the Homes Manager that, where an opportunity to purchase property has been referred by an agent, they will also provide an investment report on the property. This will contain details of the property and information on comparable rental and sale yields in the area. This will also be

¹⁴ Homes England is a government body which objective is to stimulate the growth of housing in England by releasing land to developers to improve and grow communities.

included as an appendix to the Business Plan and circulated as part of the Board papers.

Approval of Business Plan by the Advance Board/Investment Committee

9.2.10 We were advised by the Homes Manager that the Business Plan will be presented either at the Board, or, if the timescale is short, at the Investment Committee. Board meetings used to be held quarterly under Arch (but are now held monthly under Advance) whereas the Investment Committee met monthly. We note that the Investment Committee has now been disbanded and, instead, all matters are taken to the Board in line with the Financial Delegated Authority matrix. The latest version of the Financial Delegated Authority Matrix that we have seen is dated October 2020 and indicates that only the Board can approve any “new projects or project development costs that involve the use of Advance's equity, borrowing and or the acquisition of assets”.

9.2.11 The membership of the Board and Investment Committee include attendance by NCC officials. Papers will be circulated to members one week prior to the meeting. The Business Plan will be presented at the meeting, questions and challenges may be made with regard to the proposed purchase and then the Board or Investment Committee will either approve the purchase or not.

Completion statement

9.2.12 Many of the purchases made have been plots of land on a property development site. When a property is completed and is being sold by the property developer, an application will be made by them to the local planning department who will then allocate a street title and number to the property. The plot number and property address will be included on the completion statement. It is the property address that will be added to the FAR.

Application for funding and drawdown of loan from NCC

9.2.13 Once approval has been given by the Board and / or Investment Committee to proceed with the purchase, the offer on the property can be progressed. As noted in Section 4.2 of this report, once the completion statement has been received by the Advance CFO, the release of the funds will be made to complete the purchase.

9.2.14 We were advised by the CFO that, prior to the signing by Advance of the Operating Agreement with NCC on 6 March 2020, an application for funding would be made by email to NCC setting out the amount of funds required, details of the property being purchased, the date completion was due to take place, together with a copy of the Board or Investment Committee approval.

9.2.15 The CFO advised that, following the signing of the Operating Agreement, any funding applications need to be approved by the NCC Loan Board. The documentation submitted in support of an application is to include the Business Plan and a copy of the Advance Board or Investment Committee minutes showing that approval has been obtained.

Title registered at Land Registry

9.2.16 We were advised that, once the purchase is complete, the title of the property will be registered in the name of Advance Housing by either the property developer's solicitors or seller's solicitor. Notification will be received once the title is transferred.

9.3 Sample review of Housing purchases and findings

9.3.1 To test the extent to which the above process was followed, and whether it was followed in the correct sequence, we sampled 10 property acquisitions¹⁵ from those contained in the Housing FAR. We requested the documentation outlined in Section 9.2 in order to establish whether approval had been sought from the Board and/or Investment Committee prior to the funds being released. We set out our findings below.

9.3.2 The Housing FAR contains a list of the acquisitions and disposals made during the period from the financial year ending 2016 to 2020. We intended that our sample would test the procedures operated by Advance, rather than those operated previously. However, as noted earlier, all of the acquisitions included in the FAR

¹⁵ A random selection of properties was selected to cover the years ending 31 March 2018 to 31 March 2020.

were the result of historical decisions made when the business operated under Arch’s management.

9.3.3 We were advised by the Homes Manager that the process under Arch was consistent with the current process, outlined above, and that the additions included in the FAR reflected acquisitions made by Arch in respect of property that was being built by a property developer. These properties were being purchased off-plan, with a deposit being paid and final payment for the property to be made once it was constructed and handed over to the Housing division. All of the acquisitions included in the FAR reflected this position.

9.3.4 The table below sets out the findings of our review of the procurement process in respect of our sample:

Table 19: Sample of Housing purchases

#	Property	Business Plan	Board approval	Completion statement	Loan draw down	Title passed
1	[REDACTED]	✓	✓	✓	✓	✓
2	[REDACTED]	✓	✓	✓	✓	✓
3	Empire Court	X	X	✓	✓	✓
4	[REDACTED]	✓	✓	✓	✓	✓
5	[REDACTED]	✓	✓	✓	✓	✓
6	[REDACTED]	✓	✓	✓	✓	✓
7	[REDACTED]	n/a	n/a	n/a	✓	✓
8	[REDACTED]	✓	✓	✓	✓	✓
9	[REDACTED]	✓	✓	✓	✓	✓
10	[REDACTED]	✓	✓	✓	✓	X

9.3.5 The above table shows that, in all but two cases ([REDACTED] and Empire Court), the process described in Section 9.2 was followed sequentially by Advance Housing, i.e. a Business Plan was prepared prior to Board approval, requests for funding followed Board approval and the title of the property was registered once the transaction had been completed.

9.3.6 We explain the reasons below as to why the standard process was not followed by Advance Housing in respect of the properties at [REDACTED] and Empire Court, but first highlight some additional observations.

Lack of “new” purchases

- 9.3.7 As noted in paragraph 9.3.2, none of the additions recorded in the financial years ended 2016 to 2020 related to new purchases. Instead, these were historical purchases agreed under Arch Homes’ tenure. Our review has not identified any “new” properties that have been purchased by Advance during this subsequent period.

Development Project

- 9.3.8 One addition (#7 [REDACTED]) reviewed arose as a result of a housing development constructed by Advance Developments with the property subsequently being transferred to Advance Housing. In this case, the Business Plan would have been presented by Advance Developments and not Advance Housing. Once the development was complete, the costs were transferred in Advance group’s accounting records. As such, there is no completion statement in respect of this property as it was not acquired from a third party.

Executive Portfolio Properties

- 9.3.9 The Empire Court property (#3 in the table above) did not follow the standard process that had been described to us. This was a property that had been purchased by Arch as an Executive property. The Homes Manager advised that, in respect of Executive properties, authority was delegated to the Head of Finance to approve these purchases and no Business Plan specific to this property was required to be presented to or approved by the Board.
- 9.3.10 We understand that at a meeting of the Investment Committee on 26 May 2016, the [REDACTED] put forward a proposal for the operation of the whole of the Executive portfolio. The Committee approved this proposal and authority was delegated to the [REDACTED] to approve such purchases along with an assignment of an umbrella amount of £20 million to finance such acquisitions.
- 9.3.11 It was noted in the minutes of that meeting on 26 May 2016 that this requirement for a cap on the budget was a request of the Committee members. The members also requested that a specific yield for such properties should be set and

governance procedures be put in place. These procedures required nomination of who was authorised to approve such purchases, where and how properties were sourced and communicated to Arch, and reporting and monitoring of the performance of this portfolio.

9.3.12 We understand from the Homes Manager that, with the transfer of operations to Advance, this delegated authority is no longer available, and the Executive property portfolio has been subsumed into the wider Housing portfolio. We further understand that no Executive properties have been purchased under Advance's operation of the business.

9.3.13 We note that the property Empire Court was transferred in the financial year 2018/19 to the Advance Developments company and is now recorded within its WIP.

Reference to "land plots" in Business Plans

9.3.14 The Business Plans refer to plots of land and not the property address that is contained on the FAR. As mentioned at paragraph 9.2.12, the property address will not be assigned until a development is complete and an application made to the planning department of the local council. An address will then be assigned and included on the completion statement. For the properties that we sampled and for which completion statements were available, we have checked to ensure that the plots referred to in the Business Plans were those recorded in the FAR. We were also provided with a schedule prepared by the builder which referenced the plots to the respective addresses. Through this schedule and the completion statements we were able to trace all plot numbers to the relevant addresses contained in the FAR.

Content of Business Plans

9.3.15 In Section 9.2 above, we note that there is not a set template for the Business Plans. The contents of each of the Business Plans we reviewed were very similar in terms of content and included aspects such as the details of, and rationale for, the investment as well as how it aligned with the corporate strategy at the time.

9.3.16 Based on our review, the Business Plans appear to be quite comprehensive documents. Details of when the building of the property would be completed, together with a breakdown of the total costs and expected income (and expected yield) to be generated for the total investment were also set out in the Business Plans. Where a mix of properties was being acquired, i.e. PRS and Affordable Housing categories, a breakdown of costs and income would be provided for each category of property.

Review of minutes

9.3.17 A review of the Board / Investment Committee minutes for each approval given shows that there is little, if any, record of the discussion or debate that took place around the acquisition. Instead, only the approval itself is noted. The minutes we have seen simply reflect the content of the Business Plans as opposed to any debate or discussion in respect of the proposed acquisition. Whilst there is not a written record of discussions having taken place, this does not mean that they did not occur.

9.3.18 It is also noted that, by the time the Business Plans are put to the Board / Investment Committee, the purchase price has already been agreed with the seller. There is no record in the minutes as to whether any debate or discussion is held over the price agreed with the developer for these purchases. Again, we note that, whilst there is not a written record of discussions having taken place, this does not mean that they did not occur.

Title not yet registered

9.3.19 The title for one property, [REDACTED] has not yet been registered and was not returned as part of the KPMG PN1 search. The loan drawdown documentation for this property shows that completion was due to take place on 18 December 2019. We have queried this with the CFO who has advised that the responsibility for registering this asset sits with the seller's solicitor and, due to the current restrictions around Covid-19, there has been a delay in this activity. We understand that the CFO is actively chasing this with the seller's solicitors. We note that this property is included in the Advance Housing FAR.

9.4 Process of acquisition of Commercial Property

9.4.1 In relation to Commercial property, this can be the purchase of property or retail outlets such as:

- a. Retail parks or property;
- b. Land for subsequent development where industrial units or workspace are needed; or
- c. Land or property that is part of a regeneration programme for an area.

9.4.2 The commercial running of such properties is managed by the Commercial Division of Advance. However, any development of the land (for example, the building of retail units) will either be performed in-house by the Developments division of Advance or by the appointment of an external property developer / contractor. The process for the acquisition of Commercial property follows the same process as that described for Housing property in Section 9.2 above.

9.5 Sample review of Commercial purchases and findings

9.5.1 As for Housing, we selected a sample of 10 acquisitions from those contained in the Commercial FAR. We requested the documentation outlined in Section 9.2 above to ensure that approval had been sought from the Board and / or Investment Committee prior to the funds being released and to consider whether the processes in place were adequate. We set out our findings in respect of this sample below.

9.5.2 The Commercial FAR, like the Housing FAR, contained a list of acquisitions and disposals made during the period from the financial year ending 2016 to 2020. Again, most of the acquisitions included in the Commercial FAR were the result of historical decisions made during Arch's tenure. We have included within our sample the most recent purchase initiated by Advance which occurred in the financial year ending 2019.

9.5.3 The table below sets out our findings of the procurement process in respect of our sample. Two of the sample transactions selected related to land purchased by Arch prior to 2014/2015 on which building projects had either recently been completed, or were in the process of being completed, by the Developments Division of Advance. As such, these two samples, have been excluded from the result of our findings here.

Table 20: Sample of Commercial Acquisitions

#	Property	Business Plan	Board approval	Completion statement	Loan draw down	Title passed
1	Blyth Dunn Cow Quay	✓	✓	✓	✓	✓
2	1-3 Lakeside Way, Wansbeck Business Park	✓	✓	✓	✓	✓
3	Ashwood Business Park	✓	✓	✓	✓	✓
4	Wansbeck Business Park – Ashington Court	✓	✓	✓	✓	✓
5	Manor Walks Shopping Centre	✓	✓	✓	✓	✓
6	Amble Inn, Coquet Enterprise Park	✓	✓	✓	✓	✓
7	Newbiggin Retail	✓	✓	✗	✓	✓
8	Westmorland Retail Park	✓	✓	✓	✓	✓

9.5.4 The table above shows that, in respect of the remaining eight transactions sampled, the process described in Section 9.2 was followed sequentially, i.e. a Business Plan was prepared prior to Board approval, requests for funding followed Board approval and the title of the property was registered once the transaction had been completed. We note that, in respect of Newbiggin Retail, a completion statement was not available as this was a development site, with the constructed properties subsequently being transferred to Advance Housing and Advance Commercial from Advance Developments.

9.5.5 We discuss some observations highlighted by our review below:

Lack of “new” purchases

9.5.6 As noted above, only one of the acquisitions in our sample related to a new purchase under Advance’s tenure. This was in relation to the purchase of land at Dunn Cow Quay and was to complement land already held in this area which had

been purchased by Arch. We note that the purchase of this additional land followed the approval process outlined in Section 9.2 above.

Content of Business Plans

- 9.5.7 It was noted in Section 9.2 above that there is not a set template for the Business Plans. The contents of the Business Plans for the Commercial acquisitions followed a very similar format and content to those produced for Housing acquisitions. These include the details of and rationale for the investment, how it aligned with corporate strategy, breakdown of total costs (including land and development costs if appropriate) and expected income / yield. Based on our review, these appear to be quite comprehensive documents.

Review of minutes

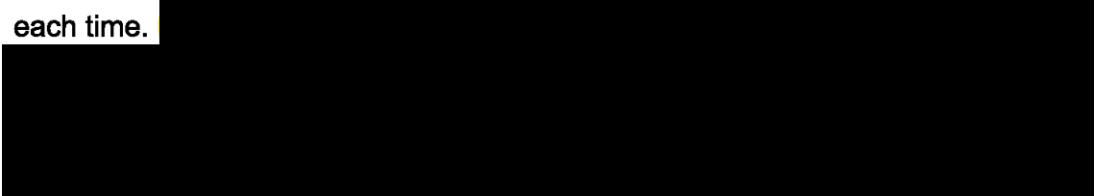
- 9.5.8 A review of the Board / Investment Committee minutes provided by Advance in respect of each of our sample showed slightly more commentary (when compared with the minutes provided in respect of the Advance Housing sample above) made by Counsellor members of the Board in respect of some of the acquisitions in our sample. However, overall, the minutes tended to restate the detail contained in the Business Plans rather than reflecting any detailed discussion of the acquisition. We note that, whilst there is not a written record of discussions having taken place, this does not mean that they did not occur.

Lack of clarity over Land Registry Titles

- 9.5.9 In respect of five of the acquisitions in our sample, it was unclear which Land Registry title was applicable to the acquisition. This lack of traceability from the Commercial title to the FAR was discussed in Section 5 above. In respect of these five acquisitions, there are potentially multiple titles for each acquisition. It should be noted that a piece of land could be registered under multiple titles depending on its scale and location, i.e. two adjacent plots may have a title each or the north and south side of a plot may have a title each.

9.6 Process for disposal of property

9.6.1 We were advised by Advance that there are no policies which set out the procedure to be followed when disposing of a property. However, we were advised by both the Homes Manager and the Head of Estates that a consistent process is followed each time.



9.6.2 The procedure for the disposal of property is the same for both Housing and Commercial property and follows a very similar process to that outlined for the purchase of property in Section 9.2 above. As a summary, the process will include:

- Preparation of a Business Plan;
- Approval of Board;
- Appointment of selling agent / property valuation;
- Sales Offer received and approved by the Board;
- Completion of sale and change of Land Registry title by solicitors.

9.6.3 The steps which are specific to the disposal of property are discussed further below.

Property Valuation

9.6.4 We noted in Section 3 that property is valued on an annual basis by a third party. These third parties are appointed each year and procured through the NEPO framework¹⁶. When property is to be sold, the asking price will be dependent on the market conditions at the time. It will take account of the net book value of the property, loan outstanding and any valuations provided by selling agents who are approached to market the property.

¹⁶ Paragraph 4.2.12

Appointment of selling agent

9.6.5 The process for appointing an agent to sell Housing property differs from that for Commercial property. In respect of Housing, we were advised by the Homes Manager that quotes will normally be obtained from three local agents and the decision to appoint will be based on the best value for money and not just the agent that provides the highest valuation for the property. Where a portfolio of properties is being sold, the procurement of an agent would be more formal and follow the NEPO process. The Homes Manager advised that a wide variety of agents were used and there was no preferred supplier.

9.6.6 As mentioned at paragraph 6.3.3, we were advised by the Head of Estates that, in respect of the disposal of Commercial property, the selling agent used will generally be the law firm DWF. The Head of Estates advised that this firm has a deep understanding of the commercial market and is used by Advance to perform rent reviews, renewal of tenancies as well as sales of commercial property.

Approval of the sale offer by the Board

9.6.7 When an offer is received for either Housing or Commercial property, this will be circulated by email around the members of the Board to obtain their approval. We were advised by Advance that, once three approvals had been received, the offer would be considered approved.

9.7 Sample review of Housing disposals and findings

9.7.1 The Housing FAR only contained a total of nine property sales during the financial years ending 2016 to 2020. To test whether the process described to us was followed and in the correct sequence, we tested eight of these nine disposals in our sample. The ninth disposal was in relation to the transfer of Empire Court to Advance Developments which is discussed in Section 9.3 above.

9.7.2 We requested the documentation outlined above to ensure that approval had been sought from the Board and / or Investment Committee prior to the sale being completed. The table below sets out our findings:

Table 21: Sample of Housing property disposals

Property	Business Plan	Board approval	Agent appointed	Offer Price approved	Title passed
	✓	✓	✓	✓	✓
	✓	✓	✓	X	✓
	✓	✓	✓	X	✓
	✓	✓	✓	X	✓
	✓	✓	✓	X	✓
	✓	✓	✓	✓	✓
	✓	✓	✓	X	✓
	✓	✓	✓	X	✓

9.7.3 The above table shows that, in all cases, the process described in Section 9.6 was followed sequentially, with the exception of the documentary evidence of the Board accepting the sale price for six of these properties which we address below along with other observations from our review.

Disposal of properties outside of Northumberland

9.7.4 Six of the eight disposals included in our sample arose as a result of a decision taken by the Arch Board in February 2018 to dispose of properties which fell outside of the Northumberland Country boundaries. In total, 78 properties were included in this decision and the remaining 72 are still being marketed for sale (i.e. have not yet been disposed of).

9.7.5 In the Advance Board minutes of 1 February 2019, it is noted that a formal procurement exercise had been undertaken to identify and instruct an Agent to sell these properties. However, the minutes note that, due to the number of properties involved, a discount of circa 25% on net book value would have to be incurred if the properties were allocated to one agent to sell. The proposal to the Board was that financially it would be better to manage the disposal strategy in-house, utilising local and national agents to sell individual properties or small portfolios of these properties. On 1 February 2019, the Board approved the proposal to conduct the sales in house rather than using an external agent.

9.7.6 The Homes Manager explained that, when an offer was received in respect of these properties, the offer would be circulated by email to the Board Members by

the MD to obtain approval. Once approval had been received from three Board Members, the offer would be accepted and the sale progressed.

- 9.7.7 The Homes Manager could only locate written documentation to support the approval of the Offer Price for two of the eight disposals. He indicated that, for the remaining six properties, he might have been told verbally that the offer had been approved by three members of the Board as he could not locate any written documentation. We would recommend that, for any future disposals, approval of the offer price should be only be accepted if provided in writing in order that there is a clear audit trail to show that approval has been given by the Board.

Recovery of Net Book Value

- 9.7.8 A review of the offers accepted on the properties included in our sample showed that the final offer price accepted was between █% and █% of the net book value contained in the Housing FAR, being the latest valuation performed on these properties. We were advised by the Homes Manager that the objective was to achieve at least █% of the net book value (which, given the annual external revaluation process, is a proxy for market value) as this would ensure that the loans held on the properties could be repaid. The Homes Manager advised that often this was exceeded (only one was below this target, with the price being █% of net book value). We understand that this is not a set rule and no additional approvals are required if this target is not achieved. In the instance referred to above, we saw that the sale at below █% of net book value was communicated to the Board prior to them giving approval for the sale.

9.8 Sample review of Commercial disposals and findings

- 9.8.1 We also sampled nine of the 15 disposals that occurred during the financial years ending 2017 to 2020 from the Commercial FAR. The table below sets out our findings:

Table 22: Sample of Commercial property disposals

Property	Business Plan	Board approval	Agent appointed	Offer approved	Title passed
Amble Coquet Enterprise Park	✓	✓	✓	✓	n/a
South Nelson Industrial Estate Site B	✓	✓	✓	✓	n/a
Glover Network Centre	✓	✓	✓	✓	✓
Jarrow Network Centre	✓	✓	✓	✓	✓
Seaton Delaval Trading Estate	✓	✓	✓	✓	✓
Seaham Workspace	✓	✓	✓	✓	✓
Durham Workspace	✓	✓	✓	✓	✓
Alnwick Youth Hostel	✗	✗	✗	✗	✓
NEPP Portfolio, Wansbeck Business Park	✓	✓	✓	✓	✓

9.8.2 The above table shows that, in all but one of the disposals, the process described in Section 9.6 was followed. However, our review did highlight some observations which are detailed below:

Disposal of properties surplus to the portfolio

9.8.3 The Business Plans for six of the nine disposals included in our sample attributed the reason for the disposal of the property to a decision taken by the Arch Board in February 2018 to dispose of commercial properties “*deemed surplus to the strategic requirements and needs of the Commercial Portfolio*”. The Business Plans record that certain criteria were to be used to classify if the property was surplus. These criteria were as follows:

- a. Property condition;
- b. Expenditure;
- c. Profit;
- d. Redevelopment opportunities; and
- e. Outside Northumberland.

Transfer of Property to NCC

9.8.4 In respect of one property (Alnwick Youth Hostel), only a transfer of title document was provided. Advance has advised that this property had been transferred to Arch from NCC in 2013 and, due to the “lack of fit” with Advance’s overall portfolio, NCC requested that ownership be transferred back to them. As such, there is no Business Plan, Board approval or completion statement for this particular transaction.

Sales offers included in Business Plan

9.8.5 From our review of the Business Plans we noted that, in instances where there are multiple offers made for a property, the Business Plan details the individual offer and puts forward a recommendation for the most appropriate one to be accepted. In most cases this appears to be the highest offer.

9.8.6 A further two properties (Amble Coquet Enterprise Park and NEPP Portfolio Wansbeck Business Park) in our sample were actively being marketed to stimulate development and outside investment into the area. Another property (South Nelson Industrial Estate Site B) had been through a tendering process as, due to the location of this land, there were restrictions on the type of developments that could be built. This information regarding the nature and rationale for the disposal is documented in the Business Plan.

Sale prices achieved

9.8.7 It is noted that, in respect of all of our sample, the sale price achieved either matched or exceeded the net book value of the property / land contained in the Commercial FAR. In one particular sale, 1.1 acres of land which had a net book value of £59,400 was sold for £428,000.

Transfer of Title

9.8.8 For two of the properties, Advance has not been able to provide us with documentation that evidences the transfer to the new owner and, consequently, we have been unable to independently verify this at Land Registry.

9.9 Summary

- 9.9.1 In summary, from our review of the purchase and disposal of property assets, we have established that there is a process that is consistently followed. However, this process is not formally documented in written procedures. Each transaction involves the creation of a comprehensive Business Plan which is put forward to the Board for approval before any transaction occurs.
- 9.9.2 We would expect there to be debate and challenge around this activity and for it to be properly documented in the Board minutes, thereby evidencing good governance around the decision-making and approval process.
- 9.9.3 From our review, we note that the Board / Investment Committee minutes do not contain a detailed narrative around the purchase and disposal of assets. However, whilst there is not a written record of such discussions having taken place, this does not mean that they did not occur.
- 9.9.4 We also noted that, in respect of the disposal of the Housing assets, certain documentation relating to the approval of the offer price was not formally recorded and retained. It is important that all key decisions relating to the sale and purchase of property assets are properly documented and evidence of approvals at each stage of the process are retained to enable good governance to be demonstrated. Furthermore, we would recommend that all of the processes and procedures for purchasing and disposing of property are formally documented rather than relying on the informal process that currently exists within Advance.

10 Property portfolio management

10.1 Introduction

10.1.1 In this section, we consider NCC's Question 10: **Are all aspects of the property portfolio (across all property rental sectors managed by the group) now subject to the same monitoring and reporting arrangements and (ii) is the system of monitoring and reporting considered adequate to exercise required governance and control?**

10.1.2 In addressing these questions, we conducted several meetings with the SLT and senior members of the Finance team.

10.1.3 In Section 10.2, we consider the management of the property portfolios.

10.1.4 We summarise our findings in Section 10.3.

10.2 Management of the Property Portfolios

10.2.1 In order to address NCC Question 10 regarding the monitoring and reporting arrangements for property portfolios, we held discussions with the Directors of the respective Housing and Commercial divisions and also the MD, the COO and the CFO of Advance. The purpose of these discussions was to understand the governance that was in place to ensure that issues and matters requiring senior leadership input were identified and escalated for them to consider and action.

10.2.2 We understand from our discussions that there are a number of meetings through which governance in relation to Property Portfolios is exercised. These include Performance Clinics ("PC"s), SLT meetings, Directors meetings and the Advance Board meetings. We discuss each of these in turn below.

Performance Clinics

10.2.3 We understand from our discussions that a PC is held each month where the performance of each division is reviewed. The core members that attend this clinic are the MD, COO, representative from NCC, the CFO, Advance's Marketing

Manager and the Governance and Compliance Manager. The PCs last about a day, and presentations are given by the Head of each division.

10.2.4 The Directors of the Advance divisions do not attend for the full length of the meeting but are called in at an appointed time to discuss the performance of their respective division. Metrics and dashboards are prepared in advance of the PC by each division and the PC allows each Director to be challenged and held to account in respect of the relative performance of their division. It also allows the COO and MD, and the representative from NCC, to understand where there may be areas of weakness or instability in the portfolios that need to be addressed, as well as what is working well. We were advised by the MD and COO that the PC provided the opportunity to drill-down into the detail of the business of each division.

10.2.5 We were provided with a copy of the metrics and dashboard that are presented at the PC. In respect of the Housing and Commercial divisions, the information contained in the dashboards is relatively similar and includes the following:

- a. Details of the volume of properties in the portfolio and, in respect of Housing, the type of property (i.e. PRS, Affordable Housing, etc);
- b. Any properties acquired or disposed of in the month;
- c. Level of void properties and occupancy rates;
- d. Levels of rent arrears;
- e. Levels of income and expenditure, with comparators against budget and profit levels achieved;
- f. Reports on customer satisfaction;
- g. Reports on repairs, maintenance, estate/facility management;
- h. Compliance with Health and Safety regulations; and
- i. Any matters or projects that are on the horizon.

- 10.2.6 It should be noted that the dashboards address the portfolios in total rather than highlighting metrics in relation to individual properties. The dashboards also include a “RAG”¹⁷ rating for each area noted at points a) to i) above and the PC will give more focus to areas that are graded red and amber. Where an issue is raised at the PC and is considered to require wider input, the matter can be escalated to the SLT and / or the Advance Board.
- 10.2.7 We reviewed the minutes of the PCs from January to June 2020 in order to understand the level of discussion that is held during these meetings. However, we noted that the minutes represent a list of actions rather than detailed descriptions of the discussions held and how any challenges which might have been raised have been addressed. It was explained to us that the action list would be reviewed at the subsequent PC to ensure that it had been performed and/or progress made. From the documents we reviewed, there was evidence to suggest that actions were updated and closed but it was not possible to determine how this was achieved.
- 10.2.8 In addition to the monthly PCs, we were advised that the COO and MD have regular twice weekly meetings with each of the Directors where day-to-day issues can be discussed and actioned. Both the MD and COO advised that communication amongst the team and up and down the reporting structure was “fairly fluid” and occurred on a daily basis.

Senior Leadership Team meetings

- 10.2.9 The SLT is an operational forum which meets weekly and comprises the MD, COO, Developments Director, Director of Investments and Economic Growth, Developments Director Commercial & Infrastructure, CFO, Governance and Compliance Manager, Head of Business Operations, HR Manager, Head of Estates and Head of Economic Growth.

¹⁷ “Red, Amber, Green” traffic light rating system where green is favourable, amber is neutral, and red is unfavourable

10.2.10 We were advised by Advance that the SLT meeting has the aim of sharing information amongst the executive team and allows them to understand what is happening across the wider group. The meeting will consider the impact on the group of significant issues and announcements by local and national government that will affect the operational running of the group. The implications surrounding the restrictions imposed by Covid-19 was an example provided by Advance of how well this meeting worked when managing their response to the changing situation.

10.2.11 The SLT also discuss and are involved in statutory reporting and will consider progress against key performance indicators. They also consider matters that will be presented to the Advance Board.

10.2.12 We understand from our discussions that the SLT meeting does not consider the level of detail that is covered at the PCs unless there is a significant issue that has been referred from the PC to the SLT for wider consideration.

10.2.13 We were advised by Advance that there are no minutes kept of the SLT meetings. Instead, a list of actions that need to be progressed will be recorded. We were advised that this action list will be reviewed at the next meeting to ensure progress has been made.

Directors Meeting

10.2.14 In addition to the SLT, the MD, COO and senior executives of the group will meet on a twice a week to consider strategic issues that the group is facing and plan the corporate strategy going forward. The MD / COO advised that this can be a brainstorming session and, as the group is smaller, allows much more strategic discussion and debate amongst the team. We were advised that no formal minutes are retained of this meeting, but actions are recorded and progress reviewed at subsequent meetings.

Advance Board meetings

10.2.15 Advance Board meetings are held on a monthly basis and the membership of the Board comprises the Directors of the group as listed at Companies House, a selection of counsellors from the various political parties (Labour, Liberal

Democrat, Independents), local business leaders, university professors and senior members of the local health trust. We understand that the MD, COO and CFO, together with members of the SLT will attend on behalf of Advance, to present on matters that require Board approval. A representative from NCC will also attend the Board meeting.

10.2.16 We are advised by Advance that the papers for the Board meeting will be sent out to members a week before the meeting. Formal minutes are taken at these Board meetings. We noted in previous sections of our report, that our review of Arch minutes found there was limited discussion recorded in respect of the procurement and disposal of property related matters. In most cases, these appeared only to be a repeat of the information which is contained in the Business Plans supporting the Board papers.

10.2.17 However, our review of the Advance Board minutes covering the period January to June 2020 indicated that there was more detail contained within the minutes and these appeared to better reflect the various discussions that occurred during these meetings than we saw from a review of the Arch Board minutes. In respect of the areas which have been the focus of this report, the minutes referred to the following, indicating there is governance and control of these matters in an appropriate forum:

- a. reference to the level of arrears on properties and approval sought from the Board for write offs;
- b. an update on the key development projects across Commercial and Ascent Homes (Ascent Homes is a division of Advance Developments which sells housing stock which has been constructed by Advance Developments or an external contractor engaged by Advance Developments;
- c. the introduction of an enhanced suite of KPIs which would be presented to the Board each month, as required by the Operating Agreement, mirroring those that are presented in the monthly performance clinics;

- d. details of certain property disposals that would require Board approval;
- e. updates from the Noms & Rems Committee on changes to any staff benefits;
- f. discussion around the introduction of an Annual Governance Statement which would include “assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment”; and
- g. detailed Finance updates presented each month which outline the performance of each of the divisions against budget and key business activities which have occurred in the month.

Shareholder Meeting

10.2.18 We were advised by Advance that a meeting with the Shareholder is held each month, but this has only been a recent addition following the signing of the Operating Agreement between Advance and NCC on 6 March 2020. The Operating Agreement sets out the respective roles of each party, including which matters are to be decided by NCC and those which can be decided by Advance.

10.2.19 We were advised by the senior leadership of Advance that the agenda for these meetings is still evolving. Advance advised that its view was that the meeting should be designed to have a strategic focus, setting out what the strategic role of Advance should be and subsequently reviewing the group’s performance against that strategy. The senior team also commented that Advance would benefit from a clearer financial strategy being provided by NCC which would inform the group’s planning and decision making, and it is hoped that this can be a focus of the Shareholder meeting going forwards.

10.3 Summary

10.3.1 Based on our discussions, there appears to be a well-defined governance process in place with input from both the senior management of Advance, the Board and external parties. We have been provided with papers that are submitted to the PCs

but, while the information provided is extensive, the subsequent discussions at this and other meetings are not formerly recorded. The lack of documentation does not mean that such discussion does not take place, but it does mean that the extent of this discussion cannot be evidenced and there is no audit trail to demonstrate that the appropriate issues are brought to the attention of the Board.

- 10.3.2 However, we have noted that the level of detail included within the Board minutes does appear to have been improved under Advance, with more evidence of the discussions that have taken place and more detailed performance updates provided along with introduction of specific performance indicators in accordance with the Operating Agreement.
- 10.3.3 It should be noted that, while we would expect to see such documentation, it is common in the early years of organisations that the processes, procedures and documentation is often lacking or is more informal. Advance acknowledges that there needs to be more formality in its processes and procedures. We would note that a more formal financial and corporate strategy being agreed between Advance and NCC and established will aid this process as the governance protocols should be in line with the key performance indicators that Advance would be required to meet.

11 Management of property rental arrears

11.1 Introduction

11.1.1 In this section, we consider NCC Question 11: **Are arrears properly managed and is a suitable recovery strategy in place and enforced?**

11.1.2 In this section, we consider the processes and procedures by which arrears in respect of the property (both Housing and Commercial) portfolios are managed. Advance does have a debt collection policy and we also interviewed members of the Debt Collection team in order to understand how the process for the collection and management of arrears was performed.

11.1.3 In Section 11.2, we set out Advance's property rental arrears process. With the exception of two properties (Manor Walks Shopping Centre ("Manor Walks") and Westmoreland Retail Park ("Westmorland")), this is managed in-house by Advance's Debt Collection team.

11.1.4 In Section 11.3, we have reviewed, on a sample basis, a number of arrears balances in order to understand whether the processes set out in Section 11.2 are being followed.

11.1.5 In Section 11.4, we consider the processes in place for those properties which are managed by external agents.

11.1.6 We summarise our findings at Section 11.6.

11.2 Property arrears process

11.2.1 The management of Housing and Commercial property arrears (with the exception of Manor Walks and Westmoreland) is the responsibility of Advance's internal Debt Collection team, which currently comprises two members of staff. One member of staff covers current Housing tenants and one member of staff covers current and former Commercial tenants and former Housing tenants. Current tenants are

defined as those whose tenancy agreement is still in force, while former tenants are those whose tenancy agreement has ended.

- 11.2.2 Prior to October 2019, there was only one member of staff who covered both the Housing and Commercial portfolios. With only one member of staff to cover both portfolios, the Debt Collection team acknowledged that there had been delays in the arrears process due to the volume of properties that needed to be covered.
- 11.2.3 The tenancy agreements for both Housing and Commercial tenants are recorded on a computerised rent account system (contained on the QL system), which automatically records any outstanding balance. Each day, an arrears dashboard (report) is generated automatically by QL which provides the Debt Collection team with up-to-date information on those tenants who are in arrears. This report has only been in place since October 2019 and was introduced at the same time as the additional staff resource was added. Prior to this, the Debt Collection Manager had to manually print-off a list of tenants who were in arrears. This process was only performed either once or twice each month which resulted in delays in initiating the arrears process.
- 11.2.4 We understand from Advance it is possible for tenants to arrange informal payment terms which have been agreed with the Housing or Commercial teams when they set up the tenancy. For example, a tenancy agreement could charge rent weekly, but the tenant may have a monthly direct debit in place. The payment terms are not recorded on QL and, as such, in calculating arrears, the system will not take account of the individual tenant's payment profile. This may mean that tenants may be shown as in arrears on the QL system but, when their individual payment terms are taken into account, this is not the case.
- 11.2.5 The Debt Collection team manually reviews any outstanding balance identified on the dashboard against the tenant's agreed payment terms in order to determine whether the account is actually in arrears. We note that this is a very manual process and is reliant on the knowledge of the Debt Collection team as to the informal payment terms that certain tenants may have in place.

11.2.6 If, following this review, it is identified that a tenant has fallen into arrears, the Debt Collection team will initially telephone the tenant for an update. A summary of the telephone conversation is recorded on QL. This stage has no set time limit. If the tenant is not contactable or refuses to make a payment or enter a payment plan, the formal arrears process is started. There are slightly different policies which apply to Housing and Commercial tenants and to current and former tenants. We address each of these in turn below.

Management of Housing Arrears

11.2.7 The process followed will be determined by whether the tenant is a current or former tenant.

Current tenant arrears

11.2.8 The current Housing tenant arrears are managed internally by the Debt Collection team and the Housing team. The Debt Collection policy sets out a formal procedure that should be followed. In summary, this involves the following:

- a. Sending a series of four letters at varying intervals over a period of 56 days asking the tenant to make contact and repay the arrears that are outstanding;
- b. After 56 days, a Notice Seeking Possession is issued to the tenant, giving notice that Advance will seek to re-possess the property if the arrears are not paid;
- c. If there is no response after 14 days, legal proceedings are initiated to re-possess the property. The Debt Collection policy provides further details on the process for legal action.

11.2.9 The stages described above at points a) and b) are managed by the Debt Collection team and the Housing team manager will be responsible for managing any court action taken.

11.2.10 Our interviews with the Debt Collection team and Housing team manager confirmed the above procedures and that all stages are recorded on QL. The Debt

Collection team noted that the timescales can be eased in certain circumstances, depending on the response of the tenant to the communications issued.

11.2.11 They also noted that, in addition to the letters issued, they would send text messages and also telephone the tenant at various stages in the process to try and facilitate quicker payment of the arrears. The team advised that, where contact is made with the tenant, a note of the conversation will be made on QL but, if the tenant does not answer, the attempt at contact is not recorded.

11.2.12 At any stage prior to court proceedings being implemented, the tenant has the option to agree a payment plan to repay the outstanding debt. The Debt Collection team advised that payment plans have to be approved by the Advance Board. However, the Debt Collection team also advised that they have authority to approve 'smaller' payment plans and the Head of Property has authority to approve 'larger' payment plans, but the thresholds are not formally documented. When a payment plan has been authorised, a letter will be issued and recorded on QL. The payment plan is manually monitored by the Debt Collection team on a weekly basis. If the payment plan is not maintained, the Debt Collection team will contact the tenant for an update. If there is no satisfactory response, the tenant will continue to the next stage of action.

11.2.13 We note that, within the Financial Delegation Authority Matrix, reference is made to the approval of payment plans for arrears and sets out who can approve these plans. However, there are no thresholds set for each of the Responsible individuals. We understand from the Debt Collection team that a payment plan policy is currently being drafted to clarify these authorisation thresholds. We would also suggest the Financial Delegation Authority Matrix is updated accordingly.

Former tenant arrears

11.2.14 The process set out in the Debt Collection policy is slightly different if the tenant has already terminated the tenancy. In summary, the process is as follows:

- a. Prior to the tenancy termination date, the tenant will be visited by the Housing team to sign off the formalities of their agreement. If there are arrears

outstanding, this provides an opportunity to discuss this with the tenant and agree a repayment plan;

- b. If no payment plan is entered into, the tenant will be sent a series of two letters over the course of 14 days to their forwarding address;
- c. If no reply is received to the second letter, either court proceedings will be commenced, or a debt collection agency will be appointed to collect the debt.

11.2.15 The Debt Collection team confirmed the above procedures. They noted that tenants will not usually provide a forwarding addressing and, as such, they will typically move straight to appointing a debt collection agent. The Debt Collection team noted that, if the tenant had provided an email address, letters would be sent to this email address. Again, each stage is manually recorded on QL.

11.2.16 The Debt Collection team advised that, once a tenant has reached the stage where court proceedings are invoked, this process will be managed by the Housing team manager.

Management of Commercial Arrears

11.2.17 The process followed for the management of Commercial arrears is similar to that for Housing arrears but with some exceptions and is also covered by a debt collection policy. These are detailed below. In summary, for both current and former tenants, the progression through the arrears procedures is slightly quicker for Commercial tenants.

Current tenants

11.2.18 It was noted that Commercial tenants are given 30 days from the date of the invoice to pay their rent. Where a tenant goes into arrears, the process followed to manage the arrears is similar to that for Housing tenants, but only three letters will be sent, at varying intervals, over a 28-day period after the 30-day payment period has expired. After 28 days, if payment has not been received or a payment plan entered into, bailiffs will be appointed. The Debt Collection team confirmed these procedures and noted that all stages would be recorded on QL.

11.2.19 The Debt Collection team also advised that each tenant has a relationship manager (a Quantity Surveyor in Advance's Commercial team) who manages the relationship with the tenant and would hold discussions with the tenant about the arrears, over and above the letters sent out by the Debt Collection team. As noted above, the Housing team manager (due to their experience in this area) will manage court action in relation to Commercial tenants.

Former tenants

11.2.20 Again, the process set out in the Commercial policy for former tenants is similar to that in the Housing policy. At the date of termination of the tenancy, the account is checked for any outstanding arrears and the final balance is sent out. If the tenant is in arrears, the relationship manager will seek to set up a payment plan with the tenant. Where this cannot be agreed or the tenant defaults on the payment plan, a debt collection agency will be appointed to collect the arrears. If the tenant has not left a forwarding address, the debt collection agency will also be tasked with tracing the tenant. The Debt Collection team confirmed these procedures and noted that all stages would be recorded on QL.

11.3 Review of the management of rental arrears

11.3.1 In order to determine if the above process was being followed and was adequate in terms of managing rental arrears to ensure outstanding debts were recovered, we reviewed a sample of Housing and Commercial tenants whose accounts were in arrears. Our findings are set out below.

Housing arrears

11.3.2 We were provided with a list of Housing tenants that were in arrears at the time of our review and selected a sample of 10 tenants. The QL system records the age of the outstanding debt and at what stage of the debt collection process the tenant is at. Our sample included five current tenants and five former tenants who had varying ages of debt and were in various stages of the debt collection process. Overall, we noted that the policy procedures outlined in Section 11.2 above were followed. Specific findings from our review are summarised below.

Delay due to human error

- 11.3.3 In respect of one current tenant, it was noted there was a delay of over two months in starting the Debt Collection process. The Debt Collection team explained that the tenant was set up incorrectly on QL which meant that the arrears were not recognised by the system. The issue was not identified until the tenant had been in arrears for over two months.

Tenants with a Commercial Lease

- 11.3.4 In respect of three current tenants, the arrears were in relation to a commercial lease with property developers who had sold property to Advance but had then leased the properties back to use as show homes. The Debt Collection policy does not cover how arrears are to be handled in this specific scenario and it is left to the discretion of the Debt Collection team as to how this situation is managed. We were advised by the Housing team manager that an informal request for payment was issued, followed by a letter requesting payment and advising of legal action. We were provided with a copy of these letters.

Tenants who leave the property prior to their tenancy agreements expiring

- 11.3.5 Three tenants in our sample had incurred arrears but left the property before their tenancy agreement had expired. Where a tenant leaves a property before the expiry of the tenancy agreement, they are still liable for the rent for the full period covered by that agreement.
- 11.3.6 In one of the cases we reviewed, a Property Abandoned Notice had been issued which terminated the tenancy agreement. This meant that the "former" tenancy arrears process was implemented, allowing a debt collection agency to be appointed to trace the former tenant and recover the outstanding debt.
- 11.3.7 For the other two tenants in our sample who had left their property prior to the end of their tenancy agreement, no Property Abandonment Notice was issued, resulting in the "current" tenant arrears procedure being initiated to recover the debt and letters sent to the tenant to recover the arrears.

- 11.3.8 The Housing Manager explained that the preferred option will be based on the particular circumstances of each case and the one which is in the best commercial interest of Advance. This allows the Housing team a certain commercial flexibility in dealing with such tenants. The Housing Manager went on to explain that the factors taken into consideration when determining what action to take would include (but were not limited to): time left on the agreement, rental value, existing arrears, property condition, tenants conduct, tenant's extenuating circumstances, and likelihood of recovering debt.
- 11.3.9 Regardless of which option is selected, the Debt Collection team advised there is no mechanism in place which ensures that the Housing team informs the Debt Collection team when a tenant has left a property. The Debt Collection team advised that it can take some time before they are notified of a tenant having left a property. As such, this results in the arrears collection process being stalled as letters are being sent to an empty property. Once the Debt Collection team is advised that the tenant has left, it will send the letters to any forwarding address or email address that is on file for that tenant.
- 11.3.10 The Debt Collection team advised that, only once the tenancy agreement has ended can the "former" tenant arrears process be implemented. In respect of the two cases in our sample, there were delays in starting this procedure once the tenancy agreement had ended. In the case of the first tenant, this was a delay of one month and in respect of the second tenant this was a delay of three months. We understand that these delays were due to only one member of staff being in the Debt Collection team at that time.

Recharges for damage

- 11.3.11 Our sample included one tenant that had a net arrears balance that related to damage to the property rather than outstanding rent. The Debt Collection team explained that, historically, recharges for damage were not recorded on QL and did not follow any debt collection process. This led to poor collection rates. However, recharges for damage are now treated in the same way as outstanding rent. We reviewed QL and confirmed that, in respect of one former tenant, debt

recovery procedures were being followed to recover the amount for damages incurred.

Arrears written off

11.3.12 We noted that one tenant had been in arrears, but the value of the debt had been written off. We were advised by the Debt Collection team that the value of the debt was lower than the cost of appointing a debt collection agency to collect the debt. We understand from the Debt Collection team that authority to write the debt off was given by the Advance Board. The Debt Collection team could not provide the date that the Advance Board would have approved this particular write off and therefore we have not seen this particular approval in the Advance Board meeting minutes. However, we have seen evidence that such approval has been given in other instances. For example, we noted in the minutes of the Advance Board of March 2020 that approval was sought by the CFO to write off arrears and the reasons for the write off were discussed and approved by the Board.

Commercial arrears

11.3.13 We were provided with a list of Commercial tenants that are currently in arrears and selected a sample of 10 tenants who had varying ages of debt and were in various stages of the debt collection process. Our sample included eight current tenants and two former tenants. Overall, we noted that the policy procedures outlined in Section 11.2 above were followed. Specific findings from our review are summarised below.

Implementation of payment plans

11.3.14 Our review included three current tenants who had incurred arrears due to their inability to trade because of Covid-19. We were informed by the Debt Collection team that a new policy was created in June 2020 by the Head of Estates to allow immediate discussions with the tenants to put them onto payment plans to repay the debt, rather than the normal current arrears process being followed. All such payment plans are approved by the Advance Board.

Multiple payment plans entered

- 11.3.15 In respect of one former tenant, we noted that the outstanding debt has existed for nearly three years. During this period, the tenant entered into three payment plans but defaulted on each one. Each of these payment plans had been approved by the Advance Board. In September 2019, the Debt Collection team made the decision to appoint a debt collection agency to recover the outstanding debt.
- 11.3.16 Advance noted that there is not a limit on the number of times a tenant can enter a payment plan and it will depend on the individual circumstances of each tenant.
- 11.3.17 The debt collection policy does note that payment plans can be arranged by the team with tenants. It also notes that, if a tenant defaults on the plan, they should return to the stage in the arrears process they were at previously. The policy gives the Debt Collection team the flexibility to strike a balance between the ability of the tenant to pay and the need for Advance to recover the arrears. However, it does not give guidance on how many such plans should be entered into. On this basis, the process and procedure around this point should be made clearer to ensure that the balance between the tenant's ability to pay and recover of the arrears is maintained.

11.4 Current performance of arrears

- 11.4.1 The senior Finance team implemented a Housing Arrears Dashboard in October 2019 and a Commercial Arrears Dashboard in August 2019. These dashboards monitor the Housing and Commercial arrears balances respectively. The dashboards provide a summary of the net arrears value (the actual arrears recorded by the QL system), the true arrears value (which takes account of any information payment plans the tenant has agreed), the collection rate and the percentage of arrears at each stage of the process.
- 11.4.2 The net arrears value is monitored using the percentage change in the monthly net arrears value. The true arrears value includes an adjustment of 30 days to account

for informal payment terms as noted above. The collection rate is monitored against a collection rate target set by Advance.

- 11.4.3 The dashboards are reviewed on a monthly basis by the Chief Financial Officer. The data then forms part of the monthly Financial Report that is presented to the Board and at the monthly PCs.

Current performance of Housing arrears balance

- 11.4.4 A copy of the Housing Arrears Dashboard for October 2020 was obtained and our review noted the following.

- 11.4.5 The historical level of rent arrears suggested that, up until March 2020, the value of rent arrears had remained relatively constant over the last couple of years but, from April 2020, had started to show an increase which has been explained as being the impact of Covid 19. The year to date collection rate for Housing arrears is 100.5%, which is higher than the target of 95%. The Finance team explained that the rate is greater than 100% because it is calculated by taking the rent that has been collected that year against the rent that has been billed that year – rent that has been collected that year may be in relation to prior or future years.

Current performance of Commercial arrears balance

- 11.4.6 A copy of the Commercial Arrears Dashboard for October 2020 was obtained and our review noted the following.

- 11.4.7 The historical level of rent arrears suggested that, up until March 2020, the value of rent arrears had been declining year on year but, from April 2020, had started to show an increase and to a greater extent than in Housing. The year to date collection rate for Commercial arrears is 84.1%, which is lower than the target of 95.8%. The Debt Collection team explained that the rate has been affected by the impact of Covid-19, with more tenants incurring arrears due to interruption in cashflow. However, as noted above, where tenants do fall into arrears, Advance introduced a new policy to allow tenants to be contacted immediately and be offered the opportunity to arrange a payment plan, rather than the team

automatically instigating the formal arrears process. This new policy was introduced to help increase the collection rate.

11.5 Management of external agents

11.5.1 As noted in Section 11.2 above, two commercial properties, being Manor Walks and Westmoreland, are managed by an external third party. The management of these properties and the collection of rent is the responsibility of a company called Workman LLP ("Workman").

11.5.2 We were advised by the Head of Estates that Manor Walks and West Moreland were purchased on 15 August 2016 and 30 November 2016 respectively and, at that time, Workman was the incumbent managing agent. The Head of Estates described Workman's role as that of a "caretaker" of the properties and the tenants. We were further advised by the Head of Estates that the decision was taken by the Arch Board to retain Workman at the time the properties were purchased as it had 35-40 years of experience in managing such properties.

11.5.3 The duties performed (which are set out in a Property Management Agreement dated 28 March 2016 between Workman and Arch) include maintenance, health and safety, managing exhibitions at the properties, dealing with tenant issues, marketing of the properties and filing outlets at these centres which become vacant. Part of Workman's role is also the collection of rent and, where arrears arise, the recovery of those debts. Tenants at these properties are also charged a service charge which, in turn, covers the fees invoiced by Workman for its services.

11.5.4 The Head of Estates manages the relationship with Workman and advised that they are usually in daily contact with Workman about matters related to the two properties. There is a monthly management meeting with Workman. The Head of Estates attends this meeting along with the law firm DWF (who deal with contractual leasing matters for Advance) and a property management agency, "Barker Proudlove", which is used by Advance in respect of these properties.

- 11.5.5 Each month, Workman provides a report which covers aspects such as rent collection rates, arrears, repairs carried out, details of any market surveys, issues raised by tenants and tenants that have been lost and obtained. Void outlets in these properties are also discussed, together with any prospective changes in tenancy that may be anticipated. The monthly report prepared by Workman is discussed at the meeting and we understand a copy of this report is provided to the MD and COO of Advance and also to NCC. We were provided with an example of such a report and note that it contains high-level headlines rather than being a detailed report, but it does appear to cover all of the above areas.
- 11.5.6 A financial report is also provided by Workman, which includes, amongst other financial information, the details of each tenant's account and what rent has been charged, collected and is outstanding. The information relating to any arrears outstanding is considered at Advance's monthly PCs. The Head of Estates advised that the average collection rate prior to Covid-19 had been around 97% to 98% but that Covid-19 had impacted on this rate of collection and collection rates were more variable over the last year.
- 11.5.7 The Head of Estates advised that there was constant dialogue, generally daily as already noted, and if tenants were in arrears and the situation could not be resolved, then Workman would seek permission from the Head of Estates to arrange a payment plan or, where the debt cannot be recovered, permission to appoint bailiffs. The Head of Estates noted that Workman tended to have close working relationship with the tenants in these properties and therefore, as noted above, the collection rate was usually high.

11.6 Summary

- 11.6.1 In summary, our review has identified that there is a formal, structured procedure for managing arrears in both the Housing and Commercial portfolios which appears to be consistently followed. Arrears appear to be managed on a timely basis and there is an escalation and authorisation process in place. Where the decision is made not to pursue a recovery, this is authorised by the Advance Board.

- 11.6.2 From our discussions, it would appear that the management of arrears has been given increasing focus by Advance, with an additional team member appointed in 2019, allowing arrears to be addressed on a more-timely basis, thereby improving the speed of recoveries.
- 11.6.3 For those properties managed by an external agent, there is regular dialogue between the Head of Estates and the agent, and the debt collection rates are usually high.
- 11.6.4 Our review noted that there is no formal process for the Housing or Commercial team to notify the Debt Collection team that a tenant has left a property, meaning that potential defaults are identified later in the day and recoveries are more difficult.