Governance Report

Below, I analyse and contrast the extent and structure of corporate governance ("Governance") quality and disclosure of two UK listed companies, Barratt Developments plc ("Barratt") and Berkeley Group ("Berkeley"). Specifically, I will focus on how Governance and its disclosure is aligned with the UK Corporate Governance Code ("the Code"). Note that I analyse disclosures contained in the annual reports for the financial year ended in 2018 (April 2018 in case of Berkeley and June 2018 in case of Barratt), implying that both documents still follow the 2016 edition of the Code. However, the 2018 edition, whilst maintaining the Code's objectives, has restructured its approach by grouping its prescriptions under a different set of headings.

Disclosures of the Code's Contents

Both companies repeatedly stress that their disclosure is driven and in accordance with the Code. Berkeley notes "the Company has fully applied the main and supporting principles of the Code issued in 2016" (2018, p.62) and Barrett describes its disclosure as "details of how the Company has applied the main principles and provisions of the UK Corporate Governance Code 2016" (2018, p.4).

However, their approaches are quite different. Whereas Berkeley's disclosure explicitly spells out the main principles of the Corporate Governance Code, Barrett's references to the Code are much more subtle. Even so, Barrett's disclosure arguably addresses the Code in more depth, as shall be explored. Thus, when reviewing a disclosure, it is important to adopt a critical focus in order to read between the lines where necessary.

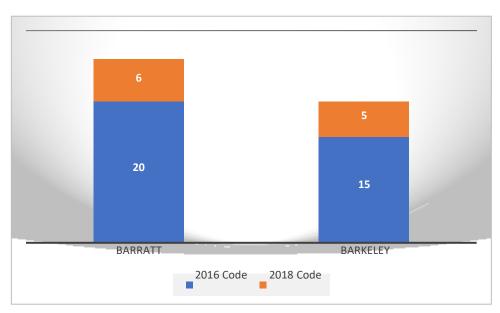


Figure 1. Mentions of the Code in Relevant Sections of the 2018 Annual Reports

Both companies disclose a similar level of attention and effort with regards to the 2018 Code. Given that both companies operate solely in the UK, they do not mention Governance requirements in other jurisdictions.

Leadership and Effectiveness

Among the provision in the Leadership Principle, two stand out in this case: the need for high engagement from the board and sufficiently high independence of the board. The disclosure again differs. As per Figure

2, Barrett makes a clear summary. It had seven meetings of the Board that consist of nine members, of which five are independent (and non-executive).

Figure 2 Barratt's Table Describing the Board's Engagement

Member	Role	Number of meetings attended
John Allan	Chairman	7/7
David Thomas	Chief Executive	7/7
Steven Boyes	Deputy Chief Executive and Chief Operating Officer	7/7
Jessica White	Chief Financial Officer	7/7
Richard Akers	Senior Independent Director	7/7
Nina Bibby	Non-Executive Director	7/7
Jock Lennox	Non-Executive Director	7/7
Sharon White ¹	Non-Executive Director	3/3
Tessa Bamford ²	Non-Executive Director	7/7

The roles of CEO and Chairmen are sperate. All these details are within Berkeley's disclosure, but they are not shown as succinctly. It had four meetings of the Board in financial 2018 with full attendance in each case. It has 16 directors, of which nine are independent (and non-executive). It also has an independent Chairman.

Figure 3 Approach to Director Independence as Disclosed in Annual Reports

Berkeley
The Board reviews the independence of
Non-executive Directors on an annual
basis taking into account each
individual's professional characteristics,
behaviour and their contribution to
unbiased and independent debate.

influence their independence or judgement.

In their disclosure, the companies seem to value director independence differently. Barratt emphasises the importance it places on director independence, while Berkeley makes a note that it reviews independence on a regular basis.

Accountability

The third Principle in the Code has a very operational focus in that it contains provisions regarding risk control, internal controls, audit, and financial & business reporting. These tenants are somewhat removed from the purview of strict Governance, with the exemption of Audit Committee design and management.

Once again, in this case, the disclosure of Barratt is much more comprehensive. Berkeley's Audit Committee report covers two pages against Barratt's seven pages of disclosure. Barratt (2018) had a detailed discussion of topics such as the function of the Audit Committee (see Figure 4), "hygiene" level discussion of the Committee's membership & responsibilities, detailed & thorough discussion of the audit & auditors, which includes relevant areas that lead to a conflict of interest; as well as, novel areas such as cyber-security, EU's GDPR regulation and whistleblowing policies. Most of these topics are underdeveloped in Berkeley's disclosure and some are absent altogether. Both companies do discuss in details accounting issues that seem salient. In this case, Barratt has a discussion of inventory valuation & margin recognition and goodwill & intangible assets impairment policies. Berkeley also discusses inventory valuation & margin recognition policies, as well as accounting for provisions and recognition of revenue.

Going concern and viability statement Assessed the Group's available facilities, headroom and banking covenants Assessed the Group a swalable faculties, near-orn and banking covenants. Reviewed and challenged management's detailed analysis, which included forecasts and detailed analysis, which included forecasts and textured to the same state of the following market. Satisfied itself, and recommended to the Board, that the going concern basis of preparation continues to be appropriate lpage 811. Assessed the long term prospects of the Company, and agreed the immscale to be covered by, the viability statement for disclosure in the FY18 Report and Accounts fague 831. Reviewed the adequacy of availability of finance to the Group. Integrity of Financial Statements and announcements and announcements

> Analysed drafts of half and full year results announcements.
Reviewed and addressed key accounting judgements and significant issues see page 30 miles of the Financial Statements for FY17 and agreed the format for the Financial Statements for FY18.
Reviewed the process established for ensuring that land opined on whether the Annual Report and Accounts are fair, balanced and understandable [page 82].
Considered and approved material accounting policies, estimates and judgements.
Assessed and approved presion assumptions and reviewed funding Assessed and seed penefit pension scheme.
Received updates on the implications of new accounting standards and key regulatory changes. Committee effectiveness Progressed actions arising from the FY17 external evaluation.
Undertook an internal evaluation of its performance in FY18 and devised an action plan to address the issues identified [page 68]. Governance Considered and recommended for approval the proposed corporate governance disclosures for the 2018 Annual Report and Accounts including fails, balanced and understandable lpage 821.
 Received updates on general corporate governance requirements.
 Reviewed preparation for compliance with the General Data The Audit Committee Protection Regulation.

> Reviewed and updated its terms of reference. Internal control and risk management systems External audit Monitored and regularly reviewed the effectiveness of internal controls
and risk management systems lincluding Environment, Social and
Governance 'ESG' risks jin the context of the Company's appetite for risk.
 Considered regular updates from the Risk Committee which included
reports on the Executive and divisional risk workshops, risk registers
and residual risk, including ESG' risks.
 Considered regular updates from the Chief Internal Auditor on
whistleblowing and suspected fraud reports and related investigations
(pages 83 to 84 and 86).
 Reviewed and updated the policy framework and the policies specifically
allocated to it including the delegation of authority matrix.
 Received updates on the Group's disaster recovery policies and
processes including impact of cyber security risks.
 Reviewed, and recommended to the Board for approval, the principal
risk disclosures for inclusion in the 2018 Annual Report and Accounts. > Monitored and regularly reviewed the effectiveness of internal controls Considered the external auditor's reports on half and full year Financial Statements. rmancial Statements.

Met with the external audit partner without management being present.

Assessed the effectiveness and performance of the external audit
(page 84). sed and confirmed the independence of the external auditor Internal audit Assessed and confirmed the independence of the external auditor Ipage 85.
 Agreed external audit terms of reference, fees and scope for the half and full year ends.
 Regularly reviewed the ratio between audit and non-audit fees [page 85].
 Reviewed and updated the policy on auditor independence and non-audit fees accordingly [page 85]. Received regular updates from the Chief Internal Auditor on matters a rising from the internal audits undertaken throughout the business. Met with the Chief Internal Auditor without management being present. The work of the Chief Internal Audit plan Reviewed and agree det he Internal Audit plan Reviewed and service of the principal risks of the Commander of the of the Company. Assessed the effectiveness of the Internal Audit function during FY18 [page 86].

Figure 4 Barratt's Detailed Description of Audit's Committee's Processes

Remuneration

Given the topicality of Executive Compensation, both companies make a conscientious effort to provide detailed and comprehensive information with regards to their compensation policies. The disclosures run for about 20 pages in each case. As per Figure 5, the scope and content of discourse are similar for Barratt and Berkeley. However, the order and format of the disclosure differ somewhat. Both companies begin with a statement of the Chairmen Remuneration Committee. However, other information is usually presented in a different sequence and format. For example, Berkeley relies more on tables and charts to convey information. It has nearly 30 figures in its report against 23 figures found in Barratt's report. Also, Barratt has more disclosures with regards to the implementation of Executive Compensation. It has more details on the content and attendance of Executive Committee meetings and analysis of shareholder voting with respect to Executive Compensation.

Figure 5 Indication of Disclosure of Selected Executive Compensation Items for Barratt and Berkeley

Challenger of Challenger f		
Statement of Chairman of		
	Yes	Yes
Remuneration Committee		
Analysis of Elements of	Yes	Yes
Executive Remuneration		
Detailed discussion of		
Committee's Remuneration	Yes	Yes
Policy		
Description of Activity of		
	Yes	Yes
Remuneration Committee		
Discusssion of		
Implementation:		
Base Salary & Pension	Yes	Yes
Annual Bonus	Yes	Yes
LTPP	Yes	Yes
Tables with Single Figure	Yes	Yes
Remuneration		
Analysis of relative	No	Yes
Remuneration to FTSE 100	INO	163
Analysis of relative	Yes	Yes
Remuneration to employees	163	163
Disclousre of Detailed	Yes	No
Clawback Provisions	162	INO

There is a significant difference in the metrics the companies use when setting Executive Compensation. Barratt focuses on total shareholder return relative to companies in the sector, earnings per share growth, and return on capital employed. Berkeley uses return on equity and net asset value growth as metrics. In my opinion, Barrett's approach is better as it incentivizes management to focus on shareholder wealth, operating growth and use of total capital. Berkeley's approach inadvertently incentivises management to take on debt, by focusing on return on equity and asset growth.

Conclusion

Both companies seem to be adhering to the Principles of the Code but differ in their approaches. Berkeley

uses the Code directly from its Governance policies, while Barratt seems to have a set of internal policies

that, when combined, adhere to the Principles of the Code. Nonetheless, I conclude that Barrett's

Governance has higher quality and is better disclosed.

With respect to board engagement and quality, the companies also take a differing approach. Barrett has a

smaller, somewhat less independent, but more active Board. Note, however, that Barratt seems to place

much more emphasis on the independence of their directors. Berkeley has a less active Board, but it is

bigger. It also has a much larger percentage of independent non-executive directors. Also, Berkeley's audit

governance seems to be underdeveloped relative to Barratt.

With respect to Executive Compensation, both companies have high-quality policies and disclosures.

However, in my opinion, Barrett's structure of compensation is superior.

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