



Audit Advisory Committee

Tuesday 20 March 2018 at 6.30 pm

Boardrooms 7&8 - Brent Civic Centre, Engineers Way,
Wembley HA9 0FJ

Membership:

Members

Mr Ewart (Chair)
Mr Sullivan

Substitute Members

Councillors:

A Choudry (Vice-Chair)
Davidson
Nerva
Perrin
Krupa Sheth

Councillors:

Hoda-Benn, Long, McLeish and Pavey

Councillors:

Kansagra and Warren

For further information contact: Nikolay Manov, Governance Officer
Tel: 020 8937 1348, Email: nikolay.manov@brent.gov.uk

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www.brent.gov.uk/committees

The press and public are welcome to attend this meeting.

Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also a Prejudicial Interest (i.e. it affects a financial position or relates to determining of any approval, consent, licence, permission, or registration) then (unless an exception at 14(2) of the Members Code applies), after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences** - Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

- (a) Anybody of which you are a member or in a position of general control or management, and:
 - To which you are appointed by the council;
 - which exercises functions of a public nature;
 - which is directed is to charitable purposes;
 - whose principal purposes include the influence of public opinion or policy (including a political party or trade union).
 - (b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;
- or

A decision in relation to that business might reasonably be regarded as affecting, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral ward affected by the decision, the well-being or financial position of:

- You yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who employs or has appointed any of these or in whom they have a beneficial interest in a class of securities exceeding the nominal value of £25,000, or any firm in which they are a partner, or any company of which they are a director
- any body of a type described in (a) above

Agenda

Introductions, if appropriate.

Item	Page
1 Apologies for absence and clarification of alternate members	
2 Declarations of interests Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary, personal or prejudicial interests in the items on this agenda and to specify the item(s) to which they relate.	
3 Deputations (if any) To hear any deputations received from members of the public in accordance with Standing Order 67.	
4 Minutes of the previous meeting To approve the minutes of the previous meeting as a correct record.	1 - 14
5 Matters arising (if any) To consider any matters arising from the minutes of the previous meeting.	
6 External Audit Progress Report The External Audit Progress Report summarises the auditing activities undertaken by KPMG since the last meeting of the Committee in January 2018 and provides an overview of actions to be completed by the next meeting of the Audit Advisory Committee in July 2018.	15 - 18
7 External Audit Report on grants and returns 2016/17 The report summarises the results of work the Council's External Auditor has carried out on the Council's 2016/17 grant claims and returns.	19 - 34
8 Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017 The report explains the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of the Regulation of Investigatory Powers Act 2000 (RIPA). This report sets out the first annual review by the Audit Advisory	35 - 56

Committee.

Ward Affected:
All Wards

Contact Officer: Debra Norman
Director of Legal and HR Services
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Tel: 020 8937 1578

9 Update on the operation of i4B Holdings Ltd

57 - 140

The report provides an update on the performance, future plans and audit arrangements of the Council's wholly owned company, i4B Holdings Ltd.

Ward Affected:
All Wards

Contact Officer: Sadie East
Head of Transformation
Email: sadie.east@brent.gov.uk
Tel: 020 8937 1507

10 Public Sector Internal Audit Standards (PSIAS) Action Plan

141 - 148

The paper informs Members of the progress on implementing the action plan that was produced after the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@Brent.gov.uk
Tel: 020 8937 6526

11 Internal Audit and Counter Fraud Progress Report (Quarter 3)

149 - 182

The report provides an update on the progress against the Internal Audit Plan for the period 1 January 2018 to 28 February 2018 as well as a summary of counter fraud work for the period 1 October 2017 to 31 December 2017 (Quarter 3).

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@Brent.gov.uk
Tel: 020 8937 6526

12 Draft 2018/19 Internal Audit Annual Plan

183 - 206

The report sets out the draft Internal Plan for 2018/19 and the basis on which the Plan has been prepared.

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@Brent.gov.uk
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13 Dates of Committee meetings in 2018/19

The proposed dates for meetings of the Audit Advisory Committee in the 2018/19 Municipal Year are:

Thursday 26 July 2018¹

Wednesday 17 October 2018

Thursday 13 December 2018

Tuesday 5 February 2019

Tuesday 2 April 2019

Wednesday 8 May 2019

Please note that these dates will not be confirmed until approved at the Annual Council meeting on Monday 14 May 2018.

14 Audit Advisory Committee Forward Plan and Agenda for the next meeting 207 - 208

To note the Committee's Forward Plan and agree a draft agenda for the next meeting, which would be reviewed and finalised by the Chief Finance Officer, the Head of Audit and the Chair of the Committee one month after the date of the current meeting.

Ward Affected:
All Wards

Contact Officer: Michael Bradley
Head of Audit and Investigations
Email: michael.bradley@Brent.gov.uk
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15 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60



- Please remember to **SWITCH OFF** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

¹ To be followed by a meeting of the Audit Committee to approve the Council's accounts.

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MINUTES OF THE AUDIT ADVISORY COMMITTEE **Held on Wednesday 10 January 2018 at 6.30 pm**

PRESENT: Mr Ewart (Chair), Mr Sullivan (Independent Member, via Facetime), and Councillors A Choudry (Vice-Chair), Long, Nerva and Krupa Sheth

Also Present: Councillor McLennan

1. Apologies for absence and clarification of alternate members

Apologies for absence were received from Councillors Davidson and Perrin (with Councillor Long substituting).

Mr Sullivan participated in the meeting remotely due to illness.

2. Declarations of interests

In relation to Agenda item 11, Mr Ewart declared that he was Chair of the Brent Pension Board.

3. Deputations (if any)

There were no deputations.

4. Minutes of the previous meeting

It was **RESOLVED** that the minutes of the previous meeting, held on 5 December 2017, be approved as an accurate record.

5. Matters arising (if any)

(i) I4B Holdings Ltd

It was noted that this item would be included in the agenda for the next meeting of the Committee on 20 March 2018.

(ii) First Wave Housing

The Committee requested that an agenda item, related to the operation of First Wave Housing, be added to the Forward Plan and discussed at the next meeting of the Audit Advisory Committee on 20 March 2018.

(iii) Objections to the Accounts Regarding the Payment to the Council's Former HR Director

It was noted that this matter would be discussed under Agenda item 6.

(iv) *Paddington Cemetery Groundwork*

It was noted that this matter would be discussed under Agenda item 20.

6. Objections to the Accounts Regarding the Payment to the Council's Former HR Director

Conrad Hall (the Council's Chief Finance Officer) introduced the report and highlighted that following the receipt of the objections, KPMG, the Council's external auditor, had examined them and had issued their opinion. He referred to page 12 to the Agenda pack and said that all recommendations had been agreed by the Local Authority and they had either already been implemented or they had been in the process of implementation. Mr Hall encouraged Members to contact him if they wanted to examine KPMG's decision letters as these could not have been included in the Agenda pack. Andrew Sayers (Partner, KPMG – External Audit) confirmed that the introduction by Mr Hall reflected his position.

The Chair noted that one of the objectors had emailed a copy of the decision letter they had received to all Members of the Committee.

Members enquired who would be appointing the independent person to investigate a potential grievance against a specific member of the Human Resources management team and Carolyn Downs (the Council's Chief Executive) clarified that it would be the Head of Paid Service (the Chief Executive).

The Committee agreed that lessons learned had been identified and there would not be any additional benefits of spending additional time on this issue so the matter could be considered to be fully resolved.

RESOLVED that:

- (i) The contents of the Objections to the Accounts Regarding the Payment to the Council's Former HR Director report, be noted.
- (ii) The Committee noted the three recommendations made by the independent auditor as set out in section five of the report; and
- (iii) The Committee endorsed the Council's response to the recommendations, subject to adding to the management response formal confirmation that the Head of Paid Service would appoint the independent person in these circumstances.

7. Emergency Preparedness Task Group Report

Councillor Nerva introduced the report which summarised the work of the Emergency Planning Task and Finish Group. He commended that the paper was a valuable and informative piece of work which provided a challenge to Elected Members in respect to their role in emergency preparedness and incident response. Councillor Nerva noted the importance of the report being presented to Full Council so other Members could familiarise themselves with it and stressed that it would be essential for emergency planning to be included in the Member Induction training, following the Local Election in May 2018. Carolyn Downs (the Council's Chief Executive) directed the Committee's attention to the recommendations of the Task

and Finish Group (page 25 to the Agenda pack) and said that action had been taken on each of the nine points. She informed Members that there had been a few emergencies to respond to over the Christmas period and noted that the Silver rota, which had been re-established previously, worked particularly well.

Members enquired about the Council's interaction with key stakeholders in the Borough such as Wembley Stadium, the Football Association (FA), places of worship, etc. Questions were focused on joint working, availability of alternative incident control rooms, and provision of refuge. Ms Downs said that in the event of an incident, the Stadium would be the main congregation point. However, the borough had a list of places that could be used if the Stadium was affected or could not be used. Ms Downs informed Members that she had monthly meetings with the Wembley Park partners and a two-hour table top discussion of potential scenarios would take place on 30 January 2018. In relation to availability of control rooms, Members heard that Quintain had their own room so did the FA, while the Police had the ability to institute one depending on the scale and the location of the incident. Furthermore, meetings with places of worship to discuss their preparedness to respond to an incident would be organised and the issue would be raised at the meeting on 30 January 2018.

Councillor McLennan (the Council's Deputy Leader), who was in attendance, asked about joint planning with the National Health Service (NHS). Ms Downs said that Council had been in regular contact with the London Ambulance Service and its main collaboration with the NHS would be related to the use of the mortuary at Northwick Park Hospital which was considered to be a semi-regional one and could be used by other boroughs as well.

In response to a question that related to the monitoring of the implementation of the nine recommendations, Ms Downs said that it would fall within the remit of the Audit Advisory Committee. This view was shared by the Independent Member who said that it would be essential progress updates against actions plans to be provided to the Committee. It was agreed that the topic would be revised in six months time.

RESOLVED that:

- (i) The contents of the Emergency Preparedness Cover Report, be noted;
- (ii) The Committee's appreciation of the work of the Task and Finish Group be formally recorded; and
- (iii) Emergency Preparedness be added to the Committee's Forward Plan to be reviewed in six months time.

8. External Audit Progress Report and External Audit Plan 2017/18

Andrew Sayers (Partner, KPMG - External Audit) introduced the report which provided the Committee with external audit updates since December 2017 and the work planned before the next meeting on 20 March 2018. He noted that KPMG had issued their unqualified assurance statement on the Pooling of Housing Capital Receipts and had completed the previous year's audit. Members heard that grant returns work had been completed and the grant report for 2016/17, summarising the main issues arising from the work, would be issued prior to the next meeting of

the Committee in March 2018. As far as the objection relating to the Lender Option Borrower Option (LOBO) loans was concerned, Mr Sayers noted that KPMG would provide an update on the issue as soon as they receive the information they had requested from the Local Authority. Conrad Hall (the Council's Chief Finance Officer) commented that LOBO loans were a complex matter and said that reasonable progress towards sending substantial information to KPMG had been made.

Mr Sayers said that KPMG had completed their initial planning for the 2017/18 audit and the draft audit plan had been included in the Agenda. However, it was decided that it would be discussed under Agenda item 13.

RESOLVED that:

- (i) The contents of the External Audit Progress Report, be noted; and
- (ii) The discussion on the External Audit Plan 2017/18, be deferred to Agenda Item 13.

9. Proposed Changes to the Planning Code of Practice

Looqman Desai (the Council's Senior Solicitor, Governance) presented the report which informed Members of the proposed changes to the Council's Planning Code of Practice. Mr Desai said that the Planning Code of Practice supplemented the Members' Code of Conduct by providing additional guidance on behaviours expected of all Members and Members of the Planning Committee in particular. The Committee heard that the proposed changes were part of a wider review of the Constitution related to planning procedures, conducted under the supervision of the Constitutional Working Group (CWG). Mr Desai directed Members' attention to paragraph 3.3 of the report (page 108 to the Agenda pack) which summarised the key changes proposed. He also mentioned that two issues which had been raised at the last meeting of the Committee had been included in the revised Planning Code of Practice - paragraph 30 dealt with the issue of meetings between relevant Members of Cabinet and developers, while paragraph 33 addressed pre-application discussions and discussions about undecided applications (page 117 and 118 to the Agenda pack). Mr Desai stressed that particular care had been taken when drafting this aspect of the code and that reference to "discussions" was broad and focused on the subject matter rather than the form of discussions. He explained that guidance issued by the Local Government Association (LGA) and other standards of good practice had been considered. Furthermore, the code is being independently reviewed by a planning expert and that any recommendations for further improvements to the code would be the subject of further consideration. Finally, the code would be reported to Full Council on 22 January 2018 for approval.

Amar Dave (the Council's Strategic Director of Regeneration and Environment) informed the Committee that Councillor Perrin, who had sent his apologies, wished the new requirements on pre-application discussions etc. to refer specifically to breakfast, lunch or dinner meetings. Mr Desai responded that the code already made adequate provision for such meetings by focusing on the subject matter of such discussions rather than their timing or whether they were formal or informal. He said that the requirements aimed to strike a proper balance between promoting

public confidence in the integrity of the planning process and the legitimate reality of local government life. For example, additional controls had targeted matters of strong public interest, such as pre-application and application discussions. This led to a question about how notes of meetings with developers would be made available to the public. Mr Desai advised that according to the LGA guide, notes should be placed on the relevant planning file. Members generally indicated their approval of this practice.

In response to a question on what being “actually biased” meant which was referred to in paragraph 5 of the code (article 5 on page 112 to the Agenda pack), Mr Desai explained that actual bias occurred in a situation where the decision maker had a direct or financial interest in the outcome of a decision and it occurred rarely. The term ‘actually biased’ had been used to draw a distinction between the two types of bias recognised by the law: namely, actual bias and apparent bias which is when it might appear to a fair minded and informed observer that there was a real possibility of bias. He said that once the code had been approved, further guidance and a Monitoring Officer Advice Notice could be issued to help Members understand specific terms. Furthermore, there would be specialised training on the Planning Code of Practice for Members appointed to the Planning Committee. Members suggested that payments of Special Responsibility Allowances should be made conditional upon satisfying any mandatory training requirements.

Regarding declaring approaches at meetings, Alice Lester (the Council’s Head of Planning Transport and Licensing) said that Members currently declared if they had been asked to speak on someone’s behalf and this worked well. Carolyn Downs (the Council’s Chief Executive) reminded Members that Councillors who sat on the Planning Committee had to make independent decisions on planning matters placed in front of them, irrespective of any conversations they might have had. Furthermore, there was no legal rule against Members discussing applications.

The Independent Member acknowledged the reputational risk for the Council if the review of the code was not carried out correctly. He also commented on the need to follow best practice.

In response to a Member’s enquiry about the benefits of deferring an application when Members are minded to make a decision contrary to officer recommendations, Ms Lester explained that this was still possible and that in the future if the Planning Committee did not wish to defer the application, the matter would need to be put a vote first.

Due to the limited time available prior to the deadline for submission of reports to be presented at Full Council, it was agreed that an updated version of the Planning Code of Practice would be circulated to Members electronically and they would be able to make further comments at the Full Council meeting.

RESOLVED that:

- (i) The Proposed Changes to the Planning Code of Practice report, which would be reported to Full Council for approval on 22 January 2018, be noted.
- (ii) An update report on any issues arising under the code be presented to the Audit Advisory Committee in 12 months.

10. **Order of Business**

RESOLVED that Agenda items 10 and 11 be discussed together.

11. **Payroll Audit Report and Pensions Administration Audit Report**

Althea Loderick (the Council's Strategic Director of Resources) introduced the Audit Report on the Payroll service and said that one of the key findings of the limited assurance paper was that checks and balances were not where they should have been. Ms Loderick informed Members that the recommendations of the report had been accepted and there had been changes in the overall management of the service as it had moved to the finance area of the Department of Resources.

In relation to the limited assurance audit of the Council's Pensions Administration, Ms Loderick informed Members that there had been issues with Capita (the previous provider of the service) that had been related to performance. Those had been addressed and Brent would be moving away from the contract as the Council would be working with the Local Pensions Partnership (LPP). It was noted that the Pensions Administration Audit Report would be submitted to the Pensions Board.

The Committee expressed concern why some of the issues that had been highlighted in the reports had not been addressed sooner – in particular, there was not a procedure for recovering money that had been overpaid, and this could have been tackled earlier. Michael Bradley (the Council's Head of Audit & Investigations) said that he agreed with the points raised by Ms Loderick and the Members of the Committee and spoke about the need to follow up on the implementation of the recommendations, in view of the outstanding recommendations from the previous audit.

In relation to the estimated length of decline of the policies and procedures, Ms Loderick added that it was difficult to determine the length. She commented that some of the factors that might have led to the current situation where service reductions, change of staff and lack of proper documentation of the work being done. This led to question about the aspects audit should be looking at in order to provide long-term assurance. Conrad Hall (the Council's Chief Finance Officer) pointed out that in respect of some back office and transactional services, cheaper service did not always mean worse service. He referred to Payroll where not all the work had been documented properly and said that the solution would be related to implementing controls, standards and procedures in the right management culture. As far as the Pensions Administration was concerned, Mr Hall said that some of the problems were due to historical anomalies of data. He emphasised that although sometimes one-off additional resources could help, it was important to have the work done properly and in the right way.

Members commented that the organisation could be going through further changes and enquired about the principles that had to be followed to ensure that a similar situation would not occur again. Mr Hall responded that some of the issues identified were related to the way the services interacted with the rest of the organisation. Having clear frameworks for various procedures would help, however, the development of these could take time so the answer to that question was related to risk analysis which could identify areas of concern and ensure that the organisation could respond accordingly.

The Independent Member asked if any statistical sampling had been carried on from which a probable error rate (overpaid and underpaid) could be determined. He also emphasised that the financial loss to Brent was the total of overpayments and underpayments because Brent had a duty to correct underpayments wherever possible but wouldn't always have the ability to recover overpayments arising from errors by Brent staff. It was acknowledged that some errors may have been caused by third parties. In such case Brent should seek compensation from third parties if it was thought reasonable and practical to do so for the sums involved and the probability of success. Mr Bradley said that the overpayments report had tried to detail their level, but the key point identified was related to the lack of appropriate controls. The Independent Member acknowledged that controls should be re-established and be seen to be working. It would be appropriate to bring an update to a future meeting advising whether past errors have been eradicated and restitution made where possible.

RESOLVED that:

- (i) The contents of the Payroll Audit Report, be noted;
- (ii) The contents of the Pensions Administration Audit Report, be noted; and
- (iii) An update on the implementation of the recommendations of the reports be provided as soon as appropriate.

12. **Strategic Risk Register Cover Report**

Michael Bradley (the Council's Head of Audit & Investigations) informed Members that the Strategic Risk Register had been updated by the risk owners since the last meeting of the Committee. He said that a full review of the risk management framework would be carried out between January and March 2018. It would take a different approach which would be reflected via workshops and exercises with senior managers. The review would include an assessment of how consistent and effective the identification, assessment and mitigation of risk was and it would look at the effectiveness of reporting to senior management and the Audit Advisory Committee.

The Chair commented that progress in the right direction has been made. He enquired whether classification of risk had been considered specifically with regard to area which although low likelihood of occurring might have a very significant impact if materialising. Furthermore, the Independent Member stressed the importance of having plans to respond to the risks in the Strategic Risk Register and questioned whether directorate risks should be presented to the Committee. In response, Mr Bradley said that the thresholds for moving risks between registers would be reviewed and that the intention was to reflect this in future reporting.

The Committee expressed its support for the review of the risk management framework.

RESOLVED that:

- (i) The contents of the Strategic Risk Register Cover Report, be noted; and

- (ii) An update on the review of the risk management framework be provided at a future meeting of the Committee.

13. **Preparing the Annual Internal Audit Plan 2018/19**

Michael Bradley (the Council's Head of Audit & Investigations) introduced the report and informed members that the Audit & Investigations Team had started preparing the Annual Internal Audit Plan for 2018/19. He said that it would be discussed at Directorate Management Team (DMT) and Council Management Team (CMT) meetings before being presented to the Committee for a final approval. Mr Bradley highlighted that this was a suitable stage for Members to point issues out or suggest areas to be included in the Plan.

The Committee discussed the importance of engaging as many Elected Members as possible as it was essential for them to have a view and raise matters that were important to them. Members heard that the Vice-Chair would include the Plan in his report to Full Council on 22 January 2018 and it was suggested to publish an article in the Members' Information Bulletin.

In response to a question about the number of days of audit work available, Mr Bradley said that the estimated 1,100 days reflected the resources available and the final number would be confirmed at the next meeting of the Committee. Conrad Hall (the Council's Chief Finance Officer) commented that the estimated days were above the average and on the high end for a local authority in London. Furthermore, the number of days reflected the need for audit at Brent, which was relatively high. Mr Hall reflected on the need to have contingency to reflect the volatility of the public sector and to allow the Council to react to events and increase audit resources if necessary. Speaking of resources, he added that there were vacant posts in the team that had to be filled to ensure the delivery of the Plan.

Referring to the External Audit Plan 2017/18, the Independent Member drew the Committee's attention to page 94 of the Agenda Pack and endorsed the inclusion of First Wave Housing Limited and I4B Holdings Limited in the authority other area of audit focus due to the companies being set up recently and the risks associated with this. Furthermore, he said that he expected the structures and procedures of the companies to be features on the Internal Audit Plan 2018/19 so changes could be evaluated.

RESOLVED that:

- (i) The contents of the Preparing the Annual Internal Audit Plan 2018/18, be noted;
- (ii) The contents of the External Audit Plan 2017/18, be noted; and
- (iii) An article on the Plan be included in the Members' Information Bulletin.

14. **Closure of Accounts 2017/18**

Benjamin Ainsworth (the Council's Head of Finance - Financial Management) presented the paper and highlighted that the statutory deadlines had been revised as outlined in paragraph 3.2 on page 210 to the Agenda pack:

- Preparation of draft financial statements, signed by the Chief Finance Officer and published on the website – 31 May
- Approval (by the Audit Committee) and publication of financial statements with audit opinion – 31 July.

Conrad Hall (the Council's Chief Finance Officer) pointed out that the change in the deadlines meant that it would no longer be practical to bring the draft accounts to a formal meeting of the Audit Advisory Committee. However, it would be his intention to circulate the draft accounts for comments and to convene a briefing session for Members so they could understand what was in the accounts and ask questions on them. Such a session would take place before the end of May 2018.

Mr Ainsworth said that his Team had started preparing for the new deadlines, but detailed planning and review of the accounts were required. The Finance Directorate Management Team (DMT) would monitor progress closely and a target of 30 April for the preparation of the 2017/18 accounts had been agreed.

Andrew Sayers (Partner, KPMG – External Audit) confirmed that KPMG would be liaising with the Council to ensure that the proposed timetable worked well and commented that it was satisfying to hear that planning for the closure of accounts had already started. He spoke about the areas KPMG audited as part of the Financial Statement Audit and the Value for Money Audit. He confirmed that the materiality threshold was £12m but that any errors over £600,000 would be reported, as well as smaller ones if they were sensitive or of particular relevance to the Committee.

RESOLVED that:

- (i) The contents of the Closure of Accounts 2017/18 paper, be noted;
- (ii) The approach being taken to ensure that the Council was able to meet its statutory obligations be noted;
- (iii) The draft accounts be presented to Cabinet and circulated to Members of the Audit Advisory Committee;
- (iv) A briefing session for all Elected Members be convened prior to the end of May 2018; and
- (v) Meetings of the Audit and the Audit Advisory Committees be scheduled in the last five working days of July 2018.

15. **Treasury Management Strategy 2018/19**

Sawan Shah (the Council's Finance Analyst - Accountancy / Treasury) presented the draft Treasury Management Strategy for 2018/19 which contained details about

the Council's current investment and borrowing position and approach to investments and borrowing for the forthcoming financial year. The Strategy's final version, alongside with the views of the Committee, would be included in the budget report to be approved by the Council on 26 February 2018. Mr Shah drew the Committee's attention to key parts of the document:

- As a result of the recent rise in interest rates, the return on the Council's investments had increased over the early part of the year. However, the impact of the rate on borrowing costs had been limited because the Council's debt portfolio was predominantly made up of fixed rate Public Works Loan Board (PWLB) borrowing. It was expected that the Council's borrowing portfolio would remain stable for up to 12 months.
- An increase in interest rates by the Bank of England had contributed to the slightly higher return. However, the Council's Treasury Management advisers, Arlingclose, forecast that the official UK Bank Rate would likely remain at 0.5% for the immediate to medium-term. Any increase in the bank rates would be expected to be limited and at a gradual pace.
- The Council had a low-risk approach to its investment strategy and this had led to a lower yield. The performance of the Council's investment portfolio had been reasonably good in comparison with other local authorities which indicated that the Council's Treasury Management Strategy had been successfully executed over the recent years.

In response to a question about the UK Municipal Bonds Agency (MBA), Conrad Hall (the Council's Chief Finance Officer) explained that as the Council did not foresee an immediate need to borrow, and as it was aware of the risks of joint and several liability, it did not take any part in setting up the Municipal Bonds Agency (MBA). However, it remained on the Authority's list of potential borrowing sources and the option of joining the MBA was continually under review.

A Member of the Committee enquired about the reclassification of the Council as a retail client under the revised Markets in Financial Instruments Directive regulations and the position of other authorities on this matter. Mr Shah explained that many other authorities were opting up to professional client status as was Brent. He directed the Committee to pages 226 and 227 to the Agenda pack which contained a list of institutions which met the Council's credit worthiness criteria and noted that despite the fact that the jurisdictions of some institutions were abroad, most of them had UK-based operations which meant that any deposits were likely to be kept in the UK part of the organisation and fall within the scope of the directive.

The Independent Member commented that the draft Treasury Management Strategy dealt well with complicated issues. Referring to the implementation and approval process, he said that he had spoken to Mr Hall regarding the process for Cabinet and Council approval of the actual Treasury Management Strategy in terms of the balance between Borrowing and Investments. This process should highlight any deviation between the current and desired balance between Borrowing and Investments. Where appropriate Council and Cabinet should be made aware of any limiting factors affecting the pace at which the Council can achieve the desired balance. Mr Hall agreed that this would be included in the final version that would be presented to Full Council on 26 February 2018.

RESOLVED that draft Treasury Management Strategy 2018/19, be noted.

16. **Internal Audit & Counter Fraud Progress Report for the Period 1 September - 31 December 2017**

Michael Bradley (the Council's Head of Audit & Investigations) provided an update against the Annual Audit Plan for 2017/18. He reminded Members that there had been 62 audit projects included in the plan. Work had commenced on 16 of them and seven audits had been added to the plan. 12 audits had been completed to draft or final stage. Nine of them had an assurance option associated with them – three had reasonable assurance, three had limited assurance and three related to consultancy work and did have not an assurance rating attached. Mr Bradley said that one of the limited assurance reports was on IT Disaster Recovery and explained that as this had been considered by the Emergency Planning Task and Finish Group it would only be presented to the Committee if required. Furthermore, Mr Bradley referred to the proactive counter fraud activity (page 241 to the Agenda pack) which focused on identifying issues before they could materialise. Members of the Committee expressed their consent with the work in this area as gave strength to the service.

Responding to a question about the decrease of the recovery of properties, Mr Bradley explained that 13 properties had been recovered as a result of fraud or irregular activity up to the end of the second quarter of the year. This was a reduction of 50% compared to the same period last year, but if the period until the end of November 2017 was taken into account, the total number of recoveries was 30 which was comparable with last year's performance. Mr Bradley noted that that there could be a slight reduction in recoveries in the final quarter due to a slow-down in referrals and a temporary disruption due to a service restructure.

In relation to Blue Badge fraud, Members said that they would appreciate if communication on this could be expanded and they welcomed the evidence that the authority had some control over the issue. However, they asked if fraud related to resident parking permits was rising and Mr Bradley responded that the misuse of permits could be added to the fraud plan for the following year.

The Independent Member commented that he found it difficult to interpret numbers into trends and Mr Bradley responded that he would look into that.

RESOLVED that Internal Audit & Counter Fraud Progress Report for the Period 1 September – 31 December 2017, be noted.

17. **Public Sector Internal Audit Standards (PSIAS) Progress Report**

Michael Bradley (the Council's Head of Audit & Investigations) introduced the report and said that progress had been made on a vast majority of areas where improvements were needed. He informed Members that the Internal Audit Service had requested a peer review and steps had been taken to undertake one in the spring of 2018. The peer review would assess the Service independently against the Public Sector Internal Audit Standards (PSIAS).

The Committee discussed the process of appointing a Chief Audit Executive (CAE). The Chair commented on the importance of following the guideline that Committee Members should not participate in recruitment process and noted that despite the

fact that he had spoken to the candidates during the last recruitment drive, he did not formally participate in the process. This view was supported by Carolyn Downs (the Council's Chief Executive) who said that although Members' views would be taken into account, they would not be part of the formal decision.

The Independent Member welcomed the peer review. He spoke of the importance of updating the action plans of all internal reports regularly and he commented on the usefulness of progress reports being presented to the Committee on a regular basis to illustrate what had been achieved and what remained outstanding.

RESOLVED that:

- (i) The contents of the Public Sector Internal Audit Standards (PSIAS) Progress Report, be noted; and
- (ii) An update on the preparations for the PSIAS be provided to future meetings of the Committee.

18. **Audit Advisory Committee Forward Plan**

Order of The Committee noted that an agenda item, related to the operation of First Wave Housing, would need to be added to the Forward Plan.

The Chair encouraged Members to notify the Head of Audit and Investigation and the Governance Team if they wanted to propose an item to be added to the Forward Plan or the agenda for a specific meeting

RESOLVED that:

- (i) The contents of the Audit Advisory Committee Forward Plan, be noted; and
- (ii) An agenda item, related to the operation of First Wave Housing, would need to be added to the Forward Plan.

19. **Order of Business**

RESOLVED that Agenda item 20 be considered in public until further notice.

20. **Update - Paddington Cemetery Groundworks**

Michael Bradley (the Council's Head of Audit & Investigations) reminded Members that the review had been undertaken following concerns raised by a Councillor in an email dated 10 November 2017. Members heard that the Audit and Investigation report that had been presented to the Committee on 5 December had been welcomed by management who had provided a response, outlined in paragraph 3.3 of the report (page 284 to the Agenda pack). Mr Bradley said that further work had been undertaken and had confirmed initial findings, i.e. that there was not any provable evidence of fraud on the evidence provided to date.

RESOLVED that the contents of the Paddington Cemetery Groundworks update, be noted.

21. **Exclusion of Press and Public**

It was **RESOLVED** that the press and public be excluded until the end of the meeting as the remainder of the discussion on the Paddington Cemetery Groundwork item contained exempt information, as defined under paragraph 3 of Part 1, Schedule 12A of the Local Government Act 1972.

22. **Update - Paddington Cemetery Groundworks (continued)**

Mr Bradley confirmed that he had met with Councillor Duffy as per resolution (ii) under Minute item 14 (see page 7 to the Agenda pack) and that the Internal Audit Service would consider concerns as information was made available. The Committee noted the report and it was **RESOLVED** that no additional work be undertaken.

23. **Any other urgent business**

None.

The meeting closed at 8.43 pm

DAVID EWART
Chair

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External audit progress report

London Borough of Brent
External audit 2017-18

March 2018 Audit Committee

External Audit Progress Report

Since the last meeting of the Audit Committee in January 2018 we have...

- Received detailed information from the Council regarding the objection relating to the LOBO loans which we are currently working through;
- Finalised our grant report which is a separate item on the agenda;
- Completed our interim audit visit where we completed testing on ensuring our knowledge of your main financial systems was up to date and testing key controls around bank and payroll;
- Issued our prepared by client document request for our opinion visit;
- Met with the Chief Executive, Strategic Director Resources and Chief Finance Officer to update ourselves on strategic issues and any impact on our value for money or financial statements work; and
- Discussed emerging issues with officers to agree accounting treatments in advance.

There are no issues on the audit we need to bring to the attention of the Audit Committee at the moment.

Ahead of the next meeting of the Audit Committee in July 2018 we will...

- Complete our detailed audit work on the financial statements including Pension Fund;
- Prepare and present our ISA 260 report highlighting the findings from the audit;
- Progress the objection relating to the LOBO loan; and
- Agree timetable for the work on Whole of Government Accounts (deadline not yet advised) and grant claims and returns.

We ask the Audit Committee to:

- **NOTE** this progress report.

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Annual Report on grants and returns 2016/17

London Borough of Brent

February 2018



Agenda Item 7

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2016/17 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £345 million;
- Under separate engagements we issued reports on the following two returns:
 - Teachers' Pension Return (£14 million); and
 - Pooling of Housing Capital Receipts (capital receipts subject to pooling £10 million)

Certification and assurance results (Pages 3-6)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter in relation to the following matters:

- Errors in the calculation of claimants eligible self employed income – there was a similar qualification in 2015/16;
- Errors in the calculation of claimants eligible earned income – there was a similar qualification in 2015/16;
- Errors in recording claimants tax credits;
- Evidence to support the weekly rent not retained;
- Misclassification of overpayments between Local Authority errors and eligible overpayments;
- Errors in the classification of types of accommodation as the landlord was not a registered provider; and
- Two cases where the Council did not verify income in line with their Risk Based Verification Framework.

Our work on the other grant assurance engagements resulted in unqualified assurance reports being issued.

Recommendations (Page 8)

We made one recommendation to the Council last year relating to investigating reasons for self employed income being incorrectly recorded. The accuracy of recording self employed income has not improved this year. We have expanded our recommendation to include other errors identified during the audit.

Fees (Page 7)

Our fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant was £22,115, which is in line with the indicative fee set by PSAA.

Our fees for the other returns were subject to agreement directly with the Council and totalled £6,500.

Summary of reporting outcomes

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Overall, we carried out work on three grants and returns:

- One was unqualified with no amendment;
- One was unqualified but required some amendment to the final figures; and
- One required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2016/17 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1				
Other grant/return engagements					
— Teachers’ Pension Return	2				*
— Pooling of Housing Capital receipts	3				
		1	None	2	2

* We were required to report a £23,629 difference between actual contributions and gross salaries multiplied by the required percentage. This was not a qualification.

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

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Ref	Summary observations	Amendment
1	<p>Housing Benefit Subsidy Claim</p> <p>Our initial testing of 60 cases identified:</p> <ul style="list-style-type: none"> Two cases where the Council did not verify earned income in line with its Risk Based Verification policy; One case where earned income was incorrectly entered as the gross value rather than net; One case where the claimant's tax credit was entered incorrectly; One case where the classification of type of accommodation was incorrect as the landlord was not a registered provider; One case where the rent liability of the claimant could not be supported; and One case where LA overpayment error was classified as an eligible overpayment. <p>In line with the methodology required by DWP, officers checked additional cases and found the following:</p> <ul style="list-style-type: none"> Three further cases out of 40 tested where earned income was incorrectly entered One further case out of 40 tested where the claimant's tax credit was entered incorrectly; One further case out of 40 tested where the classification of type of accommodation was incorrect; One further case out of 40 tested where eligible overpayments included an amount which shouldn't have been classified as an overpayment. <p>As a result of errors in previous years in relation to the calculation of self employed income for benefit purpose (53 errors out of 125 cases tested in 2015/16), we carried out additional testing on claims where the claimant had self employed income. Our testing of 124 such cases found errors in 73 of the cases (59%: 2015/16: 42%) of which 11 resulted in the claimant being overpaid housing benefits, 40 on claimants being underpaid and 22 cases which had no impact on the amount the claimant was due. The overpayments ranged from £2 to £592.</p> <p>While most of the errors above would only result in minor adjustments to individual cells included in the claim, the errors where a property was included as a registered provider when it was not would have, based on our extrapolation, lead to a £949,086 LA overpayment error.</p> <p>However, due to the Council having only £264,882 of LA error and administration delays against a lower threshold of £1,623,616, this is likely to have minimal effect on the subsidy claimed if the Department decided to use the extrapolated figures to revise the claim.</p>	+£5

Summary of certification work outcomes

This table summarises the key issues on each of the returns.

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Ref	Summary observations	Amendment
2	Teachers' Pension Return The return was submitted to KPMG by the deadline. Our testing identified that multiplying gross salaries by the expected contributions resulted in a difference of £23,629 on total contributions of £14,574,160 which we were required to report to the Department. The Council investigated this and explained the reason was due to returns from individual schools that do not use the Council's payroll. This is not a qualification of the return.	Nil
3	Pooling of Housing Capital Receipts Return The return was submitted to KPMG by the deadline. The working papers supported the return and there were no matters arising. We issued an unqualified assurance report by the audit deadline.	Nil

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2016/17 was £28,615.

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Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council’s Housing Benefit Subsidy claim in 2016/17 of £insert fee.

Grants subject to other engagements

The fees for our work on other returns are agreed directly with the Council. Our fees for 2016/17 were in line with those agreed at the start of the year.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2016/17 (£)	2015/16 (£)
Housing Benefit Subsidy claim	22,115	21,663
Teachers’ Pension Return	3,500	3,000
Pooling of Housing Capital receipts	3,000	3,000
Total fee	28,615	27,663

Prior year recommendations

We made one recommendations in our 2015/16 Certification of Grants and Returns Annual Report regarding self employed income. A review of the results of our testing demonstrates that action taken by the Council has not lead to improvements.

Prior year recommendation		Priority	Status as at November 2017	Management comments
Housing benefits				
1 Page 26	Review in detail the reasons for errors relating to self employed income calculations for benefit purposes and put in place arrangements to ensure all figures used in the calculation of self employed income are accurate and fully supported.	1	<p>While we are aware that the Council has taken action to try to address the recording of self employed income, the accuracy of recording self employed income has not improved with errors found in 59% of the cases tested this year.</p> <p>This issue first arose in 2013/14..</p> <p>It is also noted that overall there were an increase in errors in other areas found this year as highlighted on page 5.</p> <p>The Council should consider if there are any specific reasons behind the overall increase in housing benefit payments being incorrectly calculated or classified.</p>	The Council has put together an action plan to address the findings. This includes general actions such as de-briefing to all staff involved in processing housing subsidy claims to specific actions to address individual errors identified eg implementation of a New Self Employed Policy in July 2017 and on line form in August 2017. Quality control assurance tests completed in December 2017 and January 2018 on new self employed claims showed an error rate of 6%.



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Housing Benefit Subsidy Audit Actions (2016/17)

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The purpose of this document is to outline the key issues identified during the 2016/17 Housing Benefit Subsidy audit and provide details of remedial actions that have been put into place to mitigate future reoccurrence.

GENERAL ACTIONS

Following the findings of the 2016/17 subsidy audit, there are a number of remedial actions that we have undertaken. Some of these actions relate specifically to the errors that were identified – i.e. a new or revised procedure for dealing with certain aspects of a claim. However, in addition to these specific actions we also conduct the following more general activities:

- **Subsidy Audit outcome briefing sessions:** Briefing sessions have been delivered to all staff involved in the processing of Housing Benefit claims in order to improve general awareness, communicate key findings and update on subsequent actions being undertaken. These briefing sessions covered the following:
 - The subsidy audit process
 - The number of claims tested
 - Breakdown of errors identified
 - General good practice for processing
 - Planned remedial actions
- **Audit Wrap-up Email:** Similarly to the briefing sessions that are carried out, an email has been sent out to all staff in the benefits service to notify them the overall outcome of the Subsidy Audit and the key findings and subsequent actions

SELF EMPLOYED INCOME

The types of errors encountered in relation to self-employed incomes are varied, but can be summarised in the following points:

- Transposition and data-entry errors between information provided by customers and that loaded into the benefits processing system (i.e. incorrect amounts, incorrect start / end dates, incorrect SE assessment periods)
- Inconsistency in the amount of information captured for self-employed earners
- Lack of clarity and around decision making and treatment of expenses.

A total 124 claims tested through the subsidy audit had a self-employed income, of which a total of 73 contained errors of one type or another (representing an error rate of 59%).

REMEDIAL ACTIONS (SELF EMPLOYED INCOME)

- A New Self Employed Policy was implemented in July 2017, providing clearer guidelines and further standardisation around the approach for dealing with Self Employed income. This was coupled with a new paper-based Self Employed form which ensured a standard and appropriate level of detail is requested from all customers from which a decision could be made. This paper based form was utilised whilst an online form was being developed
- An interventions exercise was started in June 2017 to review the 2500 claims in payment with Self Employed income greater than 1 year old.
- In August 2017 our online Self Employed form was launched which in addition to capturing all relevant information regarding the self-employed business and trading period, calculates notational tax and national insurance figures and the average weekly gross and net income. Carrying out these steps through our online form reduces the level of manual entry required by processing staff.
- In the 5 months following, a total of 2162 online self-employed forms were submitted. During December 2017 and January 2018 a quality assurance exercise was carried out checking a total of 250 self-employed income entries on the benefits system (derived from our online self-employed form) which resulted in 16 errors, representing a 6% rate of error

Based on the above actions and monitoring we are now confident that the mechanisms and procedures in place for establishing entitlement on claims with Self Employed income are robust. However, it should be noted that given the fact that the 2500 claims reviewed through the Self Employed intervention exercise had already been paid for part of the 2017/18 subsidy year on an existing self-employed income calculation, there is a reasonable likelihood that the income figures used up to the point of the review will be as prone to error as in previous years.

EARNED INCOME AND TAX CREDITS

The errors identified in relation to earned income and tax credited reasonably small in occurrence, with a total of 6 errors relating to earned income and 2 errors for tax credits. All of the errors encountered related to the information being entered onto the system incorrectly and comprised of incorrect income start dates, income frequency and income amounts.

REMEDIAL ACTIONS (EARNED INCOME & TAX CREDITS)

- With regard to Tax Credit income, staff were reminded during briefing sessions of the importance of being vigilant in ensuring that the dates, figures and frequencies entered into the system are accurate. However, given that the vast majority of Tax Credit incomes are loaded directly via DWP ATLAS notifications, therefore limiting the opportunity for officer error to occur, no additional actions or controls are considered necessary
- As with Tax Credit income, staff were reminded during the briefing session to be vigilant when entering information relating to earned income into the system. However, we have also reviewed and revised the guidance materials available to staff for the purposes of processing claims with earned income.

RENT & TENURE TYPES

Initial testing identified 1 claim which had incorrectly been loaded as a registered provider of social housing rather than as a private tenancy, subject to Local Housing Allowance rules. On testing a further 40 claims one additional claim was identified as having been incorrectly loaded in the same way.

Additionally, initial testing also identified one claim, subject to the LHA rules, where the rental liability had been loaded incorrectly. However, further testing did not identify any further errors of this type.

REMEDIAL ACTIONS (RENT & TENURE TYPES)

- With regard to loading rental liability correctly, staff were reminded during briefing sessions of the importance of being vigilant in ensuring that the dates, figures and frequencies entered into the system are accurate. Additionally, guidance for staff regarding how rental liability should be loaded has been reviewed and updated to provide greater clarity and ensure consistency.
- In order to ensure the accuracy of claims paid on the basis of being provided by a registered provider of social housing, two remedial actions have taken place
 - A check & correction exercise is underway reviewing the payee landlords for claims assessed as registered provider of social housing. Any associated claims where the landlord is found not to be on the list of registered providers of social housing are being updated and re-assessed under LHA rules
 - A revised procedure and new supporting guidance has been developed to ensure the latest list of registered providers of social housing is checked before a claims is paid at that address.


OVERPAYMENT CLASSIFICATION

Initial testing identified 1 claim where an overpayment had incorrectly been classified as 'eligible error', rather than 'local authority error'. Testing of a further 40 claims identified one additional claim where the overpayment was incorrectly classified, though it should be noted that in actual fact no overpayment existed.

REMEDIAL ACTIONS (OVERPAYMENT CLASSIFICATION)

Correct overpayment classification is checked routinely on all claims with overpayments that have been subject to a quality assurance check. During the past 6 months no errors have been identified in respect of overpayment classification. For this reason, notwithstanding the reminders issued to staff during the briefing sessions around the importance of ensuring overpayments are correctly classified, no additional remedial action is considered necessary at this point in time.

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	Audit Advisory Committee 20 March 2018
	Report from the Director of Legal and HR Services
Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017	

Wards Affected:	All
Key or Non-Key Decision:	Not applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One
Background Papers:	Two: <ul style="list-style-type: none"> Letter from the OSC to the Council dated 6 December 2016 OSC inspection report dated 21 November 2016
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Debra Norman Director of Legal and HR Services Email: debra.norman@brent.gov.uk Tel: 020 8937 1578 Looqman Desai Senior Solicitor (Governance) Email: looqman.desai@brent.gov.uk Tel: 020 8937 1366

1.0 Purpose of the Report

- 1.1 This report explains the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of the Regulation of Investigatory Powers Act 2000 (RIPA).
- 1.2 It was decided last year that the Council's oversight arrangements for the use of these statutory powers would be extended to cover a high level annual review by the Audit Advisory Committee. This report sets out the first of these reviews.

2.0 Recommendation

- 2.1 That the Committee note the contents of this report.

3.0 Detail

Background

- 3.1 Appended to this report is the Council's Policy and Procedures on RIPA (excluding the separate appendices referred to in that document). The document explains the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of RIPA. RIPA makes surveillance authorised in accordance with the statutory framework it establishes lawful and thereby protects the Council from legal claims and complaints and ensures that the evidence it relies upon in prosecutions is admissible.
- 3.2 Covert surveillance techniques include static surveillance (e.g. taking up an observer post to monitor the activities and movements of those suspected of having committed criminal offences); mobile surveillance (e.g. following someone to see where they are going without their knowledge); using hidden CCTV at a crime hotspot. RIPA refers to these techniques as 'directed surveillance'. It also extends to the use of undercover officers and informants. RIPA refers to these as 'covert human intelligence sources' (more commonly referred to as CHISs).
- 3.3 The policy document also refers to accessing communications data such as out-going phone calls and websites visited held by telephone and internet service providers. However, only limited information about who sent the communication, when and how can be accessed but not the content i.e. what was said or written. This form of surveillance is regulated by a different part of RIPA and different procedures apply i.e. authorisations are granted by a national body which acts on behalf of local authorities.
- 3.4 As well as the current legislation, the Council's policies and procedures are informed by statutory codes of practice issued by the Home Office in December 2014. Namely, the Covert Surveillance etc. Code of Practice and Covert Human Intelligence Sources Code of Practice. In November of last year draft revised codes of practice were issued by the Home Office for consultation which aim to reflect legislative updates and ensure the application of best practice. Neither the Government's response nor the finalised versions of the codes of practice have been published yet.
- 3.5 The use of RIPA powers by local authorities is tightly controlled. Initially, directed surveillance or the use of a CHIS has to be assessed in detail and authorised in writing internally by a senior officer only if necessary and proportionate. Subsequently, it has to be approved by a magistrate before the authorisation takes effect.

Oversight

- 3.6 The Council's use and conduct of covert surveillance techniques is overseen internally by the Council's Monitoring Officer, who also acts as the Council's Senior Responsible Officer (SRO) for the purposes of the Home Office codes of practice. The Monitoring Officer also keeps the Council's RIPA policy and procedures document under review and updates it as and when necessary. This ensures compliance with the most current legislation, statutory codes of practice, technical guidance and best practice. It is also necessary to keep the list of authorising officers up to date and for administrative, technical and presentational changes to be made from time to time to ensure the document acts as a helpful source of instruction and guidance to all officers of the Council.
- 3.7 The Council's use of its RIPA powers is also overseen externally by the newly established Investigatory Powers Commissioner (formerly the Office of Surveillance Commissioners (OSC)).
- 3.8 The office of the Investigatory Powers Commissioner has also taken over the inspection role of the OSC. Inspections are periodic and focus on RIPA policies, procedures and practices.
- 3.9 Following the Council's most recent inspection on 8 November 2016, the Chief Surveillance Commissioner wrote to the Council's Chief Executive acknowledging that the inspector considered the Council's policy and procedure document to be "excellent". Describing the Council's standards as "impressive" and noting that "the attitude of the Council to the need for training and awareness is sensible and far sighted". No formal recommendations were made but "some suggestions were offered for 'fine tuning'".
- 3.10 Two other main issues were raised. First, the need for the Council to review its CCTV protocol so that before the police and other law enforcement bodies are allowed to use its public CCTV systems for directed surveillance purposes, the Council is reassured that a RIPA authorisation has been obtained. Second, the Council was advised to raise Council-wide awareness about the use of social media and the internet to obtain information about others and the likely privacy and RIPA implications. Both of these suggestions have been implemented and are kept under review.
- 3.11 According to the Home Office codes of practice, Members should also review the Council's use of its RIPA powers. This is why it was decided that this Committee should conduct a high level annual review. Any significant policy changes recommended by the Committee arising from its review will be reported to Cabinet for decision.

The Council's use of its RIPA powers

- 3.12 The Council's use of its directed surveillance and CHIS RIPA powers has significantly diminished in recent years. In the financial years 2007/08 and

2008/09 54 and 56 authorisations respectively were granted. In 2013/14 and 2014/15 only 4 and 9 authorisations respectively were granted. More recently, in 2015/16 no authorisations were granted and in 2016/17 a single authorisation was granted which was the subject of detailed review during the last inspection and since then no further authorisations have been applied for or granted.

- 3.13 RIPA powers are now predominantly used to enforce trading standards controls and, in particular, to conduct test purchases of age restricted products such as alcohol. It is also occasionally used in the context of serious fraud investigations.

4.0 Financial Implications

- 4.1 None.

5.0 Legal Implications

- 5.1 These are contained in the report.

6.0 Equality Implications

- 6.1 Under section 149 of the Equality Act 2010, the council has a duty when exercising its functions to have 'due regard' to the need to eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act and advance equality of opportunity and foster good relations between persons who share a protected characteristic and persons who do not. This is the public sector equality duty. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

- 6.2 Due regard is the regard that is appropriate in all the circumstances. There are no equalities implications arising from this report.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 None.

Report sign off:

DEBRA NORMAN

Director of Legal and HR Services

BRENT COUNCIL'S RIPA POLICY AND PROCEDURES

July 2017

BRENT COUNCIL'S RIPA POLICY AND PROCEDURES

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1. Introduction

- 1.1 This document explains the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of the Regulation of Investigatory Powers Act 2000 (RIPA). RIPA makes surveillance authorised in accordance with the statutory framework it establishes lawful and thereby protects the Council from legal claims and complaints and ensures that the evidence it relies upon in prosecutions is admissible.
- 1.2 Covert surveillance techniques include static surveillance (e.g. taking up an observer post to monitor the activities and movements of those suspected of having committed criminal offences); mobile surveillance (e.g. following someone to see where they are going without their knowledge); using hidden CCTV at a crime hotspot and the use of undercover officers and informants.
- 1.3 This document also contains some information about accessing communications data such as out-going phone calls and websites visited held by telephone and internet service providers. However, only limited information about who sent the communication, when and how can be accessed but not the content i.e. what was said and written. This form of surveillance is regulated by a different part of RIPA and different procedures apply i.e. authorisations are granted by a national body which acts on behalf of local authorities.
- 1.4 As well as the current legislation, the Council's policies and procedures are informed by statutory codes of practice issued by the Home Office in December 2014. Namely, the Covert Surveillance etc. Code of Practice and Covert Human Intelligence Sources Code of Practice.
- 1.5 The Council's use and conduct of covert surveillance techniques is overseen internally by the Council's Monitoring Officer, who also acts as the Council's Senior Responsible Officer (SRO) for the purposes of the Home Office Codes of Practice, and externally by the Office of Surveillance Commissioners (OSC). The OSC conduct periodic inspections of public authorities entitled to exercise RIPA powers in order to fulfil their oversight role. The OSC also issue technical Guidance to public authorities and this document is informed by its current Guidance issued in July 2016.
- 1.6 The Council's policies and procedures have been approved by Cabinet. In addition, the Audit Advisory Committee will carry out a high level annual review of any authorisations granted or renewed, initially by an Authorising Officer of the Council and subsequently by a magistrate, in accordance with the requirements of RIPA.
- 1.7 Compliance with the policies and procedures agreed in this document is mandatory for all relevant Council services and officers. RIPA powers are now predominantly used to enforce trading standards controls and, in particular, to conduct test purchases of age restricted products such as alcohol. It is also occasionally used in the context of serious fraud investigations. It remains essential, however, that all potential users are fully aware of the contents of this document.

2. Definition of Surveillance

Surveillance for the purpose of RIPA includes: “monitoring, observing or listening to persons, their movements, conversations or other activities and communications”. It may be conducted with (or without) the assistance of a surveillance device, and includes the recording of any information obtained. Surveillance can be undertaken whilst on foot, mobile or static.

3. Covert Surveillance

- 3.1 Surveillance is **covert** if and only if, it is carried out in a manner that is calculated to ensure that **persons who are subject to the surveillance are unaware** that it is (or may be) taking place [Section 26(9)(a)].
- 3.2 It must be likely to result in the obtaining of “private information” about the person observed. “**Private Information**” covers any aspect of a person’s private or family life, including their family, professional and business relationships. Obviously it covers personal data like names, address and telephone numbers [Section 26 (10)], which are also covered by the Data Protection Act 1998.
- 3.3 This may happen in a public place where the person has a reasonable expectation of privacy whilst there, especially where:
- a) the public authority concerned records the information gained, or
 - b) several records are to be analysed together to show a pattern of behaviour.

4. Types of Covert Surveillance

- 4.1 Covert surveillance may be: “Intrusive” or “Directed”.

Intrusive	Surveillance
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- 4.2 Local Authorities are NOT permitted to conduct Intrusive Surveillance at all. This covers anything taking place on/in any residential premises or a private vehicle, involving either a person on the premises/in the vehicle or a surveillance device even if it is not on the premises or in the vehicle if it provides information of the same quality as if it was. Surveillance of premises used for the purpose of legal consultations is also regarded as Intrusive Surveillance.

Directed	Surveillance	–	with	new	limitations
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- 4.3 Directed Surveillance must be:
- for the purpose of a specific operation or investigation (relating to a statutory enforcement function);
 - its target must be unaware that it is or could be taking place;
 - it must be done in a way likely to obtain private information about the target;

- it must not be an immediate response to events.

4.4 Local Authorities can now **ONLY** conduct Directed Surveillance for the **Prevention or detection of crime**. There is a minimum crime threshold so that offences must be punishable (whether on indictment or summary conviction) by a maximum term of 6 months imprisonment, or be related to the underage sale/supply of alcohol or tobacco/nicotine.

4.5 Note the minimum crime threshold does not apply to the use of a **CHIS**.

5. Basis for Lawful Surveillance Activity

5.1 The Human Rights Act 1998 (HRA) gave effect in UK law, to the rights of individuals enshrined in the European Convention on Human Rights 1950 [ECHR]. Some of the rights are absolute, whilst others are qualified, meaning that it is permissible for the state to interfere with those rights provided certain conditions are satisfied. One of the qualified rights is the Right to respect for one's private and family life, home and correspondence [Article 8 ECHR].

5.2 In limited circumstances Local Authorities are permitted to conduct covert surveillance, namely Directed Surveillance, and to use Covert Human Intelligence Sources [CHIS], both of which would result in the subject's Article 8 Rights being infringed or interfered with by a public authority.

5.3 RIPA Part II (as amended by Regulations and the Protection of Freedoms Act 2012) provides the statutory framework to enable covert surveillance to be lawfully authorised and conducted - so as to ensure it does not infringe the Article 8 rights, except as may be permitted by Article 8 (2), and to ensure the Council as a public authority is acting in a way compatible with the ECHR, as required by HRA section 6.

5.4 Since RIPA 2000 was passed, and particularly since 2010, local authorities' powers have been increasingly curtailed. The additional purposes of protection of public health or in the interests of public safety, and the prevention of public disorder were removed.

5.5 To be sure a matter is RIPA controlled, officers must identify from the outset whether:
a) s/he is investigating a criminal offence - and if so,
b) whether it passes the minimum crime threshold.

5.6 From 1st October 2015 the 2010 Regulations were amended further - to add that the potential offence/s may relate to the purchase of alcohol on behalf of those under 18 (proxy purchases), or the sale of nicotine products to those under 18.

5.7 If an officer is unsure what specific criminal offence[s] are being investigated, or the penalties for them, legal advice should be taken from a Prosecution Lawyer, (see Appendix 3) who will identify any criminal offences arising out of the facts of the investigation at that stage. If no offence is identified, Directed Surveillance will not be permitted, but see also below.

5.8 Before proceeding with an application for the authorisation of Directed Surveillance, an applicant officer must also consider whether the proposed action is proportionate (as well as necessary) to prevent or detect crime above the threshold. Proportionality is discussed in paragraph 13 below, as it applies also to any proposal to use a CHIS.

- 5.9 Directed Surveillance cannot be used by local authorities to investigate low level offences such as littering, dog fouling and fly-posting, but there may be cases where the offence causing concern fails to pass the minimum RIPA crime threshold, but officers wish to take action to carry out their duties and protect local residents from harm to their social, economic or environmental well-being.
- 5.10 To avoid exposing the Council to the risk of reputational harm, or damages or costs, officers should seek advice as to whether it may be possible to satisfy the requirements of ECHR Article 8 (2) by alternative means.
- 5.11 The effect of RIPA section 80 is to make authorised surveillance lawful, but it does not make unauthorised surveillance unlawful. The Council reserves its right to exercise individual discretion, if presented with facts that justify an alternative view or approach, where a case lies outside the ambit of the RIPA regime and controls.
- 5.12 In such cases, the Council will work in line with its policy and procedures on non-RIPA surveillance, and keep appropriate written logs of activity open to scrutiny by the SRO as recommended in Note 80 in OSC 2016 Guidance and Procedures.

6. Directed Surveillance Example

- 6.1 An example of Directed Surveillance is a covert static post e.g. an officer in car outside an address with a camera, to take pictures and/or follow of the target who has claimed Direct Payment, on the basis that s/he is severely disabled to the extent that s/he cannot walk unaided and/or drive - but where it is alleged that the disabilities are invented and/or exaggerated.
- 6.2 The surveillance scenario would be covert, being used for a specific investigation and conducted in a manner likely to result in the obtaining of private information about a person (namely their movements/mobility in and around their home address and their daily activities), by video and/or photographic evidence. This operation is a clear example of Directed Surveillance.

7. Communications Data

- 7.1 As a matter of policy and practice, the Council's Communications Data activities have been outsourced to the National Anti-Fraud Network ("NAFN") after a recommendation on a previous inspection. This is accessed via the Council's Designated Person whose details appear in Appendix 4.
- 7.2 The Council's SRO for these purposes is the same person as for the other RIPA activities, and their details appear in Appendix 1.
- 7.3 The Designated Person maintains a separate electronic register from the Council's Centrally Retrievable Records, subject to inspection and procedures in the Communications Data Code of Practice and related legislation.
- 7.4 Any staff considering the use of communications interception or other activity should refer initially to the Trading Standard's Work Instruction October 2013 [NAFN and Judicial Approval] which is set out in Appendix 5.

8. Covert Human Intelligence Sources [CHIS]

- 8.1 A CHIS is perhaps more commonly called an "informant". A person is a CHIS if s/he:-

- (a) Establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paras (b) or (c);
 - (b) Covertly uses such a relationship to obtain information or provide access to any information to another person; or
 - (c) Covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship
- 8.2 The key difference between Directed Surveillance and use of a CHIS is that the first involves the obtaining of private information through covert means, whereas the second involves the manipulation of a relationship to obtain information. As an obvious breach of trust fundamental to personal relationships, this can pose serious danger to the CHIS if it is discovered.
- 8.3 In order to grant an authorisation for using a CHIS, the AO, and subsequently a Magistrate, must believe that in addition to the operation being necessary, and proportionate, that:

“arrangements exist for the source’s case that satisfy the requirements of subsection (5) and such other requirements as may be imposed by order of the Secretary of State,” [RIPA 2000, S29(2)(c)]
- 8.4 “Control” of a CHIS. Subsection (5) requires the CHIS to have:-
 - (a) A “handler” of the specified rank with the relevant investigating authority, with day to day responsibility for the source
 - (b) A “controller” of the specified rank with the relevant investigating authority with the general oversight of the use made of the source
 - (c) That the records maintained that disclose the identity of the source will not be available to persons except to the extent that there is a need for access to them to be made available to those persons
 - (d) “Relevant investigating authority,” means the public authority for whose benefit the activities of that individual as such a source are to be undertaken. (NB: The Council occasionally undertakes joint operations.)
- 9. **Becoming a CHIS and ‘status drift’**
 - 9.1 A CHIS may be a member of the public or an officer acting with authority to do so. Common uses of CHIS are the infiltration of a gang e.g. football gangs or an undercover police officer being recruited into a drugs operation/conspiracy.
 - 9.2 Please note that there may be circumstances where a less obvious CHIS exists. Care must be taken to identify that this person is a CHIS, and thereafter follow the correct procedure. An example is where a member of the public has given information, albeit not tasked to do anything with it. Such a person may be a CHIS if the information that s/he has covertly passed to LBB has been obtained in the course of (or as a consequence of the existence of) a personal or other relationship.
 - 9.3 Although not specifically recruited to be a CHIS, such a person may become one. This situation is referred to by the OSC Procedures & Guidance 2016 as the risk of “status drift.” Therefore, when an informant gives repeat information about a suspect or about a family, and it becomes apparent that the informant may be obtaining that

information in the course of a family or neighbourhood relationship, it is a strong indication that the informant is in reality a CHIS - to whom a duty of care is owed - if the information is then used. Legal advice must always be taken before using or acting on information received in these circumstances.

- 9.4 Becoming a CHIS gives rise to a duty of care owed to that person by the Council who seeks to benefit from their activity, as set out in paragraphs 8.2 and 8.3 above.
- 9.5 Trading Standards regularly undertake covert test purchasing, and task children to request a one-off sale. The Council, in accordance with OSC Guidance, takes the view that such conduct does not constitute a CHIS, as the child does not form any relationship with the target in a one-off sale. However you must consider whether covert test purchasing requires a Directed Surveillance authorisation.
- 9.6 Please note all authorisations for a juvenile CHIS or where confidential information may be obtained MUST be approved by the Chief Executive as Head of Paid Service.
- 9.7 Trading Standards operate policy and procedures based on guidance from their national body.
- 9.8 The use and wearing of recording devices is done in accordance with the College of Policing Body Worn Video Guidance 2014.

10. Requirement to obtain a URN from Legal Services

- 10.1 For Directed Surveillance which satisfies the Crime Threshold Test or for a CHIS, the officer **must** first obtain a Unique Reference Number [URN] for the operation from a Prosecution Lawyer, prior to the completion and/or submission of an Application for Directed Surveillance and/or CHIS to an AO.
- 10.2 In view of current requirements, the applicant must now answer the following 6 questions within the RIPA Request Form:-
 - i) Is DS/CHIS for the Prevention or Detection of Crime?
 - ii) Specify the criminal offence[s] being investigated and the statute[s]
 - iii) For Directed Surveillance only, does the criminal offence[s] meet the Crime Threshold Test (at least the 6 months maximum sentence); **or**
 - iv) Is the offence[s] for underage sale/supply of alcohol or tobacco/nicotine?
 - v) (For DS and CHIS) Is the action proposed both necessary and proportionate?
 - vi) Have you considered alternatives, who else could be subject to any collateral intrusion and how this could be minimised?
- 10.3 On receipt of the RIPA URN Request Form, the Prosecution Lawyer will consider the contents; allocate an URN from the electronic Central Retrievable Record of Authorisations kept and maintained by him; input the data from the RIPA Request Form into the said register; complete the RIPA URN Request Form and email it back to the applicant and AO named on the form.

11. Role of Authorising Officers [AOs] and the special role of the Chief Executive

- 11.1 A designated person called the “Authorising Officer” has the power to grant authorisations to carry out Directed Surveillance or CHIS. An applicant should always obtain authorisation from one before seeking judicial approval from the court. Those currently able to act as Authorising Officers for the Council are named in Appendix 2.
- 11.2 Note the on-going duties of Authorising Officers are described by OSC thus: “Responsibility for authorising an activity always remains with the Authorising Officer” – even after judicial approval. This includes reviewing and renewing authorisations as appropriate, and cancelling them promptly once the operation has been completed, rather than waiting for the whole remaining time to run out.
- 11.3 AOs are urged not to “restrict contemplation to the type of tactic rather than the specific facts of the activity. It is unwise to approach RIPA ... from the perspective of labels.” There is a big difference between the type of operations conducted by the police and those run by Trading Standards.
- 11.4 It is the statutory responsibility of the Authorising Officer to establish that proposed action is both necessary and proportionate, whereas the role of the applicant is to present the facts, giving details of the crime, proposed activity, and justification for acting covertly etc.
- 11.5 Authorising Officers should set out in their own words that s/he is satisfied or believes how and why the activity is necessary and proportionate. AOs should routinely state “who, what, when, where, how” i.e. who is to be the target of the surveillance; what action is being authorised; when it is to take place; where or at which location; and how the activity is to be done. Care must be taken over the use of words that could unintentionally limit the action – for instance using ‘and/or’ to permit both alternatives may be necessary to avoid unintended limitation - as wording in authorisations permitted by the court will be strictly construed.
- 11.6 A copy of the Authorisation Form is to be handed to the magistrate who considers the application. The AO will retain the original for safekeeping in the Council’s RIPA records.
- 11.7 Authorising officers must conduct reviews of the activity as deemed necessary. The timing of such reviews must not be standardised or delayed, but as individual circumstances dictate and as seems prudent given the participants. Records of these reviews and issues considered must be recorded and available for inspection by the SRO and OSC.
- 11.8 The CEO is one of the Council’s Authorising Officers, and, as Head of Paid Service, is the only one competent to approve any action or operation that involves the recruitment of a juvenile CHIS, or any other vulnerable person, or where the surveillance may result in the Council obtaining access to legally privileged or confidential information.

12. The Two Mandatory Tests for Directed Surveillance & CHIS

Necessity

- 12.1 An AO shall not grant an authorisation for the carrying out of Directed Surveillance and/or CHIS for a local authority unless s/he believes that the authorisation is necessary for the Prevention or Detection of Crime. In the case of Directed Surveillance, it must also meet the crime thresholds set out in para 4.4 above. The AO must carefully explain in writing why it’s necessary to use the covert techniques requested.

Proportionality

- 12.2 An AO shall not grant an authorisation for the carrying out of directed surveillance and/or CHIS unless s/he also believes that the authorisation is proportionate to what is sought to be achieved [RIPA 2000, Ss 28(2)(b) & 29(3)].

13. Proportionality – striking the balance

- 13.1 This involves thinking about how far it is necessary to go to achieve an objective. The officer must show s/he has **balanced** a number of factors:

The seriousness of the intrusion into the private or family life of the target - and any other person likely to be affected (collateral intrusion);

AGAINST:

- the gravity and extent of the perceived mischief;
- the size and scope of the surveillance;
- the need for the activity in operational terms;
- the benefit expected from it;
- alternative (possibly less intrusive) methods of getting the information;
- how to mitigate any intrusion.

- 13.2 In simple terms – **officers CANNOT use a ‘sledge hammer to crack a nut’**.

- 13.3 Officers must explain why the particular covert method, technique and tactic is an appropriate use of RIPA and a reasonable way of achieving the desired objective. In particular, officers must explain why the intended surveillance will cause the least possible intrusion, and what alternative options have been tried or considered and why they were unsuccessful or not considered suitable (See Note 73 of the OSC 2016 Procedures & Guidance).

14. Judicial Approval

- 14.1 An Authorisation (or Renewal) for Directed Surveillance, or a CHIS does not become activated until judicial approval has been obtained in writing from a Magistrate/District Judge and is both dated and timed.

- 14.2 **In order to apply for Judicial Approval, the applicant must do the following:-**

- a) Email the **Single Point of Contact [SPOC]** at Willesden Magistrates Court [WMC]
- b) **SPOCs** remain Philip Cunningham [philip.cunningham@hmcts.gsi.gov.uk] or Andrew Wood [andrew.wood1@hmcts.gsi.gov.uk]
- c) The email must request a listing for an Application for Judicial Approval for a RIPA Application/Renewal.
- d) Please ensure that sufficient notice is given to the court to list the matter prior to the date you wish to commence the operation
- e) Complete Form Annex B, page 1

- f) Please note all the information set out in the "Summary of Details," should also be contained in the Application/Renewal/Authorisation Form too, or the Application will NOT be granted
- g) Please note that the applicant cannot solely rely on the details provided during his Evidence to the Court. Instead all relevant information must be set out in writing in the Application and Form B
- h) Attend WMC for the Applications Court at the allotted time [i.e. 9.30am or 1.30pm]
- i) Officers must take the Original Application/Renewal/Authorisation and copies along with 2 copies of the Judicial Approval Form Annex B
- j) Provide a set of papers to the Court Clerk at least 30 minutes before the hearing, so the Magistrate can consider the paperwork prior to the hearing
- k) When the hearing commences, the Applicant must swear on oath OR affirm
- l) The Applicant is to identify him/herself by name, post and employer
- m) The Applicant should introduce it as an Application for Judicial Approval for RIPA Authorisation or Renewal
- n) The Applicant should introduce him/herself as the officer who has completed the paperwork for LBB and the Court
- o) S/he should Identify that the Application/Renewal etc was granted by LBB's AO [give name] on date and time and state the role/position of the AO
- p) The Applicant should state that s/he wishes to obtain Judicial Approval for Directed Surveillance or use of a CHIS [Section 38 POFA].
- q) The Applicant should inform the Magistrate that s/he has partly completed Form Annex B page 1.

14.3 Factors to be considered by the Magistrate

The Magistrate MUST be satisfied that:-

- i) There were reasonable grounds for the local authority to believe that the Authorisation/Renewal etc was necessary and proportionate;
- ii) There remain reasonable grounds for believing that these requirements are still satisfied at the time of the application to the Magistrate;
- iii) Has the Application/Renewal etc been authorised by an appropriate Authorising Officer?
- iv) Has the Authorisation etc been made in accordance with any applicable legal restrictions e.g. has the Crime Threshold Test clearly been met?
- v) In the case of a CHIS, were there reasonable grounds for believing that the arrangements exist for the safety and welfare of the source, AND that there remain reasonable grounds for believing that these requirements are satisfied at the time when the Magistrate/District Judge is considering the

matter.

14.4 Outcomes

There are 3 possible outcomes for an Application for Judicial Approval:-

1. **Box 1** --> Application Granted --> effective from that date and time
2. **Box 2** --> Refuse to grant or renew the Authorisation [Applicant can then re-apply once the gap/error has been corrected]
3. **Box 3** --> Refuse to grant or renew the Authorisation AND quash the
AOs Authorisation

[Please note the Magistrate/District Judge can only quash the Authorisation if the Applicant has had at least 2 business days' notice, from the date of refusal, in which to make representations against the refusal]

14.5 Procedure once Judicial Approval Granted

- 14.5.1 If granted, the Authorisation/Renewal will be dated and timed, and the 3 months (for DS) or 12 months (for a CHIS) validity will run from this date and time.
- 14.5.2 The Magistrates will keep a copy of the completed and signed Form Annex B
- 14.5.3 The Applicant will be provided with the Original signed version of Form Annex B.
- 14.5.4 If the Application is for Directed Surveillance or CHIS, please provide the Prosecution Lawyer with the Original Judicial Approval Form Annex B within 14 days, and retain a scanned copy in your electronic investigation file as a record and in order to fulfil Disclosure obligations if the matter proceeds to a criminal prosecution.
- 14.5.5 Please note that the Authorisation will automatically expire unless a Renewal Application is made prior to its expiration and Judicial Approval is also obtained.
- 14.5.6 Applicants and AOs should be proactive about diarising, renewing and cancelling authorisations as appropriate.

15. Forms to be used

- 15.1 The following link should be used at all times, to access the Home Office's website RIPA Form page:-

<https://www.gov.uk/government/collections/ripa-forms--2>

- 15.2 Separate Directed Surveillance and CHIS forms can be found here, as can forms required for the renewal and cancellation of both types of activity.
- 15.3 Care should be taken with these forms, as they have not been revised since 2007 and cover the circumstances for a wide variety of other bodies, including the Police and Security Services.

16. Other useful definitions and guidance

Confidential Information

Confidential personal information (such as medical records or spiritual counselling, confidential journalistic material, confidential discussions between Members of Parliament and their constituents), or matters subject to legal privilege [solicitor and client]. Unwarranted access to them during an investigation may be grounds for cancelling the Authorisation.

Duration of Authorisation

3 months for DS or 12 months for a CHIS from grant of Judicial Approval, but only one month for a juvenile CHIS.

Reviews

Regular reviews are required once the authorisation has been granted, the frequency should be determined by the AO. If it is intended to be a short operation, a timely review should be conducted shortly thereafter, to determine if the authorisation is still required or if the operation is complete, which would then require the operation to be cancelled [see below].

Renewals

Renewals must take place prior to the authorisation expiring; otherwise, the authorisation will automatically expire after 3 months. Please note, Judicial Approval is required for a Renewal and the Applicant must follow the procedure set out above. Please factor in sufficient time to obtain it well before the Authorisation expires.

Cancellation

The officer has a duty to request the AO to cancel the authorisation, where the authorisation no longer meets the criteria upon which it was originally authorised i.e. the test purchases are undertaken within 14 days, thereafter the authorisation is no longer required. In such cases, it is not permissible (nor good practice) to let the authorisation run on until its natural expiry. Officers must be pro-active in this.

17. Central Record of Authorisations

- 17.1 A centrally retrievable record ("CRR") of all authorisations is held by the Council and regularly updated whenever an authorisation is granted, renewed or cancelled. The record should be made available to the relevant Commissioner or an Inspector from the OSC upon request. These records should be retained for a period of at least 7 years from the ending of the authorisations.
- 17.2 LBB's CRR of all authorisations is kept and maintained by the Principal Prosecution Lawyer. Please see paragraph 10 regarding the mandatory requirement to complete a RIPA Request Form to obtain an URN from him.
- 17.3 All original applications, reviews, renewals and cancellation forms are to be served by hand, on the Principal Prosecution Lawyer within 14 days of grant of Judicial Approval, to be stored in locked cabinets. On receipt, the relevant information is inputted, so as to update the CRR of Authorisations.

17.4 To avoid any suggestion that an authorisation has been simply signed off by an AO, it is recommended that a copy is retained with the AO's 'wet signature' i.e. original handwritten one, not merely a typed, or machine-prepared one. The Council must be ready to provide the relevant witness if authenticity is ever questioned in Court.

17.5 As recommended by the OSC, the Council will maintain a separate auditable record of any decisions and actions outwith RIPA available to the SRO for scrutiny.

18. Senior Responsible Officer (SRO)

18.1 Under the relevant Regulations the SRO is responsible for:-

- the integrity of the process in place within the public authority for the management of CHIS;
- compliance with Part II of the Act and with the relevant Code Of Practice
- prompt reporting of errors to the OSC and the identification of both the cause(s) of errors, and the implementation of the processes to minimise repetition of errors;
- engagement with the OSC inspectors when they conduct their inspections, where applicable; and
- where necessary, oversight of the implementation of post inspection action plans approved by the OSC.

18.2 Within a Local Authority, the SRO must be a member of the corporate leadership team, and is responsible for ensuring that all AOs are of an appropriate standard in light of any recommendations in the inspection reports prepared by the OSC. To avoid role conflict, the SRO should never act as an AO.

18.3 Please see Appendix 1 for the current SRO details.

19. RIPA Reviews/Reports

19.1 Given the substantial reduction in the use of RIPA powers since 2013, LBB only hold meetings to review the operation of RIPA as and when deemed necessary by the SRO, or if requested by the AOs or any Head of Department using RIPA. Reports are made to the Corporate Management Team as necessary.

19.2 It is intended that members will receive a report at least annually to allow them to consider and review the adequacy of the Council's policy and practice on RIPA matters. The Council's policy and procedures are reported to Cabinet for formal approval, and the Audit Advisory Committee will oversee the Council's use of RIPA by carrying out a high level annual review.

20. The use of the internet and social media for investigative purposes

20.1 With advances in technology making it easier, quicker and increasingly popular for individuals to share personal information on-line, the opportunities to use that information for research, investigative or other official purposes are expanding too.

20.2 However, it is important to appreciate that the considerations of privacy which arise in the physical world also arise in the on-line world. In other words, there are rules and there are limits.

- 20.3 Just because the content of many social media sites and other information on the internet is freely accessible does not mean that officers can openly access such information without careful regard to the constraints and requirements of the law.
- 20.4 Repeated or systematic viewing, collecting or recording of private information from ‘open’ on-line sources (such as Facebook, Twitter, Snapchat and LinkedIn), including information relating to the interests, activities and movements of individuals, and others associated with them, could be regarded as a form of covert surveillance.
- 20.5 In addition, it is likely that individuals will have a reasonable expectation that their information is not used for surveillance purposes by public authorities and therefore may complain that their privacy and human rights have been infringed.
- 20.6 Initial research of social media to establish or check some basic facts is unlikely to require an authorization for directed surveillance, but repeated visits to build a profile of an individual’s lifestyle etc. is likely to do so depending on the particular facts and circumstances. This is the case even if the information is publicly accessible because the individual has not applied any privacy settings.
- 20.7 The creation of fake profiles or any attempt to make ‘friends’ on-line for the covert purpose of obtaining information may constitute directed surveillance or, depending on the nature of the interaction or the manipulation of the relationship, a CHIS. An example would be where officers create fake profiles to investigate someone suspected of selling counterfeit goods.
- 20.8 Any officer wishing to deploy such tactics as part of an investigation must remember before seeking internal authorization and judicial approval, any evidence collected may be deemed inadmissible in any subsequent prosecution. Cases should be carefully considered on an individual basis, and the issues of necessity and proportionality always borne in mind. Note 289 of the OSC Procedures and Guidance contains more practical guidance.
- 20.9 It is also important to appreciate that if officers obtain, use or even merely store information about individuals they will have to comply with data protection rules. And, when the General Data Protection Regulation comes into force on 25 May 2018, the information the Council collects about individuals, how and why will have to comply with stricter transparency and accountability rules.

21. Training & Monitoring

- 21.1 In order to be an AO, all officers must have attended a suitable training course. Any new AO will be appointed by the SRO, who will ensure that all AO’s receive regular updates and training, as and when required. All officers utilising RIPA for Directed Surveillance and/or CHIS must also have attended a suitable training course.
- 21.2 Whilst undertaking audits of the RIPA CRR of Authorisations and RIPA forms, the SRO will identify any training needs for staff and/or monitoring issues, to be raised either with individual AO’s and/or at any RIPA Meetings.
- 21.3 The Council’s policy commitment is that RIPA training will be provided to staff every three years. However, where staff already receive training as part of their professional accreditation, (e.g. ACFS or ACFP) that can be taken into account when assessing their needs.

22. Office of Surveillance Commissioners (OSC)

22.1 The OSC is the supervisory body for RIPA and deals with the following in particular:-

- Requests for RIPA Statistical Information twice per year [March & December]
- Inspections of Local Authorities including LBB usually every 2 to 3 years
- Publication of regular reports on RIPA activity

22.2 The OSC also publishes a Procedures and Guidance booklet on the use of RIPA by public authorities, most recently in 2016 (OSC 2016). It can be found at:

<https://osc.independent.gov.uk/wp-content/uploads/2016/07/OSC-Procedures-Guidance-July-2016.pdf>

It has no binding legal authority, and merely expresses the opinions of the OSC, But inspections will be conducted in accordance with its recommendations, and it recommends that all AOs should have a personal copy for reference.

23. Collaboration with other authorities/agencies

23.1 The Council will endeavour to conclude written collaboration agreements with any other authorities with whom it works regularly, such as the Police or neighbouring Trading Standards Authorities as recommended by OSC 2016.

23.2 Prior to any activity, where the Council uses external partners or agents, as advised in OSC 2016 para 112, the Council will seek their written acknowledgement that they

- Will act as an agent of the Council, and
- Have seen the written Authorisation for the activity they are undertaking, and
- Will comply with the specific requirements permitted by the Authorisation, and
- Recognise they may be subject to inspection by the OSC for RIPA activity.

24. Codes of Practice

24.1 The Home Office publishes Codes of Practice giving guidance on the use of RIPA by public authorities. The current editions were published in 2016 pursuant to section 71 of RIPA 2000. There is a separate Code concerning Communications Data which is not covered in this Policy.

24.2 Unlike the OSC guidance, the **Home Office Codes are admissible in evidence** in any court proceedings, and **must be taken into account**. Public authorities like the Council may be required to justify the use, granting or refusal of authorisations by reference to the Codes.

24.3 Care must be taken when referring to the Codes over the terminology used, and to their applicability to the Council. The Codes provide guidance to a much wider range of public authorities than the Council. Unfamiliar terms like “relevant sources” may not apply to the Council at all, and may confuse the lay reader. Please ensure you seek legal advice on correct interpretation before applying advice you may find there.

24.4 The two Codes now in force and of concern to the Council are accessible through the Home Office website:

Covert Surveillance & Property Interference Code of Practice
Covert Human Intelligence Sources

APPENDICES

APPENDIX 1: Senior Responsible Officer (SRO) Contact Details

Debra Norman, Interim Chief Legal Officer and Monitoring Officer:
Debra.Norman@brent.gov.uk; 020 8937 1578

APPENDIX 2: List of Authorising Officers and Contact Details

Carolyn Downs, Chief Executive/Head of Paid Service: Carolyn.Downs@brent.gov.uk; 020 8937 1101

Conrad Hall, Chief Finance Officer: Conrad.Hall@brent.gov.uk; 020 8937 6528

Chris Whyte, Operational Director Environment Services: Chris.Whyte@brent.gov.uk; 020 8937 5342

Simon Legg, Head of Trading Standards: Simon.Legg@brent.gov.uk; 020 8937 5522

APPENDIX 3: Prosecution Lawyers

Tola Robson, Senior Advocate: Omotolani Robson: Omotolani.Robson@brent.gov.uk; 020 8937 1455)

Priscilla Pryce, Senior Legal Assistant: Priscilla.Pryce@brent.gov.uk; 020 8937 4330

APPENDIX 4: Communications Data Senior Responsible Officer (SRO) and Designated Person Contact Details

Communications Data Senior Responsible Officer (SRO): Arnold Meagher, Deputy Chief Legal Officer: Arnold.Meagher@brent.gov.uk; 020 8937 2166

Communications Data Designated Person: Simon Legg, Head of Trading Standards: Simon.Legg@brent.gov.uk; 020 8937 5522

The following appendices are attached to this document:

APPENDIX 5: Trading Standards' Work Instruction 2013 (NAFN & Judicial Approval)


APPENDIX 6: RIPA URN Request Form

APPENDIX 7: Annex B – Judicial Approval Form

APPENDIX 8: Home Office Directed Surveillance Authorisation Form

APPENDIX 9: Home Office CHIS Authorisation Form

APPENDIX 10: RIPA Decision Chart

	Audit Advisory Committee 20 March 2018
	Report from the Board of i4B Holdings Ltd
Update on the operation of i4B Holdings Ltd	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Four: <ul style="list-style-type: none"> • i4B Business Plan 2018-2021 • i4B Internal Audit Report 2017/2018: Governance, Risk Management, and Financial Management • i4B Internal Audit Report 2017/2018: Benefits realisation, Management Information and Reporting • Council Management Team (CMT) response to the i4B's second report to CMT
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Sadie East Head of Transformation Email: sadie.east@brent.gov.uk Tel: 020 8937 1507

1.0 Purpose of the Report

- 1.1 To provide an update on the performance, future plans and audit arrangements of the Council's wholly owned company, i4B Holdings Ltd.

2.0 Recommendation(s)

- 2.1 The Audit Advisory Committee is asked to note:

- The update on Company performance;

- i4B's future plans as set out in its second Business Plan;
- Key risks and mitigations;
- i4B's completed internal audit reports and future audit arrangements;
- A brief update on First Wave Housing.

3.0 Company Performance Update

3.1 As of 1 March 2018, i4B had purchased 123 PRS units with a total value of £43,810,081 (including works, fees and tax). The average purchase price was slightly above target (£345,000) at £356,180, however, taking into account the properties currently in conveyancing, the total portfolio looks likely to achieve target. The average true gross yield was above target (4%+) at 4.92%. See Table 1.

3.2 Table 1 – Purchasing and Conveyancing summary, 1 March 2018.

Purchase & Conveyancing summary - 01/03/2018							
	No	Value £000s (purchased & in conveyancing, including in negotiation)	Average purchase price (target average £345,000)	True Gross Yield (target 4%+)	Location		
					Brent	Other Greater London Boroughs	Home Counties
Purchased PRS units – 1 March 2018	123	£43,810,081	£356,180	4.92%	48	9	66
Properties in conveyancing (including in negotiation)	128	£44,148,273	£344,908	5.12%	106	7	15
Total purchased and in conveyancing	251	£87,958,354	£344,908	5.02%	154	16	81
Remaining PRS Acquisition Budget (total £103.5m)	49	£15,541,646	£317,176	4.89%	10		39

3.3 The Council's Purchasing Team has been successful at purchasing properties at increasingly high yields and within Brent. As of 1 March 2018, 170 of the 251 properties purchased and in conveyancing are located in Brent or Greater London. This is a higher proportion (61%) within the initial Business Plan Period than originally planned (40%).

3.3 In addition to this, a growing understanding of the customer base that the Council is seeking to nominate for Private Rented Sector (PRS) housing and analysis of the market which shows that net and gross yield margins are very close regardless of location has led i4B to request an additional £3.5m to be

spent acquiring more properties in Brent. This has amended the weighting of properties to 180 units (60%) in Brent or Greater London and 120 units (40%) in the Home Counties. The additional funding was made available following agreement of the Shareholder on 12 February 2018.

- 3.4 Although the average price of purchased properties is above target, the remaining purchases are predicted to bring the average cost back within target. This prediction is based on the fact that a high proportion of properties yet to be identified are in the lower-cost Home Counties region. The difference between a three-bed Home Counties property and a three-bed Brent property is c. £153,000 (including on-costs). The difference between a two-bed Brent property and a three-bed Home Counties property is £87,000. The remaining uncommitted PRS acquisition budget stands at £15,514,646.
- 3.5 The Shareholder has agreed a target of 300 PRS units to be purchased by 30 September 2018. It is predicted circa 140 units will be purchased by 31 March with the 300 being purchased by 31 December. This slippage does impact on the ability of the Council to generate the revenue savings anticipated (£900k per year). However, a more granular analysis of the cost benefits is taking place and, the current estimated saving is based on an assumption of a revenue saving of £25 per unit per week. However, the savings on two lettings relating to extremely large savings both already contributed over £1000 per week in revenue saving. As i4B and the Council become more sophisticated in how we measure achieved savings a truer picture will emerge.
- 3.6 As of 1 March 2018, 37 properties purchased by i4B have been let through the Council's Housing Needs service. Based on the current pipeline of properties in refurbishment we are expecting 205 properties to be let by 30 September 2018.
- 3.7 i4B has a service level agreement (SLA) with the Council to provide services for the end-to-end process from property search through to lettings. However, performance against the key performance indicators (KPIs) outlined in the SLA have not been meeting targets in some areas. In particular, the length of time properties have spent in conveyancing has been far longer than anticipated, and similarly the extent, cost and length of time for refurbishment has been more than anticipated.
- 3.8 A number of measures have been put in place to address this. These include streamlining the conveyancing, refurbishment and out of borough lettings processes.
- 3.9 To monitor SLA performance, monthly client meetings have been set up between i4B and the Council, to allow the company to monitor Council performance against the SLA.
- 3.10 In addition the Shareholder has also set up monitoring meetings held between the Chief Executive, on behalf of the Council, and i4B which occur once every six months. These meetings are used by the Council as shareholder to hold i4B to account against the objectives set out in the i4B business plan.

- 3.11 Despite performance in terms of acquisitions and number of tenants to date being behind target the Council is still realising benefit in terms of reduced temporary accommodation (TA) costs. The projected saving in TA costs for the council is £324,323 over the first 12 months (based on the 41 properties let to date). This is an average of £7,092 per let during the first 12 months.

4.0 The Second Company Business Plan

- 4.1 On 12 February 2018, Brent Council's Cabinet approved i4B's second Business Plan, which included a number of options which are under consideration by the Board as potential opportunities for the Company. These are:

- Private Rented Sector (PRS) - Continuation and expansion of the PRS landlord business, purchasing a further 300 units between September 2018 and April 2021 (creating a total of 600 PRS properties by April 2021).
- Properties for Intermediate Rent – Creating an Intermediate rent portfolio of 100 properties by April 2020 through the purchase of specific blocks or street properties and through flexible tenure management of PRS stock.
- Strategic Investments – The Company is exploring opportunities to benefit from the Quintain intermediary housing market investment opportunity, as well as empty homes projects and land purchases able to provide a meanwhile site use.
- New build Partnership with the Council (on Council owned sites) – The Company is exploring the opportunity of a partnership with the Council to maximise the opportunity to invest in Council land and assets to deliver housing and investment return. Immediate opportunities exist to deliver new Housing Revenue Account (HRA) and PRS homes.
- New Build Partnership with the council and Registered Providers (RPs) on commercial sites – the Company may create Joint Venture partnerships with the council and RPs to purchase commercial sites within Brent for affordable and PRS housing. Immediate opportunities exist with a number of RPs and on a number of sites.

- 4.2 i4B does not, however, intend to move forward with any of these opportunities until it has firmly established its phase 1 operation (the 1st 300 properties) and it is delivering against its intended financial and non-financial objectives.

- 4.3 For further details of the above proposals, please see the full Business Plan, in Appendix 1.

5.0 Summary of Key Risks

- 5.1 Please see table on the next page for a summary of key risks and mitigations.

Risk	Business Plan Assumption	Risk Type	Mitigation
Company cash flow (capital & revenue) is insufficient to manage expenditure	i4B has commenced a large acquisition and refurbishment programme. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent.	Financial	i4B is monitoring SLA performance to deliver capital works and refurbishments within business plan requirements. i4B is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The council has approved a cash flow facility of up to £3.5m and current modelling indicates this will be sufficient to meet i4B working capital requirements. i4B will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.
Business plan rent collection rates are not achieved. Introduction of universal credit adversely affects rent collection	The business plan assumes a rent collection rate of 98.5%.	Financial	The Board is investing in additional monitoring of rent and arrears performance of housing management subcontractors. It is funding (through the SLA) a weekly monitoring of rent performance data of subcontractors to check contractors' data, identify variations and request information from subcontractors on actions being taken.

<p>The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord</p>	<p>The i4B business model is based on the wholly owned council company being a private landlord. i4B must retain its autonomy in granting and ending tenancies. As a private landlord i4B will use its assured shorthold tenancy as the primary tenancy offered to tenants. The Directors must strictly adhere to the requirement to 'act in the interest of the company'. The council as shareholder and funder must act in accordance with these roles.</p>	<p>Financial & Reputational</p>	<p>i4B will use its assured shorthold tenancy agreement to let PRS properties. Licences and other forms of tenancy terms will be exceptional. i4B will make all decisions in relation to granting/ending tenancies and may delegate some responsibility to its management agents through approval of procedural documents. Management agents will act in the name of i4B when progressing legal/court action. The Board will approve court action which could result in a tenant losing their home. i4B will use its logo on literature, though management agents will also use their own brand when communicating with tenants. The Board, council Members and senior officers will be briefed on i4B's positive contribution towards achieving council objectives, and on the role of the Board of Directors and the Shareholder. i4B will work with the council's press office to ensure press releases contain appropriate descriptions.</p>
<p>Property portfolio does not achieve the target Gross Yield margin</p>	<p>5% average gross yield (true).</p>	<p>Financial</p>	<p>The Board, in consultation with the requirements of the council, has some flexibility to amend the bedroom size and location of property acquisitions to maintain gross yield averages. The business plan has increased the number of properties in high LHA locations (e.g. Brent), creating a larger cash margin per property and helping i4B manage fixed costs such as insurance and housing management fees. The programme could be spread over more years to prevent artificial house price inflation due to i4B's intense programme. i4B could diversify its products introducing intermediate renting and potentially shared ownership into its portfolio to support the overall strength of the business plan. i4B is seeking to work with the council and Registered Providers to purchase new build homes. With the support of the council, i4B could generate higher yields with some partnerships and introduce new products.</p>

Void periods exceed business plan	The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property.	Financial & Operational	i4B has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenants. i4B is working with the council to ensure purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. i4B could approach the shareholder to dispose of properties in locations consistently failing to attract customers.
Interest rates increase	30 year loan facility for up to £103.5m at a fixed interest rate of 2.87%. Short term working capital loan facility for up to £3.5m at a fixed interest rate of 3%.	Financial	The current facilities are for fixed terms and fixed interest rates therefore i4B is not currently exposed to any interest rate risk. i4B will seek to arrange future loan facilities on the same terms whilst interest rates remain low. Should base rates significantly change, i4B will review and revise its growth and financing strategy appropriately having taken the necessary professional advice.

- 5.2 For a full risk register, including risk scores and mitigations, please see Appendix 1 of the company Business Plan (attached as Appendix 1 of this report).

6.0 Internal Audits

6.1 Background

- 6.1.1 In September 2017, the i4B Board agreed that the Company's internal audit function be delivered by the Council's co-sourced provider, PricewaterhouseCoopers LLP (PwC), as an extension to the co-sourced services currently provided to the Council.
- 6.1.2 In November 2017, i4B agreed a programme of four internal audits for 2017/18. The scope of these audits was also agreed. The four audits are:
- Governance, Risk & Financial Management;
 - Benefits Realisation, Management Information and Reporting;
 - Financial Model Review; and
 - Fraud Risk Assessment.
- 6.1.3 The first two audits have been completed and final reports agreed with i4B. Please see appendices 2 and 3 for the reports relating to these audits.
- 6.1.4 The second two audits have not yet commenced. i4B agreed the Fraud Risk Assessment Terms of Reference at its February 2018 Board meeting and this will comments shortly. PwC will share timescales and Terms of Reference for the Financial Model Review with i4B shortly.

6.2 Audit findings – Governance, Risk & Financial Management

- 6.2.1 PwC gave this audit the judgement of Reasonable Assurance.
- 6.2.2 The purpose of this audit was to undertake an initial review of the design and effectiveness of the controls currently in operation at i4B in relation to governance, risk management and financial management.
- 6.2.3 Good practice was noted in relation to the current approach to governance whereby i4B is governed by a single four-member board containing an independent chair, two Strategic Directors of London Borough of Brent, and one Councillor. The Board meets on a monthly basis which enables it to maintain a detailed oversight of ongoing operations and ensure that decisions are well-informed.
- 6.2.4 Although the governance fundamentals were considered to be in place, some areas of further improvement, (particularly relevant as i4B continues to expand and diversify its operations) have been identified. PwC noted three medium and four low risk findings as part of this review. The key areas of improvement relate to the development of a risk management framework, the development and maintenance of policies governing i4B's operations, and ongoing review of the

SLA with Brent Council. Two further advisory findings were also identified. Please see Appendix 2 for full findings.

6.3 Audit findings – Benefits Realisation, Management Information and Reporting

6.3.1 PwC gave this audit the judgement of Reasonable Assurance.

6.3.2 The objective of this review was to consider the design and operating effectiveness (where implemented) of controls relating to Benefits Realisation, Management Information and Reporting for i4B.

6.3.3 PwC noted a number of areas of good practice, including:

- The overall purpose of the company and the goals it seeks to achieve are laid out within the business plan. These have been revised appropriately to include a high level of detail within the current draft business plan that is to be presented to the January 2018 board;
- Although no non-Financial KPIs were included in the original business plan and this is highlighted as part of this review, work has already been put in place to address this and a significant number of non-Financial KPIs have been included in the new draft business plan that includes details of the measures used to derive them;
- KPIs have been written into the Service Level Agreement with the Council and the Housing Management Contracts which should ensure management reporting is given appropriate attention by other stakeholders and provide i4B with a mechanism to hold contractors accountable.

6.3.4 Although examples of good practice have been noted, areas for further improvement have also been identified. PwC noted three medium and three low risk findings as part of this review. However, following a meeting with i4B representatives, PwC reviewed and revised the wording of the high risk recommendation. The key areas of improvement relate to improving the reporting of benefits realisation regarding homelessness, the absence of non-financial KPIs in the original Business Plan and management of data in the PRS project tracker. The other findings relate to areas where procedures could be improved to make the control environment more efficient and effective. Please see Appendix 3 for full findings.

7.0 External Audits

7.1 At the i4B Board meeting on 21 February 2018, the Board agreed to appoint KPMG as the external auditor for i4B.

7.2 The timetable for audit of i4B's accounts will be as follows:

- May/June = fieldwork carried out;
- End of June = draft set of accounts prepared;
- August/September = sign-off.

8.0 First Wave Housing

- 8.1 First Wave Housing Ltd is another housing company which is wholly owned by the Council. Previously part of Brent Housing Partnership (BHP), the company was set up in October 2017 when BHP was brought back in house. The board membership for First Wave Housing is the same as the i4B board, and board meetings for both companies occur consecutively. Advice is being sought by the Council on the benefits or otherwise in relation to bringing the two companies together in future.
- 8.2 First Wave Housing Ltd has 329 tenanted properties, of which 170 are at Local Housing Allowance (LHA) rates, 89 are at social rent rate, 25 are at intermediate rent and 45 are at market rent. The annual rent roll is £4.2million. There are also two commercial properties within the portfolio.
- 8.3 A meeting has taken place with the Council's Head of Audit and Investigation and representatives of PwC to provide a background briefing on First Wave Housing which will be used to develop a proposal for internal audit arrangements to be considered by the i4B board in March 2018. Given the similarities between First Wave Housing and i4B, the recommendations of the i4B audits, where applicable, will also be carried out for First Wave Housing.
- 8.4 It is proposed that a report on First Wave Housing, including agreed audit arrangements, will be brought to the next meeting of the Audit Advisory Committee.

9.0 Legal Implications

- 9.1 The recommendations in this report are for noting and, as a result, there are limited legal implications directly arising from the report.
- 9.2 The two internal audits undertaken in relation to i4B have identified a number of findings. Officers at i4B will need to ensure that prompt and effective steps are taken to implement such findings.
- 9.3 As detailed in paragraph 8.1, consideration is given to bringing First Wave Housing Limited and i4B together. This will have significant implications for the Council and both organisations if implemented and such change will require Cabinet approval.

10.0 Financial Implications

- 10.1 The forecast income and expenditure statement for the current year indicates a net loss of circa £1.4m. This is consistent with the original Business Case which assumed a net loss in the first two years as i4B acquired properties and incurred significant up-front expense in advance of rental revenues reaching maximum levels.

10.2 The original Business Case assumption was that a net profit would be achieved annually from year 3 onwards and there is no reason at the moment to revise that assumption. Drawing on the experience of First Wave Housing (especially with regards to rent collection and void rates), the Board is confident that once i4B is established and its properties are at maximum occupancy, the original Business Case financial outcomes will be achieved.

11.0 Equality Implications

11.1 No equality implications have been identified.

Report sign off:

MARTIN SMITH

Chair, i4B Holdings Ltd

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BUSINESS PLAN 2018/19

AND FORWARD INVESTMENT PROPOSALS 2018-2023

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**i4B Holdings has
been established to
contribute to reducing
homelessness, provide
affordable, good
quality homes, and
invest to deliver
regeneration**



1. The purpose of the company

- Page 71
- 1.1

i4B Holdings Ltd (i4B; the company) has been established to contribute to reducing homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council (the council).
- 1.2

Brent Council has one of the highest numbers of households in Temporary Accommodation (TA) in England. For Quarter Two of 2017-18, the council reported having 2,542 households living in TA, the fourth highest of all housing authorities in England. The council, against the overall London trend, has managed to dramatically reduce the number of households in Bed and Breakfast accommodation from a peak of 242 households in Q2 2014-15 to 33 for the same quarter in 2017-18 – an 86% reduction. However, there are still too many households in temporary accommodation which is inadequate for families' needs.
- 1.3

On 14 March 2016, Brent Council's Cabinet approved the council's TA Reform Plan, as a response to this challenge. One of the main measures outlined in the Plan was for the council to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs could be protected against

- rental inflation. It was intended that the council acquire properties, either directly or through partner delivery agents, to be let as long-term PRS properties at Local Housing Allowance (LHA) levels to prevent homelessness or end a homelessness duty.

1.4

The primary purpose of the company is to deliver the housing options defined in the TA reform plan. However, the Board of i4B has limited discretion to let properties at affordable rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholder's representative.

1.5

The company has carried out business development activities, researching new ways and opportunities to support the achievement of the council's wider objectives. Some ancillary expenditure towards this purpose is outlined in this business plan.

One of the main measures outlined in the Plan was for the council to acquire a large portfolio of Private Rented Sector accommodation, which would be professionally managed and in which costs can be protected against rental inflation

2. The benefits of operating as a company

- 2.1

As a wholly owned, Local Authority company, i4B operates at 'arms-length' from Brent Council, with the remit of providing affordable PRS accommodation to households for which the council has a responsibility.

2.2

i4B has discretion over the individual properties it acquires provided that:
- They are in a suitable location for the council to comply with its duty under the Homelessness Suitability of Accommodation Order of 2011
 - They are within the affordability criteria set out in the company investment plan and Capital financing agreement with the council
 - The rental income will be broadly equivalent to the relevant Local Housing Allowance
- 2.3

The company's core business plan anticipates a financial breakeven position over 30 years. However, i4B will explore commercial ventures, which may include growth, diversification or higher-yielding businesses/investment, to support the business in the medium and longer term and importantly maximise its contribution to the council's vision of 'making Brent a great place to live and work'.



3. The structure of the company

- 3.1 The company is limited by shares, initially providing affordable homes for households who might otherwise be housed in temporary accommodation.
- 3.2 The company is called i4B Holdings Limited.
- 3.3 The company's registered office is:
Brent Civic Centre,
Engineers Way,
Wembley
HA9 0FJ
- 3.4 The company's Memorandum of Understanding, Articles of Association, and Shareholders Agreement are as set out in the relevant documents.
- 3.5 The Board of the company is chaired by independent voting Director Martin Smith. The other directors of the company are:
- Councillor George Crane;
 - The Strategic Director of Community Wellbeing (Gail Tolley); and
 - The Director of Performance, Policy and Partnerships (Peter Gadsdon)
 - Independent board member with expertise/experience in housing/property to be appointed.

- 3.6 The company has a Service Level Agreement with Brent to provide a range of services to support the company's operations, including:
- Corporate and Financial services
 - Property purchasing and refurbishment
 - Housing management.
- 3.7 As the business grows, the company will purchase under contract, either from the council or via procurement, such other services as may be required to discharge this business plan or council-agreed supplementary business cases.

The company provides affordable homes for households who might otherwise be housed in temporary accommodation



4. Performance to date

- 4.1 The company was first registered in December 2016, with the company name changing from "Investing 4 Brent" to "i4B Holdings" in July 2017. The company has set up bank accounts for both capital and revenue purposes and has received permission from the council as stakeholder to align its year end accounts with those of the council. During 2017 i4B also agreed a £2.3m contract with the council to provide services to the company up to 2021.
- 4.2 Currently, the core business of the company is as a PRS landlord accepting homeless nominations from the council to provide good quality homes and to discharge the council's duty. As of 2 January 2018, the pipeline of properties to deliver the council's target of 300 properties is strong with 251 properties either purchased (86), in conveyancing (84) or approved by the PRS panel and under negotiation (81).
- 4.3 The PRS programme set out to provide 300 units of good quality private sector accommodation for the council to nominate homeless households to. The programme has been profiled to achieve this target over 30 months instead of 24 months and the current programme of acquisitions aims to be complete by September 2018, with all properties refurbished and let by 31 December 2018.

- 4.4 Clearly, the programme extension of six months means that opportunities to support homeless families and save revenue costs are delayed, reduced or lost.
- 4.5 Using a calculation based on the current blend of costs relating to the council use of temporary accommodation, the annual revenue cost savings to the council would be circa £900k per annum. The longer delivery date has meant circa £250k of revenue savings benefit to the council have been delayed.
- 4.6 In the 2017 Business Plan, the period between the acquisition of properties and the time at which they are let was estimated at three months. To date, this figure has actually been closer to five months with an obvious adverse effect on the finances of i4B. This is discussed further in Section 9.
- 4.7 i4B's business model is highly sensitive to changes in gross yield. Assuming a fixed rental income (i.e. assuming debt supportable remains fixed), a reduction in yield of 0.25% is equivalent to an increase in the equity funding requirement of £7.5m (circa 8%).
- 4.8 A detailed financial model has been developed which assists company directors as a live management tool. The model may be revised to instantly reflect the impact of

- changes to financial assumptions within the business plan, providing Board members with real-time updates on which decisions can be made.
- 4.9 To manage risks, i4B is working towards achieving an average 5%+ gross yield to ensure risks are managed. i4B has introduced a lower gross yield rate target of 4.45% for Brent properties and a minimum of 5% for non-Brent properties to ensure the Business Plan achieves its required number of homes in Brent. However, i4B is acquiring properties with an estimated gross yield of 4.9% in Brent and Greater London and 5.15% in the Home Counties (5% for Brent, Greater London, and Home Counties combined).
- 4.10 The first Brent PRS property, which was a four-bedroom family house in Neasden, was let in November 2017. Of the 251 properties in the pipeline, 133 are located in Brent. The programme has over-achieved against the business plan on gross yield averaging 5.03% compared to the 4% stated in the business plan. The average cost per unit is above target at £357,000 compared to £333,000. However, to date i4B has purchased more properties within Brent (which are more expensive compared to the Home Counties) meaning the programme still remains on target to achieve £333,000 overall.

The annual revenue
cost savings to the
council would be circa
£900k per annum



- 4.11 The council’s purchasing team has been successful at acquiring properties at increasingly higher yields and within Brent. As of 2 January 2018 the team has purchased or is in the process of conveyancing 170 properties, at a combined purchase price of £59.7m and at an average gross yield of 5.02%. The team also has an additional £26m of pipeline properties approved by the PRS acquisition panel and in negotiation.
- 4.12 The council has employed three external buying agents under contract. These agents are delivering a small number of lower-cost but above-average yield freehold properties. To date, ten properties have been placed in conveyancing with a value of £1.8m and a gross yield of 5.49%. An additional 23 properties valued at £5.3m are in negotiation.
- 4.13 The purchasing programme began before i4B was formed, with the council purchasing properties on behalf of the company. i4B is now purchasing homes directly, but 70 homes are in the process of a secondary sale to i4B from the council. The council has also identified empty homes which it is in the process of on-selling to i4B, creating new family homes and making good use of properties which were causing blight.
- 4.14 The portfolio pipeline reflects a 51%/49% leaseholder/freeholder split. Although many leases are in blocks which are owned by independent freeholders, the company has been successful at purchasing (via the council’s property buyers) leases in Brent Council blocks and purchasing multiple leases within the same dwelling to become the freeholder as well as the leaseholder.

Table 1: Purchase and pipeline summary

	Number	Value £s (pipeline and acquisitions)	Average purchase price (target ave. £333k)	True gross yield (target 4%+)
Purchased PRS Units 2016/2017	86	£31.412m	£365k	4.97%
Pipeline PRS Units 2017/2018 (under offer and in conveyancing)	84	£28.290m	£337k	5.08%
Totals	170	£59.703m	£351k	5.02%
Other pipeline properties (not in conveyancing)	81	N/A	N/A	N/A
Remaining PRS Acquisition Budget (£100m)	130	£40.297m	£310k	4.97%



- 4.15 The portfolio now has sufficient large (four-bedroom and larger) family homes outside the borough to meet demand. Future property purchasing strategy in the Home Counties will focus on three-bedroom and smaller freehold properties.
- 4.16 Brent Housing Management will deliver a programme of refurbishment to i4B properties of a value of circa £4.5m over two years. Work is underway to improve performance timescales to ensure properties are ready to let within business plan parameters. In addition to the refurbishment delivering the i4B minimal property standard, which is a high PRS standard, the company is also delivering walk-in showers to level-access properties. This improves i4B's ability to support families with mobility needs, including those unable to be discharged from hospital due to the availability of suitable properties. i4B will continue to work with experts within the council to match its property profile and characteristics with those of Brent's customers.
- 4.17 The council's Audit Advisory Committee considered i4B's performance in September 2017, and will receive an update on the December 2017 internal audit review in March 2018.
- 4.18 The Directors consider performance information at the monthly Board meeting. To date, the main activity has been ensuring the acquisitions and refurbishments are in line with the business plan. However, as the properties are now being let, the Board has established a wider range of performance indicators which will allow i4B to be managed effectively. See Section 11 for a full list of Key Performance Indicators (KPIs).

- 4.19 The establishment of a comprehensive Service Level Agreement (SLA) between i4B and the council has enshrined service standards, expectations of performance, and resources. Bi-monthly client meetings have been established between i4B and the council to monitor adherence to the business plan and the SLA.
- 4.20 The company does not yet have enough data to provide accurate performance information for housing management aspects of the business. However, performance data is available from the purchasing stage to the letting stage (see Table 2).

The company is also delivering walk-in showers to level-access properties to improve i4B's ability to support families with mobility needs



Table 2: Actual Performance against Key Performance Indicators (KPIs)

KPI	Measure	Target and frequency	Actual performance (2nd January 2018)	Mitigating Action
Gross property yield	Annual rental income as a % of the property purchase price	5% Monthly	4.97% (86 purchased properties)	Performance is close to target. The next 84 properties in the pipeline average 5.08% – an average for the first 170 units of 5.02%. The PRS acquisition panel will continue to manage property purchase to achieve target.
Average portfolio purchase price	Average cost of a portfolio property including works, SDLT, fees and VAT	£333,333 Monthly	£365,000 (86 purchased properties)	The portfolio has over-achieved in the number of larger family homes and purchases in high and medium value areas. The next 84 properties in the pipeline average £337,000 – an average for the first 170 units of £351,000. The purchase of 150 units in the home counties will achieve target. However the business plan recommends purchasing more properties in Brent and greater London and fewer in the Home counties (180/ 120). This will cost an additional £3.5m. However, the gross yield will remain at the 5% overall target.
Acquisitions: conveyancing periods	Period in weeks from PRS panel approval to property purchase. Includes valuation and conveyancing.	13 weeks Monthly	20	The in-house and an external firm of solicitors are now providing conveyancing services. The council is piloting in December and January a black box financial payment approval system aimed at replacing paper approvals with electronic approvals. The SLA service standards will be reviewed formally on a bi-monthly basis.
Acquisition: Achieving the agreed programme	Number of properties purchased	200 by 31st March 2018 300 by 30th Sept 2018 Monthly	170 properties are purchased or in conveyancing (2nd January 2018) and these should be complete by April 2018	The timescales for acquisitions have lengthened above SLA targets. 230 properties should be complete if SLA standards are achieved. There are 81 properties in negotiation additional to the 170 units. These negotiations will be encouraged to be completed swiftly to allow the target to be achieved. The SLA service standards will be reviewed formally on a bi-monthly basis. However the PRS panel meet with property buyers weekly. External buyers have had their localities increased to maintain momentum.
Refurbishment- keys from purchase to contractor, quotes, works, compliance certification, handover ready to let	Period from keys received from acquisition to refurbished property compliant with i4B handover checklist. This period includes quotes and certification	1st 100 units = 70 days 2nd 100 = 64 days 3rd 100 = 56 days Monthly	9a 200 days (based on 38 refurbished properties)	Weekly meetings are held with the refurbishment team; recruitment of surveying staff is taking place; weekly meetings with works contractors; performance targets of contractors from purchase to refurbishment are being monitored; pre-purchase surveys and quotes to be introduced from February 2018; refined approach to completion of compliance handover packs.
Letting	Period from notification of fully compliant handover following refurbishment to property letting (discharge of duty) or property refusal (discharge of duty)	7 days Monthly	16 days	The lettings process is being analysed and initial concerns relate to low demand from homeless families in emergency accommodation for large four-bedroom units in the home counties. An action plan has been proposed to resolve demand matters for large home county properties and properties of all bedroom sizes located the furthest distance away from Brent. i4B is seeking permission to increase the proportion of properties in its portfolio located in Brent.

5. Benefits analysis of the PRS acquisition programme to date

- 5.1 The company's purpose is to support the council in achieving its vision of making Brent a great place to live and work.
- 5.2 There are five areas which can be measured to support the company's contribution:
 - Helping the council achieve its strategic objectives
 - Reducing the council's revenue cost through i4B investing in new products and delivering services in new ways
 - Income generated to the council through 'on-lending' capital to the company
 - Supporting the council to retain and grow skills and invest in the expertise of those who deliver services
 - Investing in assets that will appreciate their capital value over the medium-and long-term.
- 5.3 Although the programme has not delivered new housing supply, it has been successful in purchasing private sector homes and switching the tenure to an affordable private rented product. 300 new affordable homes will be created by December 2018.

- 5.4 Through the SLA contract with i4B, the council has been able to sustain and in some service areas increase staffing budgets. Examples of where the council has been strengthened with additional capacity or new skills include the property team and legal services, where an additional five posts have been created.
- 5.5 The council is able to borrow funding at preferential rates which it is then able to lend on to the company at a higher rate. For every £10m borrowed by the company, the council receives £30k per annum as net interest income. Should the company deliver products which are not sub market housing products, net interest income would be higher, but so would costs. A non-utilisation fee is also paid by the company for the loan facility and early redemption fees would also apply.
- 5.6 Although the council is investing capital to reduce revenue expenditure, it can also consider the capital outlay as a medium-and long-term investment. The housing market has historically provided good levels of investment growth. Capital appreciation of 4% per annum has been the average for over 20 years. A very conservative forecast of 1% would lead to growth of £3.5m over 30 years for every £10m invested. If a 3% forecast was predicted, there would be growthof £14m over 30 years for every £10m invested.

The council is able to borrow funding at preferential rates which then is able to lend on to the company at a higher rate. for every £10m borrowed by the company, the council receives £30k per annum as net interest income

Table 3: Benefits generated through the current PRS acquisition programme 2016-18

New affordable housing	300 more affordable homes allowing homeless families to access settled affordable housing
Improving the quality of private rented sector accommodation	300 more private rented homes complying with a good standard of quality and management.
Returning long term empty homes into use	Four long-term empty homes owned by the council are being purchased and refurbished by i4B and used for affordable family housing.
Supporting the diverse needs of Brent residents	i4B has agreed a mobility friendly standard with the council. Homes will have level access and walk-in showers will be installed as part of the refurbishment. Around 10% (30) of i4B properties will achieve this standard helping provide more suitable accommodation for some homeless customers and making a contribution to hospital discharges.
Reducing the use of emergency accommodation to support homeless households	£840,000 based on the council reducing its emergency accommodation need by 30 units and diverting 60 families from emergency accommodation to i4B homes.
Reducing the use of Temporary Accommodation supporting homeless families.	£1,076,400 based on i4B offering 318 families which would have been accommodated in TA at £23 per week cost to the council for a minimum of three years.
Additional income to the council for on-lending	£300,000 per year based on i4B borrowing £100m at a 0.3% on borrowing rate. £1m set up fee plus other fees relating to early redemption.
Capital appreciation	Capital appreciation as a result of investing £100m in property over 30 years is difficult to predict, but is likely to benefit the council.



6. New opportunities

6.1 The initial business plan for 2017/18 anticipated a financial breakeven position over 30 years. However, the company wishes to strengthen its financial position through a variety of mediums including growth, diversification, and higher-yielding investments.

6.2 The company needs to grow and diversify its business operations to strengthen the balance sheet, spreading risk and thereby increasing capacity to do more for Brent. Growth and diversification would help mitigate risks associated with income, for example by diversifying the customer base accessing the company's services. A continuing focus on the commercial needs of the company will make a strong business in the short, medium and longer term and provide more opportunities for the company to accelerate and increase its contribution towards the council's vision of *'making Brent a great place to live and work'*.

6.3 The Board has considered its current PRS business alongside a number of diversification and growth opportunities to strengthen and grow the company in the short and medium term.

6.4 The key areas of opportunity are:

- **PRS**
Continuation and expansion of the PRS landlord business from 300 units by September 2018 to 600 Units by April 2021.

- **Properties for Intermediate Rent**
Creating an Intermediate rent portfolio of 100 properties by April 2020 through the purchase of specific blocks or street properties and through flexible tenure management of its PRS stock.

- **Strategic Investments**
The company is exploring the benefits of purchasing housing built as part of the Wembley Park regeneration, as well as empty homes projects and land purchases able to provide a meanwhile site use.

- **New build Partnership with the council (on council owned sites)**
The company is exploring the opportunity of a partnership with the council to maximise the opportunity to invest in council land and assets to deliver housing and investment return. Immediate opportunities exist to deliver new HRA and PRS homes.

- **New Build Partnership with the council and Registered Providers (RPs) on commercial sites** – the company may create Joint Venture (JV) partnerships with the council and RPs to purchase commercial sites in the Borough for affordable and PRS housing. Immediate opportunities exist with a number of RPs and on a number of sites.

- In addition, the company will work with the

Shareholder to look at the optimum structure for council-owned housing companies, including i4B and First Wave Housing.

6.5 This business plan discusses in more detail these opportunities to strengthen and diversify. Most of the proposed growth involves using the current financial model with a focus on new products, growing the portfolio to share costs between more units and improving average gross yield to increase the financial margin available to the company. This business plan will build on what has already been delivered, and is therefore using the 300 units purchased by the company during the initial business plan period as a basis. Growth of up to 723 units by March 2021 (Table 5) is suggested, bringing the total number of units to 1023 by March 2021. These opportunities will allow the company to develop so that it can do more to deliver the objectives set out in 1.1. The Board has commissioned further work to develop the opportunities set out in this business plan and will consider detailed business cases for individual proposals. The cumulative cost of delivering all opportunities in the business plan is £253m, but £40m will be recovered through capital receipts (see Shared Ownership column – Table 6).

6.6 The company aims to purchase an additional 300 properties over a three-year programme

The company needs to
grow and diversify its
business operations to
strengthen the balance
sheet, spreading risk and
thereby increasing capacity
to do more for Brent

(100 by April 2019, 300 in total by April 2021 – at a cost of between £103m and £116m). This would bring the overall number of purchased properties to 600 by April 2021. The location of these additional 300 units could be weighted 100% in Brent at a cost of circa £116m (plus £3.5m extra funding for PRS 1) or weighted 60% Brent and 40% Home Counties at a cost of circa £103m (plus £3.5m extra funding for PRS 1). The gross yield for both options would be similar with 100% Brent purchases achieving circa 4.95% and the 70/30 split achieving 4.89%.

Table 4: Business Plan timeline – company aims by year

Year 1 (2018/2019)	The company aims to commence the second PRS acquisition scheme and:	Purchase 28 intermediate rent units (£10m investment 2018/2019).
		Commence pre-works and consultation on a new build development with the council on council land.
		Enter into a JV in relation to at least one site circa 80 units, of which 40 units are owned by i4B and 40 units are owned by the RP.
Year 2 (2019/2020)	The company will continue to develop its portfolio and partner with the council and other organisations in the delivery of new homes, and:	Purchase 72 intermediate rent units (£25m investment 2019/2020).
		Commence new build pilot development with the council (30 unit scheme).
		Commence delivery of the first JV and enter new JV agreements (40-50 i4B Units).
Year 3 (2020/2021)	The company will continue to grow its portfolio. The company aims to purchase an additional 50 PRS properties and explore other ideas for development including:	Start an additional new build pilot development with the council (100 units over two or more schemes).
		Delivering and entering into new JV agreements.
		Purchase 153 properties to use as shared ownership (Discounted Market Sale) / intermediate rent.

Table 5: Growth opportunities for the company (Number of units)

	PRS properties	Intermediate Rent	Strategic Investment – Shared Ownership	New Build with council	New Build through JV	Total Number of Units
2018/2019	100	28	0	0	0	128
2019/2020	150	72	153	30	40	445
2020/2021	50	0	0	100	0	150
Total	300	100	153	130	40	723

Table 6: Growth opportunities for the company (Costs)

Year	Rental options		Strategic Investment: Cost Range for Two Shared Ownership Options			New Build Costs		Total Cost Range (Net of Capital Receipts)
	PRS 1 and 2 Cost Range	Intermediate Rent	Gross Cost	Capital Receipts Range	Net Cost Range	With council (Range for Two Options)	Through JV	
2018/2019	£4m to £24m	£10m	-	-	-	-	-	£14m to £34m
2019/2020	£0m to £60m	£25m	£30m	-	£30m	£8m to £19m	£8m	£71m to £142m
2020/2021	£0m to £37m	-	£30m	(£10m) to (£20m)	£10m to £20m	£0m to £25m	£5m	£15m to £87m
2021/2022	-	-	-	(£10m) to (£20m)	(£10m) to (£20m)	-	-	(£10m) to (£20m)
Total Cost Range	£4m to £121m	£35m	£60m	(£20m) to (£40m)	£20m to £40m	£8m to £44m	£13m	£80m to £253m

7. Proposed business products in more detail

PRS Landlord – growing the core business product

7.1.1 Presently, i4B's only business is as a PRS landlord letting properties at LHA rent. Key requirements for financial stability are: loan repayment; maximising rents (i4B's only income stream); maximising property occupation/minimising voids; and managing costs (loan/management/maintenance). This must be done within a 5% gross yield margin.

7.1.2 The company has analysed the real data gathered through 18 months of purchasing activity in Brent and the Home Counties, and has become more informed about the customer base which the council is seeking to nominate for PRS housing. The analysis shows that net and gross yield margins, on average, are very close regardless of location. The primary reason for purchasing outside Brent is the budget ceiling and lower cost of properties. Given the similarity in yield margins, the company recognises an opportunity to buy a higher proportion of properties within Brent during the initial business plan period than originally proposed. To amend the weighting of properties to 180 units in Brent and 120 units in the Home Counties, an additional £3.5m is required in 2018/2019.

7.1.3 The initial business plan outlines a PRS landlord business at LHA rents. Demand for rental units in Brent is high, so i4B could grow this model from 300 to 600 units

(September 2018–April 2021).

7.1.4 Following the proposed change outlined above, the company hopes to deliver a second purchasing programme weighted with permission to purchase (1) up to 100% Brent or (2) 60% Brent/40% Home Counties.

7.1.5 The practical implementation of the PRS scheme differs from that initially suggested by the theoretical modelling. The council, in nominating customers to i4B, must always consider the most appropriate offer of accommodation available to that household on that day. This is often based on a concentric circle model where a suitable offer in or closer to Brent will always be given first. Properties within the Home Counties are therefore at risk of longer void periods. The council's Housing Needs service, with whom the blend of properties has been discussed, suggest a programme with more Brent units will better support the discharge of homelessness duty. Option (1) would cost circa £116m, creating a gross yield of circa 4.96%. Option (2) would cost circa £103m, creating a gross yield of circa 4.86%.

7.1.6 The company also wishes to introduce small block purchases and off plan purchases into its buying strategy to complement the successful purchase of street properties.

7.1.7 Key actions:

- Amend the SLA to task the Property purchasing team to continue to identify and purchase PRS units on behalf of the company either through their own resources or through external property buyers
- Amend the SLA to task Brent Housing Management to expand its housing management, refurbishment and repair responsibilities on behalf of the company zzeither through its own resources or through external contractors

Table 7: PRS Property acquisition phase 2 (301-600 units)

Option	1: 100% Brent units	2: 60% Brent, 40% Home Counties
Number of Units	300	300
Budget 2018/19	£20m	£20m
Budget 2019/20	£60m	£60m
Budget 2020/21	£37m	£28m
Total Budget	£116m	£103m
Years of Delivery	Over 3 years – 2018/2021	Over 3 years – 2018/2021
Target gross yield	Circa 4.96%	Circa 4.86%
Risks	House price inflation during three years, causing additional inflation of the local housing market due to number of purchases; not achieving high levels of rent collection; greater proportion of leasehold properties.	Limited availability of two- and three-bedroom properties in excess of 5% gross yield; more challenging to match families to properties outside the borough.



Properties for intermediate renting

7.2.1 To strengthen and diversify the business, the company will purchase 100 properties for intermediate rent in Brent. These properties generally gain a slightly higher rent than LHA rent, and tend to attract young working professionals with low housing management needs. This means that intermediate rent households are also likely to have lower rent debt levels. Intermediate rent is beneficial to the Shareholder as it diversifies i4B's customer base, thus increasing the stability of the company's income stream. i4B's ability to be more financially self-sustaining reduces the call on council equity to support the business.

7.2.2 The intermediate rental properties will contribute towards the housing strategy target of 5,000 new affordable units in the borough over five years. Furthermore, intermediate rent units satisfy the demand for properties priced between LHA and market rent. Recent research carried out by the Cambridge Centre for Housing and Planning research has reaffirmed the need for this type of product. The experience of First Wave Housing Ltd also shows there is demand for properties at intermediate rent.

7.2.3 Properties would be acquired in blocks or as street properties to refurbish and let at intermediate rent. There is a significant opportunity through close working with developers and Registered Provider

developers to purchase blocks or a large number of units in blocks.

7.2.4 The company's intermediate renting business stream will provide and enhance the minimal property standard and/or furnish/semi-furnish the properties, increasing some costs. The company could use Brent Housing Management or procure management and repair agents for properties as the current procured services do not include finding

customers who wish to rent at market rates.

7.2.5 The council would, as with the core PRS business, benefit from on-lending and capital appreciation of its subsidiary's assets over time. The intermediate rent product should gain a higher yield per property and introduce flexibility within its portfolio. Legal advice is required to be certain that individual properties within the PRS scheme could also switch between PRS

Table 8: Intermediate rent

Number of Units	100
Budget 2018/19	£10m
Budget 2019/20	£25m
Total Budget 2019/21	£35m
Years of Delivery	Over 2 years – 2018/2020w
Target Gross Yield	Circa 5.5%
Suggested Location	Most areas of Brent will support this opportunity. The refurbishment standard and general upkeep of properties is crucial.
Risks	The letting process could result in longer void periods between lets. Increased costs in relation to the provision of furnished accommodation.

and intermediate rent to minimise risk relating to periods of low demand/ failure of the council to nominate.

7.2.6 Key actions:

- i4B's intermediate rent minimal property standard to be set
- Procurement of letting, housing management and maintenance agents. The company will make use of opportunities to extend the SLA and buying into exiting management services within blocks purchased
- Amendment to SLA to task the property purchasing team to identify and purchase intermediate rental units on behalf of the company

To strengthen and diversify the business, the company will purchase 100 properties for intermediate rents in Brent

Strategic investment

- 7.3.1 The company will occasionally identify market opportunities which are time limited. These are likely to be opportunities to acquire land and property which are of strategic importance to i4B or the council. There are four examples of this type of investment.
- 7.3.2 The council has an option to purchase circa 250 properties, which are being built as part of the Wembley Park regeneration, at 72.5% of market value (see Table 9). The company is developing an i4B proposal for shared ownership and intermediate rent with the council's working group. The council will consider this opportunity alongside other options.
- 7.3.3 The i4B option includes a blend of shared ownership and intermediate rent, potentially allowing a preferential purchase opportunity for renters after five years. The first phase of investment could see the purchase of 153 units at £60m, with up to £40m of capital receipts generated from shared ownership sales (see Table 9). Current modelling assumes an initial sales model where buyers purchase a 50% share in their property. However, further modelling will take place to ascertain whether this percentage should be reduced to ensure sales.
- 7.3.4 Explore opportunities to invest in meanwhile sites for temporary or permanent uses – one

- example could be to work with the GLA, the council and TFL delivering temporary accommodation on meanwhile (vacant) sites in the form of temporary modular homes. Other opportunities to invest in sites for temporary or permeant use will be explored.
- 7.3.5 Empty Homes initiative – i4B is exploring opportunities with the council's empty homes team to understand if the company's ability to invest in homes can lead to better engagement with empty home owners. In the current programme of PRS purchases, three long-term empty homes have been refurbished and new family homes created.
- 7.3.6 Strategic land acquisition – i4B is exploring how it can use its status and borrowing to invest in land to release value at a later date e.g. by supporting the council's strategic land assembly in key locations.
- 7.4.7 Purchase to sell – i4B will explore the financial benefits of selling on properties which it purchases as part of joint venture arrangements.
- 7.3.8 Key actions:
- Continue to work with the council's working group to consider the most appropriate option for the Shareholder



Table 9: Example of strategic investment (see 7.3.2/7.3.3)

	Option 1 – This option assumes 78 of the available properties are presold as shared ownership with the owners purchasing an initial 50% share. 75 properties will be for intermediate rent.	Option 2 – This option assumes all properties are presold as shared ownership with the owners purchasing an initial 50% share.
Number of Units	153	153
Budget 2018/2019	£0m	£0m
Budget 2019/2020	The peak pre-sale cost to i4B would be £58.5m, however £20m would be recovered through equity sale.	The peak pre-sale cost to i4B would be £58.5m, however £40m would be recovered through equity sale.
Budget 2020/2021	£0m	£0m
Total Budget 2018/2021	£58.5m reducing to £37.5m following sales.	£58.5m reducing to £17.5m following sales.
Years of Delivery	Over 2 years – 2019/2021	Over 2 years – 2019/2021
Target gross yield	circa 8.3%	circa 12.8%
Best Location for the Scheme(s)	Wembley	Wembley
Risks	The sales and letting process could result in longer void periods between lets. Lack of sales is also a risk. Owners may not purchase the property outright, locking i4B and council equity into the properties for an unknown length of time. Intermediate rent will not allow the council to access its equity unless a rent-to-buy scheme is provided.	The sales and letting process could result in longer void periods between lets. Lack of sales is also a risk. Owners may not purchase the property outright, locking i4B and council equity into the properties for an unknown length of time.

New build in partnership with the council – 30 New Build Homes 2019/2020 with 120 new build homes 2019/2021

7.4.1 The company aims to support the council in making unviable council-owned sites viable though a new partnership model. The model assumes i4B purchases 50%-100% of homes in selective council developments at terms set by the council, usually as leaseholder. i4B would act as a market partner, purchasing homes at circa 5% gross yield, benefitting from bulk buying, and de-risking council developments. The council would fund residual properties as social or intermediate affordable accommodation, potentially accessing Right-to-Buy receipts and HRA match funding.

7.4.2 This model works particularly well in the south of the Borough as i4B can pay more per property, thus paying a higher share of the build cost. This reduces the cost of the remaining properties which the council would normally seek to retain as social housing. The council could use Right-to-Buy receipts on any social affordable properties it retains. The company may be able to access regeneration, planning, marginal viability or GLA grants to improve the viability of the scheme, taking care not to confuse subsidy use within the scheme. The council would lead the development. The scheme would act as a good practice example of achieving high levels of affordable homes on site (50%-100%). Through this model, council would be able to retain the ownership of land, deliver social housing (general fund, NAIL, etc.)

Table 10: New build in partnership with the council

Number of Units	Scheme 1: 30 i4B roof top units	Scheme 2: 100 i4B units		
	Each scheme has sub options e.g. partial site development or site intensification			
Budget 2018/2019	Scheme 1: £0.6m	Scheme 2: £0m		
Budget 2019/2020	Scheme 1: £7m	Scheme 2: £11m		
Budget 2020/2021	Scheme 1: £0m	Scheme 2: £25m		
Total Budget 2018/2021	Scheme 1: £7.6m	Scheme 2: £36m		
Years of Delivery	On-going partnership		Target gross yield	Circa 5.0%
Best Location for the Scheme	Several schemes have been identified in the borough but consultation has not commenced with members or residents. Schemes will tend to work better in the South of the Borough due to i4B's higher income levels.			
Risks	Modular roof top schemes are not new to the borough however they are new to the council's delivery teams. Risks may arise during the preparation of the scheme. Community consultation and support will be critical in the speed of delivering this opportunity. Grant for all new build schemes can be sought and a grant for roof top modular schemes has been supported in principle by the GLA.			

and provide interim products if necessary. The council may also wish to provide repair, maintenance and housing management services to the properties. The council would gain from the long-term capital growth of the site and the company would pay a ground rent on any leasehold properties of circa £350pa per unit.

7.4.3 Key actions:

- Capital Project Board and Capital Investment panel approval, and Board approval
- Secure full planning permission
- Presentation of a full business case to the council



There is an opportunity
for a series of new
developments to take
place on commercial sites

New build as a Joint Venture (JV) with the council and with one or more RPs

7.5.1 There is an opportunity for a series of new developments to take place on commercial sites. The vision would be for i4B, the council and one or more RPs to work through JV arrangements on a site-by-site basis.

7.5.2 i4B will consider the appropriate council structure for purchases of this type. A joint venture is one approach. However, the use of a contractual agreement may be as practical in achieving new development units.

7.5.3 The intention is to see Registered Providers bringing their commercial and development skills to the partnership, working with the council and i4B to help identify development sites, most of which would be owned privately. The RP would purchase and develop the sites. The development would set out to deliver 50% RP affordable units and 50% i4B PRS units, potentially blended with some intermediate rent properties. The RP would benefit from a Right-to-Buy receipts grant equal to 30% of their 50% share of the build cost. i4B would purchase properties at a build cost of circa 5% gross yield, and may be able to access regeneration, planning or GLA grants to improve the scheme's gross margin. The housing partnerships team will set out the council's and i4B's expectations of this type of JV and share with partner RPs. The ownership of the freehold would need to be determined, but a principle of equal freehold land held by i4B and the RP would be placed

in the prospectus along with other information including ideal affordable housing products. The properties could be managed by the RP, council or by the company.

7.5.4 Key actions:

- Housing Partnerships establish prospectus for JV arrangements to ensure clear understanding of the requirements prior to schemes being presented

- Additional two JV opportunities to be identified and explored
- Delivery on site 2019/2020 subject to scheme approval and site purchase
- Capital Project Board and Capital Investment panel approval, and Board approval
- Presentation of a full business case to the council

Table 11: New build through a Joint Venture between the council, i4B, and a RP

Number of Units	0 in 2018/2019 40 units owned by i4B 2021
Budget 2018/2019	£0
Budget 2019/2020	£8m
Budget 2020/2021	£5m
Total Budget 2020/2021	£13m
Years of Delivery	Over 3 years – 2018/2021
Target gross yield	Circa 5.0%
Best Location for the Scheme	A scheme has been identified in the north of the borough but consultation has not commenced with members or residents. Early discussions are taking place with potential JV partners.
Risks	Development partner interest is critical however the JV terms will be understood before capital investment takes place.

8. Risk analysis of the proposals

8.1 The 2017/2018 business plan identified a number of risks which can be mitigated if they arise. The 2018/2019 business plan has considered these risks and how new business streams could reduce business risks. The risks below have been outlined with reference to the current PRS acquisition programme.

Table 12: Top six key risks
(See Appendix 1 for the risk register, providing descriptions of risks, risk scores and mitigations)

Risk	Business plan assumption	Risk Type
company cash flow (capital and revenue) is insufficient to manage expenditure	i4B has commenced a large acquisition and refurbishment programme. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent.	Financial
Business plan rent collection rates are not achieved. Introduction of Universal credit adversely affects rent collection	The business plan assumes a rent collection rate of 98.5%.	Financial
The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord	The i4B business model is based on the wholly owned council company being a private landlord. i4B must retain its autonomy in granting and ending tenancies. As a private landlord i4B will use its assured shorthold tenancy as the primary tenancy offered to tenants. The Directors must strictly adhere to the requirement to 'act in the interest of the company'. The council as shareholder and funder must act in accordance with these roles.	Financial and Reputational
Property portfolio does not achieve the target Gross Yield margin	5% average gross yield (true).	Financial
Void periods exceed business plan	The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property.	Financial and Operational
Interest rates increase	The Board will usually borrow money from the council. The council can choose how to arrange the loan however it would generally borrow funds from the public works loans board at preferential rates and on lends to i4B. The rate at which the council on lend will depend on the product being provided by i4B. i4B must comply with state aid rules.	Financial

9. Financial analysis – existing business model

The 2017 Business Plan allowed for the acquisition of 300 units for a capital outlay of £100m. Financial performance against originally agreed targets are:

- 9.1
- Current estimates indicate that 300 units will be delivered as per the original profile (i.e. 120 in Brent, 30 in Greater London and 150 in the Home Counties) within the capital outlay envelope of £100m.
- 9.2
- With 251 properties currently purchased or in the pipeline, the shareholder is now to be consulted on whether the profile should be changed so that a greater number of total units acquired are in Brent.
- 9.3
- Given the longer-than-anticipated period between the acquisition of properties and the time at which they are let (currently five months), the peak revenue debt for i4B, estimated at £1m in the original business plan, has increased.
- 9.4
- Business advisers have reported that the gap between acquisition and let is expected to dramatically reduce over the remainder of the property acquisition period and that the originally-anticipated average of three months over the entire portfolio should be achieved.
- 9.5
- In that event, i4B would require an increase in the cashflow facility provided by the council from £1m (to cover the originally anticipated short-term peak revenue debt) to £2.8m, though the business plan will still break even over 30 years.

- 9.6
- However, if the five-month average is maintained over the life of the plan, then the working capital requirement will increase to £3.5m. Further management action will be implemented to attempt to keep the working capital requirement under £2.5m but a short term borrowing facility of up to £3.5m will be required to cover the worst case scenario.

- 9.7
- A current forecast of cashflows for i4B's first five operational years (excluding £400k of i4B establishment costs) is shown here:

Table 13: Five Year cashflow

	2017	2018	2019	2020	2021
	£000's				
Capital Outlay	76,400	23,400			
Long Term Loan	-64,600	-19,800	-	-	-
Equity (Cash Injection)	-11,800	-3,600	-	-	-
Net Capital Cashflows	0	0	0	0	0
Revenue Income Cashflows					
Gross Rental Income	689	3,856	4,429	4,474	4,519
Revenue Expenditure Cashflows					
Loan Fees and Charges	-912	-961	-85	-69	-51
Management and Maintenance	-327	-1,065	-1,208	-1,236	-1,265
company Operating Costs	-400	-155	-159	-163	-169
Net Operating Cashflows	-949	1,676	2,977	3,007	3,036
Debt Financing					
	-794	-2,296	-2,423	-2,423	-2,423
Working Capital Financing					
	-11	-45	-	-	-
Net i4B Cashflow	-1,754	-664	554	583	613

10. Financial analysis – business model options

Included in this year’s business plan are a range of scenarios for business expansion. A summary of the financial impact of each is included below.

LHA PRS – Additional 300 units

- 10.1.1
- The previous business plan for i4B approved the acquisition of 300 sub-market PRS units (PRS – Phase 1) and the acquisition of another 300 units is suggested in this latest business plan (PRS 2).
- 10.1.2
- The latest forecast for PRS 1 is that total capital outlay to deliver 300 units in the areas planned will total just under £100m so is in line with the resources set aside.
- 10.1.3
- The location of the 300 PRS 2 units would be significantly different from those acquired under PRS 1. More properties would be acquired in costly London Boroughs, meaning fewer in the Home Counties.
- 10.1.4
- As a result, the capital outlay for PRS 2 will be significantly more than that originally requested for PRS 1, ranging from an additional £3m to deliver Option 2 to £16m for Option 1.
- 10.1.5
- The loan rate charged to i4B for PRS 1 has been modelled at 2.87% and the same rate has been used to model PRS 2, though the actual rate would be linked to prevailing Public Works Loan Board rates at the time the loan agreement was signed.

- 10.1.6
- The inherent financial risk in both scenarios is that a significant period of time elapses between investment and the achievement of a cumulative surplus, but this was also true for PRS 1.

- 10.1.7
- These outputs imply that, from a financial perspective and conditional on the availability of capital financing, both options are worthy of further consideration.

Table 14: Comparison of PRS location options

	Number of Properties		
	PRS 1	PRS 2 – Option 1	PRS 2 – Option 2
Brent/ Greater London	150	300	210
Home Counties (Low LHA)	80	0	90
Home Counties (Medium LHA)	70	0	0

Table 15: Key outputs from the modelling for PRS 2

	PRS 1	PRS 2 – Option 1	PRS 2 – Option 2
Capital Outlay (£m)	100	116	103
Equity Investment (£m)	15	17	22
Equity Investment	15%	15%	22%
Capital Financing Interest Rate	2.87%	2.87%	2.87%
Peak Revenue Debt (£m)	2.7	3.2	3.0
1st Cumulative Surplus (Year)	2030	2032	2029
Net Yield	4.4%	4.3%	4.3%

Intermediate rent (IR)

- 10.3.1
- This option involves the acquisition of 100 properties which would be let at up to 80% of market rent.
- 10.3.2
- All IR units would be located in Brent/Greater London. As sub-market rent is the offering, it is likely that this element of the portfolio would qualify for a State Aid exemption in relation to interest on borrowing, thereby attracting the preferential rates applicable to LHA PRS.
- 10.3.3
- It is estimated that the capital outlay to deliver market rent units to turnkey would be approximately £35m.
- 10.3.4
- A higher rent would be charged compared with LHA PRS. An additional margin would attached to the borrowing interest rate if this were a market rented product, however there is no additional margin attached to the borrowing interest rate in the case of IR.
- 10.3.5
- The capital financing interest rate assumed is identical to that applied to PRS 1 (subject to confirmation of a State aid exemption). The actual rate will be determined by prevailing interest rates at the time the relevant loan agreement is signed.
- 10.3.6
- The favourable effect of higher rents (than LHA PRS) is offset by a higher acquisition cost per unit, resulting in a proportionally larger Equity Investment requirement, though it still remains below the council threshold of 25%.

Table 16: IR comparison with the original LHA PRS programme (PRS 1)

	PRS 1	IR
Capital Outlay (£m)	100	35
Equity Investment (£m)	15	8
Equity Investment	15%	24%
Capital Financing Interest Rate	2.87%	2.87%
Peak Revenue Debt (£m)	2.7	0.8
1 st Cumulative Surplus (Year)	2030	2023
Net Yield	4.4%	5.1%



Acquisitions to shared ownership

- 10.4.1
- In this scenario, i4B would acquire 100% of the equity in 153 newly developed units for approximately £60m, equivalent to 70% of market value. Two options are then proposed:
- 10.4.2
- Option 1** – i4B sells 50% equity in all 153 properties, retaining the remaining 50%. The i4B-owned stake is available for ‘staircasing’ by the occupier and is let at a 2.75% yield on market value in the meantime.
- 10.4.3
- The consolidated capital outlay (including interest costs accrued over a sales period presumed to be 24-months) are approximately £17m.
- 10.4.4
- Option 1 delivers and annual deficit of approximately £100k, though i4B would benefit from additional, equity-based capital receipts as they arise.
- 10.4.5
- Option 2** – i4B allocates 78 of properties for use as per Option 1. The remaining 75 properties are made available as sub-market (intermediate) rented products
- 10.4.6
- The sales period for the shared equity units is again presumed to be 24 months. However, rental income from both intermediate and shared equity units will be sufficient to cover financing costs incurred during that time and so no additional interest costs are incurred.
- 10.4.7
- An annual surplus of approximately £300k is delivered by this option, though this does represent only 0.8% return on net capital employed (gross outlay less sales income).
- 10.4.8
- Under option 2 i4B would also benefit from equity-based capital receipts as they arise.
- 10.4.9
- Due to the unpredictable timing of staircasing capital receipts under the Shared Equity scheme, lenders may argue that maturity (interest only) loans are not appropriate for these products (as i4B would not have a business proposition in place to settle the debt on completion of the loan term).
- 10.4.10
- The financial modelling has therefore been predicated on the undertaking of annuity loans for both options which, while more expensive, will ensure that there is no outstanding debt against the portfolio at the end of the business planning period.
- 10.4.11
- Capital receipts generated through occupier staircasing would then be additional resource which could be immediately ploughed back into i4B for other business initiatives.
- 10.4.12
- The financial analysis for these two options has been carried out at a higher level than for other proposals.
- 10.4.13
- As surpluses/deficits shown here are marginal when compared with outlay, further detailed work should be carried out to determine a more accurate reflection of each option’s financial strength.



Council new build
on council land

10.5.1 This proposal is in development and as part of this a full financial appraisal is being carried out. This will form part of the Business Case which Cabinet will be asked to approve in order to take forward this proposal.

JV new build on
council land

10.6.1 This proposal is in development and as part of this a full financial appraisal is being carried out. This will form part of the Business Case which Cabinet will be asked to approve in order to take forward this proposal.



11. Key performance indicators (KPIs)

Table 17: KPIs

i4B has the following KPIs written into the SLA with the council and in the housing management contracts				
KPI	Measure	Target in weeks or calendar days	Monitoring Period	KPI owner
Gross property yield	The annual rental income shown as a % of the property purchase price.	5%	Monthly	i4B
Average portfolio purchase price	The average cost of a portfolio property including works, SDLT, fees and VAT.	£333,333	Monthly	i4B
Maximum equity share held by LB Brent	The proportion of equity held by LB Brent in relation to the total loan provided to i4B.	23% (maximum)	Monthly	LB Brent – Finance
Business modelling exercises undertaken	The number of business modelling exercises undertaken and reported to the Board.	6 per year (minimum)	6 per year (minimum)	LB Brent – Finance
Acquisitions – conveyancing periods	Period in weeks from PRS panel approval to property purchase. Includes valuation and conveyancing.	13 weeks	Monthly	LB Brent – Property
Acquisitions – achieving the agreed programme	Number of properties purchased.	200 by 31 st March 2018 300 by 30 th Sept 2018	Monthly	LB Brent – Property
Acquisitions – property tenure	Number of Leasehold units in comparison to freehold units.	60%/40% (few leasehold units = better)	Monthly	LB Brent – Property
Acquisitions – location	The number of units located in different locations as specified in the business plan.	150 Brent and Greater London 150 Home Counties	Monthly	LB Brent – Property



KPI	Measure	Target in weeks or calendar days	Monitoring Period	KPI owner
Property handover following acquisition	Period from acquisition date to keys provided to BHM/ refurbishment contractor.	2 working days	Monthly	LB Brent – Property
Refurbishment	Period from keys received from acquisition to refurbished property compliant with i4B handover checklist. This period includes quotes and certification.	1 st 100 units = 70 days 2 nd 100 properties 64 days 3 rd 100 properties 56 days	Monthly	LB Brent – BHM
Letting	Period from notification of fully compliant handover following refurbishment to property letting (discharge of duty) or property refusal (discharge of duty).	7 days	Monthly	LB Brent – Housing Needs
Number of lets in the period	Number of new tenancy sign ups in the month	In line with PRS Programme assumptions	Monthly	LB Brent – Housing Needs
Number of property refusals by nominees leading to discharge of duty	Customers approved by LB Brent as homeless who refused i4B accommodation and were the council formally discharged their duty.	Contextual	Monthly	LB Brent – Housing Needs
Number of voids	Any property not occupied by a tenant. Snap shot as of last day in the month.	Contextual	Monthly	i4B
Void loss	% of property void days as a proportion of 100% portfolio occupation.	1.5%	Quarterly	i4B
Bad debt	Income written off by the i4B Board due to bad debt in particular arrears.	2%	Quarterly	i4B
Rent collection	Rent collected as a % of rent due. This is measured on a 4 weekly cycle in line with BACs payments to i4B.	98.5%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM



KPI	Measure	Target in weeks or calendar days	Monitoring Period	KPI owner
Rent arrears action	S21 Notices served	Contextual	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
Rent arrears action	Evictions	Contextual	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
Customer satisfaction	Annual survey	80% Satisfied with the condition of the property	Quarterly	i4B
Customer satisfaction	Annual survey	80% Satisfied with the management of the property	Quarterly	i4B
Customer satisfaction	Annual survey	80% Satisfied with the Repairs Service	Quarterly	i4B
Customer satisfaction	Survey participation	1/3 of customers surveyed annually (min)	Quarterly	i4B
Complaints	Complaints resolved through management agents agreed procedures.	100% resolved	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
Ombudsman decisions upholding a complaint	A decision by a statutory body upholding a complaint made by a customer, contractor, employee or member of the public.	Contextual	Quarterly	i4B

KPI	Measure	Target in weeks or calendar days	Monitoring Period	KPI owner
% of portfolio property home visited	Three properties visits are required in the first year of a letting. 2 property visits are required for each subsequent year. % of property visits completed in relation to the properties under management.	100%	Annual	Housing Management Agents – Pinnacle, Mears, BHM
% of portfolio with valid CP12	Properties let with a valid CP12 gas certificate (properties with a served legal warrant qualify as certified).	100%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
% of Emergency repairs completed within 24 hrs	The % of all emergency repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	100%	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
% of urgent repairs completed within 7 days	The % of all urgent repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
% of routine repairs completed within 28 days	The % of all routine repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
Average repair cost per property per annum	The average cost of responsive repairs on the portfolio as charged by the housing management agent (excludes gas servicing).	£500 per annum	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
Void period (repairs)	The period from the void contractor being notified of a void property to the receipt to the housing management agent of the keys, handover form and certificates.	28 days	Monthly	LB Brent – BHM

Appendices

Appendix 1: Risk analysis and risk register

Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord	The i4B business model is based on the wholly owned council company being a private landlord. The company must retain its autonomy in granting and ending of tenancies. As a private landlord, the company will use its assured shorthold tenancy as the primary tenancy offered to tenants. The Directors must retain at the forefront of their minds the requirement to ‘act in the interest of the company’. The council as shareholder and funder must act in accordance with these roles. The potential consequences of this risk materialising is the company is seen to be one and the same as the council and therefore required to act in accordance with legislation relevant to a council landlords. The risk is that the company would have to provide the same rights as those which apply to secure council tenants and set rents in accordance with legislation and guidance as applies to councils.	Financial & Reputational	3	5	15	The company will use its assured shorthold tenancy agreement when letting PRS properties. Licences and other forms of tenancy terms will be exceptional. The company will make all decisions in relation to granting and ending tenancies and may delegate some responsibility to its management agents through approval of procedural documents. The management agents will act in the name of the company when progressing legal/court action. The Board will approve court action which could result in a tenant losing their home. i4B’s logo will be used on its literature although management agents will also use their own brand when communicating with tenants. The Board, council Members and Senior officers will be briefed on the positive contribution i4B can make towards achieving the council’s objectives, and on the role of the Board of Directors and the Role of the Shareholder. i4B will work with Brent council’s press office to ensure press releases avoid inappropriate descriptions.
Portfolio of properties does not achieve the target Gross Yield margin	5% average Gross Yield (true) The potential consequences of underachieving against this target is that the company’s income will be insufficient to meet its assumed expenditure.	Financial	3	4	12	The Board, in consultation with the requirements of the council, has some flexibility to amend the bedroom size and location of property acquisitions to maintain gross yield averages. The business plan could consider increasing the number of properties in high LHA locations such as Brent which would create a larger cash margin per property which would be advantageous to the business plan in managing fixed costs such as insurance and housing management fees. The programme could be spread over more years to prevent artificial house price inflation due to i4B’s intense programme. i4B could diversify its products introducing intermediate renting and potentially shared ownership into its portfolio to support the overall strength of the business plan. i4B is seeking to work with the council and Registered Providers to purchase new build homes. With the support of the council, i4B could generate higher yields with some partnerships and introduce new products.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
Average property price exceeds budget	The average property price for PRS phase 1 is £333,333 and the average purchase price for PRS phase 2 is £360,000 (£108m) or £390,000 (£117m). The potential consequence of this is i4B will be required to raise more capital to achieve unit targets. The ability to borrow more capital would be based on the strength of the company's business and underlying financial strength.	Financial	3	2	6	The Board closely monitors i4B's income and expenditure and has developed and uses a business modelling tool to understand any variation which pipeline purchases are likely to cause. Through this tool, action can be taken in relation to the purchasing strategy and purchasing decisions prior to negative financial consequences. i4B has some flexibility to amend the bedroom size and location of property acquisitions to maintain average property acquisition costs.
Rent collection rates do not achieve business plan. The introduction of Universal credit adversely affects income collection rates.	The business plan assumes a rent collection rate of 98.5% of rent due. The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	Financial	4	5	20	The Board is investing in additional monitoring of rent and arrears performance of housing management subcontractors. It is funding (through the SLA) a weekly monitoring of rent performance data of subcontractors to check contractors' data, identify variations and request information from subcontractors on actions being taken. I4B is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.
Void periods exceed business plan	The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property. The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.	Financial & achieving operational objectives	4	3	12	The company has built into the contracts with housing management and void contractors the requirement to cooperate to ensure void periods are minimised. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenant. The company is working with the council to approve the purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. The company could approach the shareholder to dispose of properties in locations consistently failing to attract customers. i4B could offer properties to customers requiring intermediate, market or TA accommodation. The company could consider working with social service nominations. i4B is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
Bad debt exceeds business plan assumptions	The business plan assumes 2% bad debt. The potential consequences of this risk materialising is the company has less income to overcome its expenditure.	Financial	3	4	12	The Board is investing in additional monitoring of rent and arrears performance through the SLA. The council and the company will review the nominations agreement and the application of the sustainable tenancy assessment. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.
The proportion of equity held by LB Brent in relation to the total loan exceeds target	The equity held by LB Brent is not to exceed 23% of total loan value. The potential consequences of this risk materialising is the company breaches the business plan permissions provided by the shareholder.	Financial	3	2	6	The company has developed a business model tool which automatically calculates the proportion of equity held by LB Brent in relation to the total loan. The board has a KPOI which requires it to review the business model a number of times within each year.
i4B is deemed to have failed a statutory requirement	The business must first and foremost ensure its tenants, employees and contractors enjoy a safe environment. The company must avoid incidents which could cause reputational damage to itself and be aware of the potential reputational damage it could cause to its shareholder. As a private landlord, i4B will strive to fully comply with statutory compliance requirements and respond in a timely way to complaints and Ombudsman enquiries. The potential consequences of this risk materialising vary. Some risks relate to health and safety requirements including gas safety. Failure to comply H&S requirements increase the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board. The consequences of other statutory failures may be fines and/or reputational damage to i4B.	Financial & Reputational	1	3	3	Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring and KPI reports include some key aspects including gas, complaints and customer satisfaction. i4B will maintain its own brand which is separate to that of the council. i4B will work with the council's press office to ensure any incidents are appropriately managed.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
The business plan does not diversify its products	The current business plan is primarily based on a Private Rented Sector (PRS) landlord model with permission to provide some market rent. The potential consequences of this risk materialising is the company may find its income and rent collection rate is more vulnerable to impacts of legislation including changes in housing benefit changes.	Financial & achieving operational objectives	2	2	4	Rent collection is one of the company's monthly monitored KPIs. Trends in rent collection performance of the management agents are also monitored on a weekly basis by rent experts working on behalf of i4B. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.
The cost to deliver i4B services exceeds business plan assumptions	There are a number of key assumptions built into the business plan and the setting of the Gross Yield %. These cost assumptions include: housing management services; repair and maintenance; insurance; contracts and service level agreements; major refurbishment programmes; and debt finance arrangements. As the business grows, cost assumptions may change and new costs may be encountered. The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.	Financial	3	3	9	A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce cost through contract management renegotiation, eliminating the cost where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. The company is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First wave housing, ultimately combining corporate and other services to create efficiencies.
Interest rates increase	The Board will usually borrow money from the council. The council can choose how to arrange the loan, however it would generally borrow funds from the public works loans board at preferential rates, then on-lend to i4B. The rate at which the council on-lends will depend on the product being provided by i4B. i4B must comply with state aid rules. The potential consequences of this risk materialising is i4B may not be able to secure a loan rate which can support the delivery of new products and purchase programmes. Ultimately, this will reduce the effectiveness of i4B delivering benefits for the council.	Financial	4	2	8	The council can enter into a long-term fixed rate borrowing which locks i4B's exposure. The council is able to support i4B through injecting equity into the company and reducing the loan element.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
Inflation increases above business plan assumptions	The business plan assumes 2.5% annual inflation in relation to services. The business plan recognises LHA rent rates are frozen until 2021. The business plan assumes LHA rates will increase at 1% per annum after 2021. The business plan assumes that properties will be purchased within the capital budget agreed and no inflation is assumed within this envelope in relation to property prices, fees, SDLT or works. The potential consequences of this risk materialising is i4B's costs increase above its income. The company's income is primarily rent at Local Housing Allowance rates which are frozen until 2021.	Financial			0	A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce costs through contract management or renegotiation, eliminating the costs where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. i4B is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth, i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First wave housing, ultimately combining corporate and other services to create efficiencies.
LHA rates fall below business plan assumptions	The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum. The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.	Financial	2	5	10	The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate. Potentially, properties could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.
The number of Leasehold units exceeds the target ration in relation to freehold properties	The business plan assumes a 60%/40% split in favour of Leasehold properties. The potential consequences of this risk materialising is i4B's expenditure would increase payments to the freeholder in relation to service charges and ground rent.	Financial	4	3	12	The company could prioritise purchases of block, multiple dwellings and ex-council dwellings where possible and in so doing either purchase the freehold or work with the council as a responsible freeholder. The purchasing strategy could seek to increase yields. i4B could diversify the portfolio with products which create higher yields. i4B could consider, in consultation with the shareholder, passing on these charges in part or whole to tenants.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
The pipeline of properties is slower than SLA target	The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel. The potential consequences of this risk materialising is mainly on the realisation of benefits to the council. The company pays for the loan facility when it is not being used although this charge increases once funds are drawn down.	Financial & achieving operational objectives	5	2	10	i4B could encourage the council through the SLA to introduce additional conveyancing teams. i4B works will work through the SLA with the council to develop appropriate treasury management strategies.
Property price inflation reduces average yield and increases average purchase prices	The programme assumes 200 properties purchased by 31st March 2018 and 300 by 30th Sept 2018. The potential consequences of this risk materialising is the acquisition programme would slow down, reducing the realisation of benefits to the council. However, the company would also be weaker with fewer properties as some fixed costs would be spread between fewer properties. The company's loan facility would continue to incur costs to the company.	Financial & achieving operational objectives	2	4	8	i4B could encourage the council through the SLA to introduce additional conveyancing teams. The anticipated outcomes of the programme could be profiled with the shareholder.
The location of properties purchased varies from the business plan	The business plan assumes that: phase 1 – 150 properties purchased in Brent & Greater London, 150 in the Home Counties; phase 2 – up to 300 properties purchased in Brent. The potential consequences of this risk materialising is that purchasing more properties in Brent is likely to improve the financial strength of the company as long as the gross yield of 5% is maintained. If more properties are purchased in the home counties the underlying net yield is likely to be reduced and therefore create less income even at 5% gross yield.	Financial & achieving operational objectives	3	3	9	The company will continue to consider the business model tool at its board meetings to understand the impact of portfolio purchase the pipeline of purchases. i4B could reduce the scale of the programme or seek support from the council to purchase in alternative locations.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
The refurbishment period exceeds SLA target	The SLA has a target of 70 days for the first 100, 64 days for the 2nd 100 and 56 days for the 3rd 100 units. The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.	Financial & achieving operational objectives	5	4	20	The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's refurbishment service. Quotes for works are provided to i4B prior to properties being purchased. i4B could encourage the council through the SLA to introduce additional refurbishment teams or processes. The programme of purchases could be slowed to keep pace with refurbishment capacity.
The nominations process exceeds SLA target	The SLA has a target of 7 days from refurbishment handover to the property being let (tenancy start date). The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.	Financial & achieving operational objectives	4	3	12	The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could encourage the council (through the SLA) to introduce additional resources and change processes to reflect the new housing supply opportunity. i4B could work to bespoke some properties through a variation to its refurbishment specification. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation. i4B and the council will review the nominations agreement at its client company monitoring meetings.
LBB discharges its duty as a result of the nominee rejecting the offer of accommodation	The business plan does not assume any time (rent) loss from a duty being discharged as a result of a customer refusal. The impact will fall on the company's void loss performance and/or SLA performance in relation to nominations to and letting of properties. The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase. The consequent for the council is that they gain an additional discharge of duty and reduce their revenue costs and are still able to nominate another customer to i4B.	Financial	5	2	10	The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could encourage the council (through the SLA) to introduce additional resources and change processes to reflect the new housing supply opportunity. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation. i4B and the council will review the nominations agreement at its client company monitoring meetings.



Risk	Business plan assumption	Risk Type	Likelihood (out of 5)	Impact (out of 5)	Risk Score (out of 25)	Mitigation
company cash flow (capital and revenue) is insufficient to manage expenditure	The company has commenced a large acquisition and refurbishment programme. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent. The potential consequences of this risk materialising is the company becomes insolvent.	Financial	5	5	25	i4B is monitoring the performance of the SLA to deliver capital works and refurbishments within business plan requirements. In particular, the company is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The council has approved a cash flow facility for capital and revenue. The company will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.



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Internal Audit Report 2017/2018

Governance, Risk Management, and
Financial Management

I4B Holdings Ltd

Final

February 2018

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- B. Limitations and responsibilities

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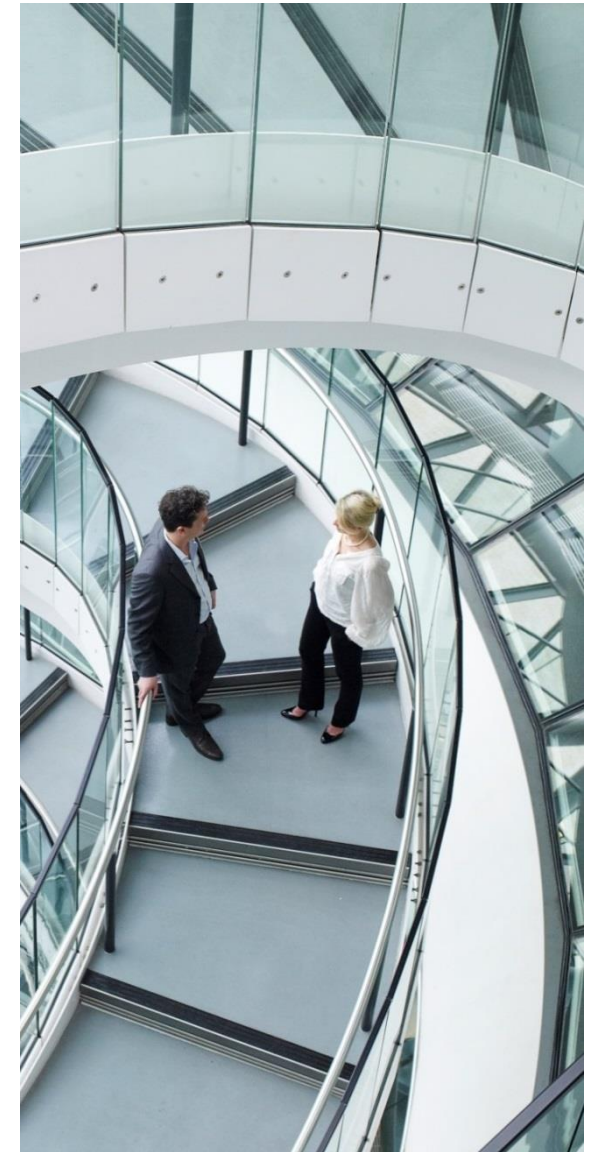
For action:

Chris Brown, Programme Manager – PRS Portfolio Acquisitions (Brent Council)
 Sadie East, Change Manager (Brent Council)
 Paul Gulley, Head of Commercial Finance (Brent Council)

For information:

Martin Smith, I4B Board Chair
 Councillor George Crane, Councillor (Fryent Ward)
 Peter Gadson, Director of Performance, Policy and Partnerships (Brent Council)
 Phil Porter, Strategic Director of Community Wellbeing (Brent Council)

Michael Bradley, Head of Internal Audit (Brent Council)
 Aina Uduehi, Audit Manager (Brent Council)



Executive summary (1 of 4)

Report classification



Reasonable

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	2	2	2
Operating effectiveness	-	-	1*	2	-
Total	-	-	3	4	2

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

**Note that one of the medium risk findings noted was both a control design and operating effectiveness issue, for the purposes of this table it is presented only once within the operating effectiveness row.*

Executive summary (2 of 4)

Headlines

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016. I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

The purpose of this audit was to undertake an initial review of the design and effectiveness of the controls currently in operation at I4B in relation to governance, risk management and financial management.

Good practice was noted in relation to the current approach to governance whereby I4B is governed by a single four member board containing an independent chair, two Strategic Directors of London Borough of Brent, and one Councillor. The Board meets on a monthly basis which enables it to maintain a detailed oversight of ongoing operations and ensure that decisions are well-informed.

Although the governance fundamentals are considered to be in place, some areas of further improvement, (particularly relevant as I4B continues to expand and diversify its operations) have been identified. We noted three medium and four low risk findings as part of this review. The key areas of improvement relate to the development of a risk management framework, the development and maintenance of policies governing I4B's operations, and ongoing review of the SLA with Brent Council. We also identified two further two advisory findings as part of our work.

Summary of findings

The two medium risk findings are:

- Policies – Completeness and maintenance (finding one):
 - There are a number of overarching policies in place that govern I4B's operations, however our review identified five policies referenced in the shareholders agreement that do not currently exist as I4B policies.
 - For those policies that are in place we undertook detailed sample testing of three policies (Complaints policy, Freedom of Information policy, and Anti Social Behaviour policy). We reviewed the content of the policies in some detail, confirming that they contained the expected information. For two of three policies tested, the policy sets out that it will be reviewed annually but does not state who is responsible for the review or how the review will be carried out. For the remaining policy, no statement is included on how future review will take place. For one of three policies tested it appears that wording from Brent Council's policy regarding availability of information on their website may have been used when this wording is not relevant in practice.
- Ongoing review of the SLA (finding two)
 - All services delivered by the Council on behalf of I4B are done so under a Service Level Agreement (SLA). However, currently there is no formal process in place to formally review the ongoing effectiveness of the SLA in order to ensure I4B is achieving value for money in relation to the services procured from the Council and there are no defined performance metrics in order to ensure the Council is held accountable for service delivery in the same way an external contractor would be.

Executive summary (3 of 4)

- Risk Management (finding three)
 - Whilst I4B does have a risk register included within its business plan, I4B does not currently have its own risk management framework to govern its approach to identifying, monitoring and maintaining risk.
 - With regards to the risk register itself:
 - This is not treated as a live document and formal review of the register currently only takes place on an annual basis;
 - All of the risks within the register at the time of undertaking the audit are financial in nature and for instance doesn't incorporate operational risks such as failing to adhere to statutory health and safety compliance requirements;
 - The register does not incorporate scoring of the severity and likelihood of risk;
 - Most of the mitigations listed are reactive actions to be taken were the risk to occur as opposed to true mitigations designed to prevent the risk from occurring; and
 - The individual risks do not have individually allocated responsible owners who are required to manage the risk.

The five low risk findings are:

- The absence of a code of conduct or similar that governs the operations of I4B's Directors and staff (finding four);
- The absence of a specific escalation policy that clearly sets out the approach to escalating key issues and operational information internally (finding five);
- The need to maintain the scheme of delegation as a stand alone document that is easily accessible and up-to-date (finding six); and
- The current absence of detailed financial procedures that depict the key requirements for recording I4B's financial transactions (finding seven).

In addition to the three medium and four low risk findings, there are also two advisory findings in relation to the future requirement for financial standing orders and a clear approach to revenue monitoring. For full details of each these findings, please see the current year findings section of this report.

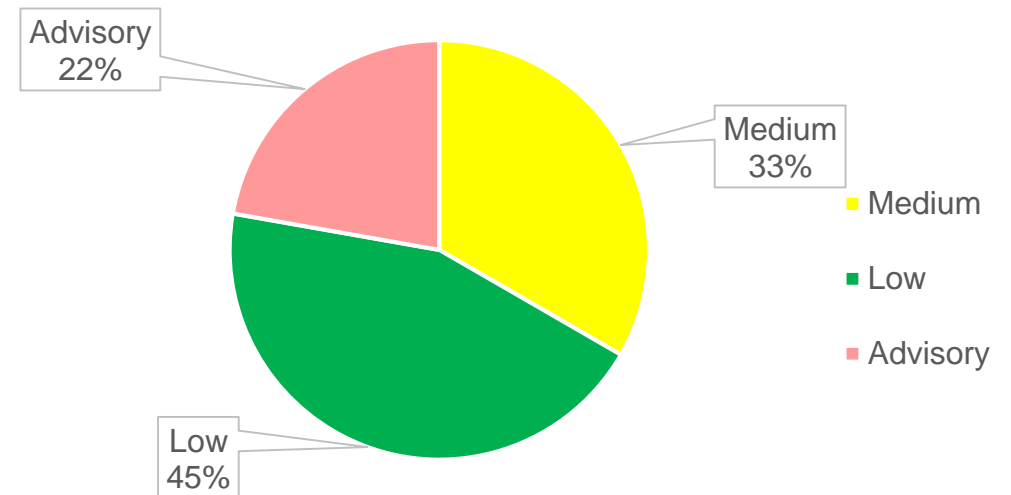
Executive summary (4 of 4)

1	<i>Policies – Completeness and maintenance</i>	Medium
2	<i>Ongoing review of the SLA</i>	Medium
3	<i>Risk Management</i>	Medium
4	<i>Code of Conduct</i>	Low
5	<i>Escalation Policy</i>	Low
6	<i>Scheme of delegation</i>	Low
7	<i>Financial procedures</i>	Low
8	<i>Financial standing orders</i>	Advisory
9	<i>Revenue monitoring</i>	Advisory

Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
Governance	-	-	2	3	-	1,2,4,5
Risk Management	-	-	1	-	-	3
Financial Management	-	-	-	2	2	6,7,8,9

Audit findings by risk rating



Rating definitions – see appendix A

Background and scope

Background

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016, I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Brent has one of the highest numbers of households in temporary accommodation in England, for quarter 2 of 2016-17, Brent reported having 2,895 households living in temporary accommodation, the fourth highest of all housing authorities in England.

On 14 March 2016, Cabinet approved the council's Temporary Accommodation Reform Plan, which responds to this challenge. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation.

As a wholly owned, Local Authority Company, I4B has been setup to operate at 'arm's length' from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.

The purpose of this audit was therefore to undertake an initial review of the design and effectiveness of the controls currently in operation at I4B in relation to governance, risk management and financial management. This should enable management to ensure the key business functions are appropriately designed and fit-for-purpose in advance of I4B expanding its portfolio and the level of its operations.

Limitations of scope

Our work was limited to the sub-processes and control objectives outlined in Terms of Reference. Our internal audit testing was performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

As detailed in the Terms of Reference, this review does not provide assurance over the robustness of I4B's financial modelling nor an analysis of costs and benefits of the structure to Brent Council.

Current year findings (1 of 9)

Policies – Completeness and maintenance

Control design and Operating effectiveness

Page 100

1

Finding rating

Rating

Medium

Finding and root cause

Control design

There are a number of overarching policies in place, including:

- Anti Social Behaviour policy;
- Complaints policy;
- Domestic abuse policy;
- Freedom of information policy;
- Housing Health and Safety Standards Statement;
- Joint Safeguarding policy;
- procurement statement;
- Assured Shorthold tenancy agreement;
- Data Protection Statement.

However, within the Shareholder's Agreement the following policies were also referenced but do not currently exist as formal policies:

- Lettings policy;
- Sales policy;
- Rent policy;
- Debt recovery policy; and
- Remuneration policy.

Operating effectiveness

For a sample of three policies (Complaints policy, Freedom of Information policy, and Anti Social Behaviour policy), we reviewed the content of the policies in greater detail, confirming they contained the expected information.

For two of three policies tested (Complaints and Freedom of Information), the policy sets out that it will be reviewed annually but does not state who is responsible for the review or how the review will be carried out. For the remaining policy, no statement is included on how future review will take place. It appears that currently I4B does not have a clear procedure for who is responsible for reviewing policies, or how this review will take place.

For one of three policies tested (Freedom of Information) it appears that wording from Brent Council's policy regarding availability of information on their website may have been used when this wording is not relevant in practice. It is noted through discussions with management that the existing policies were collated before I4B's business activities commenced and therefore there are elements that in practice are not relevant.

Current year findings (1 of 9)

Policies – Completeness and maintenance

Control design and Operating effectiveness

Page 101

1

Finding rating

Rating

Medium

Risk

Without complete policy documentation that is maintained up-to-date, there is a risk that the roles and responsibilities of staff performing duties for I4B may not be clearly defined resulting in key stakeholders not being aware of their duties and I4B not being able to fully deliver its core objectives. Equally in the absence of clear direction provided by central policy documentation there is a greater risk of inconsistency, irregularity and fraud.

Recommendations

In order to ensure that I4B policies are relevant, complete and up-to-date, management should:

- Consider the need for the policies listed in the Shareholder's Agreement, and either produce policies in these areas or amend the shareholders' agreement as required.*
- Introduce a consistent approach to the review of policy documentation including the frequency of review, responsibility for review, and approach to ensuring version control.*
- Undertake a review of all policies in order to ensure that the content remains applicable now that I4B is operational.*

Management responses

- Accepted - the board will review the list of policies set out in the shareholder agreement and agree any additional policies which are required. The Shareholder agreement will be updated to reflect any changes.*
- Accepted - Policies will be reviewed annually by the board.*
- Accepted - All policies will be reviewed as part of the exercise above and then reviewed annually.*

Responsible person/title:

Sadie East

Target date:

May 2018

Reference number:

1718GRMFM-1

Current year findings (2 of 9)

Ongoing review of the SLA

Control design

Page 102

2

Finding rating

Rating

Medium

Finding and root cause

I4B is intended to operate at an arms length from Brent Council and as such all services delivered by the Council on behalf of I4B are done so under a Service Level Agreement (SLA).

Currently there is no formal process in place to review the ongoing effectiveness of the SLA in order to ensure I4B is achieving value for money in relation to the services procured from the Council. Whilst the revised business plan will implement some KPIs to be included in the SLA the overall process for monitoring the SLA and in particular whether it presents value for money for I4B still needs to be considered.

This is of particular relevance as I4B's activities expand and change going forward as this will vary the nature and extent of services that are required to be provided by the Council.

Risk

In the absence of a process to formally review the effectiveness of the SLA on an ongoing or periodic basis, there is a risk that I4B may not be achieving value for money in relation to services procured from the Council.

Recommendations

A procedure for ongoing review of the effectiveness of the SLA should be introduced whereby the SLA is reviewed by a specified individual on at least an annual basis. This review should include:

- *Whether the council is providing services to I4B in the most effective and efficient way possible, including performance against a series of KPIs;*
- *Whether the council remains the most effective Service Provider for the listed services; and*
- *Whether, given changes in the nature of I4B's business, any services should be added to the SLA*

Current year findings (2 of 9)

Ongoing review of the SLA

Control design

Page 103

2

Management responses

Accepted - A number of measures are being put in place to monitor delivery of the SLA including a regular meeting of all service leads. A regular report will be provided to the i4B Board on delivery of the SLA including any issues and actions in place to address these as part of the regular performance monitoring reports. In addition, an annual report based on a review performance against the SLA will be presented to the board to inform decisions on future arrangements.

Responsible person/title:

Sadie East

Target date:

October 2018

Reference number:

1718GRMFM-3

Finding rating

Rating

Medium

Current year findings (3 of 9)

Risk Management

Control design

Page 104

3

Finding rating

Rating

Medium

Finding and root cause

Whilst I4B does have a risk register included within the business plan, I4B does not currently have its own risk management framework that governs its approach to identifying monitoring and maintaining risk.

An initial risk register was created for inclusion in the business plan, however:

- This is not treated as a live document and formal review of the register currently only takes place on an annual basis;
- All of the risks within the register at the time of undertaking the audit are financial in nature and do not consider operational factors such as staff turnover, changes in Council strategy, or health and safety issues;
- The register does not incorporate scoring of the severity and likelihood of the risk (either inherent or residual);
- Most of the mitigations listed are reactive actions to be taken were the risk to occur as opposed to mitigations designed to prevent the risk from occurring; and
- The individual risks do not have individually allocated responsible owners who are required to manage the risk and ensure the mitigations are operating effectively.

It is noted from our review of Board minutes that the Board clearly does consider risks as and when they arise within their monthly meetings. However in the absence of a framework, responsibilities for identification of risk are not clear and discussions in relation to risk are not a formal element of the Board's agenda.

Risk

In the absence of a formal risk management framework that governs I4B's approach to identifying, monitoring, managing, and reporting risk, there is a risk that key risks may not be identified or mitigated as a result of insufficient or inappropriate risk management processes.

Current year findings (3 of 9)

Risk Management

Control design

Page 105

3

Finding rating

Rating

Medium

Recommendations

- a. I4B should create a Risk Management Framework that clearly depicts:
 - The organisation's approach to risk management;
 - The organisation's risk appetite;
 - The approach to documenting and recording risk on the risk register;
 - Responsibilities in relation to the management and identification of risk;
 - The mechanism for scoring of risks;
 - Responsibilities for maintaining and updating the register;
 - The mechanism for gaining assurance over the operating effectiveness of the mitigations; and
 - The involvement of the Board in risk management and review of the risk register.
- b. As part of the approach to monitoring and managing risk, the risk register should become a stand alone document that is treated as live.
- c. The risk register should be reviewed to ensure that operational risks are incorporated to the extent that they are applicable.
- d. Mitigation strategies should be reviewed to ensure they are reflective of controls that have been put in place to prevent the risk from occurring, where no such controls exist management should consider implementing new mitigations.
- e. All risks should be given individual responsible owners who are responsible for monitoring and managing the risk.
- f. Risk should be an at least quarterly Board agenda item, as part of which the Board should review key risks, be provided with an update in relation to notable movements on the register and be provided with assurances that key mitigations are operating. This may be in the form of an update report rather than review of the full register.

Current year findings (3 of 9)

Risk Management

Control design

Page 106

3

Finding rating

Rating

Medium

Management responses

- a) *Accepted - The board will consider a proposal to create a risk framework and will consider the relative scores of the new risk assessment.*
- b) *Accepted - the risk register will be produced as a separate document and the board will review the risk register no less than every quarter.*
- c) *Accepted - the board agreed an updated risk register at its January 2018 meeting which includes additional operational risks.*
- d) *Accepted - the board will review the risk register no less than every quarter.*
- e) *Accepted - the board will consider who the holder of each risk in the register should be.*
- f) *Accepted - the board will review the risk register no less than every quarter.*

Responsible person/title:

Chris Brown

Target date:

- a) November 2018
- b) April 2018
- c) Complete
- d) April 2018
- e) April 2018
- f) April 2018

Reference number:

1718GRMFM-2

Current year findings (4 of 9)

Code of Conduct

Control design

Page 107

4

Finding rating

Rating

Low

Finding and root cause

A well-written code of conduct clarifies an organisation's mission, values and principles, linking them with standards of professional conduct. Currently I4B does not have a Code of Conduct that governs the expected behaviour of its Directors.

Risk

In the absence of a clear code of conduct that governs the Director's responsibilities and approach to the management of I4B, there is a risk that strategic and operational decisions may be made that do not align with the mission, values and principles of I4B.

Recommendations

I4B should introduce a Director's Code of Conduct that is signed by all Directors and includes but is not limited to:

- The obligations, key roles and duties of Board membership and how these relate to I4B's mission;*
- The ethical values and expectations of the organisation; and*
- The approach to maintaining and ensuring adherence with the Code of Conduct.*

Management responses

Accepted - a code of conduct will be produced to be considered by the Board and Shareholder.

Responsible person/title:

Sadie East

Target date:

June 2018

Reference number:

1718GRMFM-4

Current year findings (5 of 9)

Escalation Policy

Control design

Page 108

5

Finding rating

Rating

Low

Finding and root cause

Currently I4B does not have a defined escalation policy or approach to escalation. At the point of undertaking this review the operations of the organisation are sufficiently small enough to ensure that all necessary information is communicated to the Board. However, as the operations continue to expand, it will no longer be feasible for the Board to receive the same level of detailed operating information and therefore it will be important to implement an escalation policy in order to ensure clarity of reporting lines and consistency in terms of the level of information reported to the Board and other forums.

Risk

In the absence of a formal escalation policy that clearly denotes reporting lines and indicative thresholds for escalation, there is a risk, particularly as I4B expands that information reported to the Board may be inconsistent or may not align to their expectations in order to enable them to make appropriately informed decisions.

Recommendations

I4B should introduce a formal escalation policy that clearly defines reporting lines, the process for escalation and indicative thresholds and examples for escalation so as to ensure that reporting is consistent and appropriate.

Management responses

Accepted – i4B will documents its current escalation policy to the Board. It has put in place a monthly meeting with Council Heads of Service to monitor delivery of the SLA which will provide a mechanism for issues to be escalated and will consider what other measures it needs to put in place as the company's work develops.

Responsible person/title:

Sadie East

Target date:

June 2018

Reference number:

1718GRMFM-5

Current year findings (6 of 9)

Scheme of delegation

Operating effectiveness

Page 109

6

Finding rating

Rating

Low

Finding and root cause

I4B has a scheme of delegation in place which was approved at the May and October 2017 Board meetings. However this is not retained as a stand alone document.

Risk

Not maintaining the scheme of delegation as a stand alone document exposes I4B to the risk that it may not be up-to-date and readily available to anyone who requires it which may result in incorrectly authorised or delayed payments.

Recommendations

The scheme of delegation should become a stand alone document that is maintained for necessary staff changes and periodically reviewed to ensure it remains appropriate and up-to-date.

Management responses

Accepted - the scheme of delegation will be established as a stand alone document and reviewed by the board no less than annually.

Responsible person/title:

Sadie East

Target date:

May 2018

Reference number:

1718GRMFM-6

Current year findings (7 of 9)

Recognition of income and expenditure – Financial procedures

Operating effectiveness

7

Finding and root cause

As I4Bs operations expand, so will the level of transactions including receipts and payments from contracted property management companies, and to payments to the council under the SLA.

Currently the process for recognition of such financial transactions (especially transactions under the SLA) is not clearly documented within written procedures.

Risk

In the absence of written procedures documenting the key steps in recognition of financial transactions there is a risk that as the operations of I4B expand, transactions may be incorrectly recognised as a result of failure to follow the required process.

Recommendations

Financial procedures should be clearly mapped depicting the process for recognising the activities of I4B and in particular the approach for recognition of expenditure under the SLA with the Council.

Management responses

Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.

Responsible person/title:

James Cook

Target date:

June 2018

Reference number:

1718GRMFM-7

Finding rating

Rating

Low

Current year findings (8 of 9)

Financial standing orders

Control design

8

Finding and root cause

I4B does not currently have its own Financial Standing orders. I4B is included on the council's Oracle ledger as a separate cost centre, and has only recently obtained approval for its own bank account. Currently, cash is effectively held on I4B's behalf by the Council, and payments and receipts are also made on I4B's behalf by the Council.

Given the current arrangements, no exception is noted as the need for Financial Standing Orders has not existed.

However, going forward, I4B is expected to have its own bank account, and to make payments and receipts and hold cash in its own right. Whilst some of the council's procedures may remain relevant under the SLA, it is important that I4B considers which of these policies remain relevant, and where its own policies in this regard may be more suitable. Thus an advisory point is raised.

Recommendations

When I4B makes transactions through its own bank accounts and/or ledgers, Financial Standing Orders will become relevant. Whilst some of the Council's financial procedures may remain relevant under the SLA, it is important that I4B considers which of these policies remain relevant, and where its own policies in this regard may be more suitable. In particular, management should give consideration to and create I4B's own Financial Standing Orders at this point in order to ensure cash, payments and receipts are adequately managed.

Management responses

Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.

Responsible person/title:

James Cook

Target date:

June 2018

Reference number:

1718GRMFM-8

Finding rating

Rating

Advisory

Current year findings (9 of 9)

Revenue monitoring

Control design

Page 112

9

Finding rating

Rating

Advisory

Finding and root cause

Management do not have a mechanism for accurately monitoring rental income and receipts. As at the date of testing I4B only have 14 properties that have tenants in situ and therefore to date such a mechanism has not been necessary.

However, management are aware that, as operations expand, tracking revenue is going to become increasingly important over the next few months, a draft revenue tracker is currently being collated. Rent collection is outsourced to three contractors, and collection information is to be monitored on a weekly basis.

Recommendations

Management should continue to develop the revenue tracker, ensuring that this provides sufficient detail of rental income due and receipts collected.

Management should also agree with the Board the extent to which this information is to be periodically reported to the Board so as to ensure the Board has sufficient oversight.

Management responses

Accepted - a revised financial monitoring model and timetable will be developed and agreed with the board and will include the tracking of rents due and received as well as costs.

Responsible person/title:

James Cook

Target date:

June 2018

Reference number:

1718GRMFM-9

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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Report classifications

Report classification	Level of assurance	Description
	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	No	Control processes are generally weak leaving the processes / services open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / services open to error or abuse.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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Internal Audit Report 2017/2018

I4B Holdings Ltd

Final

February 2018

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Click to launch

Benefits realisation, management information and reporting

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- B. Limitations and responsibilities

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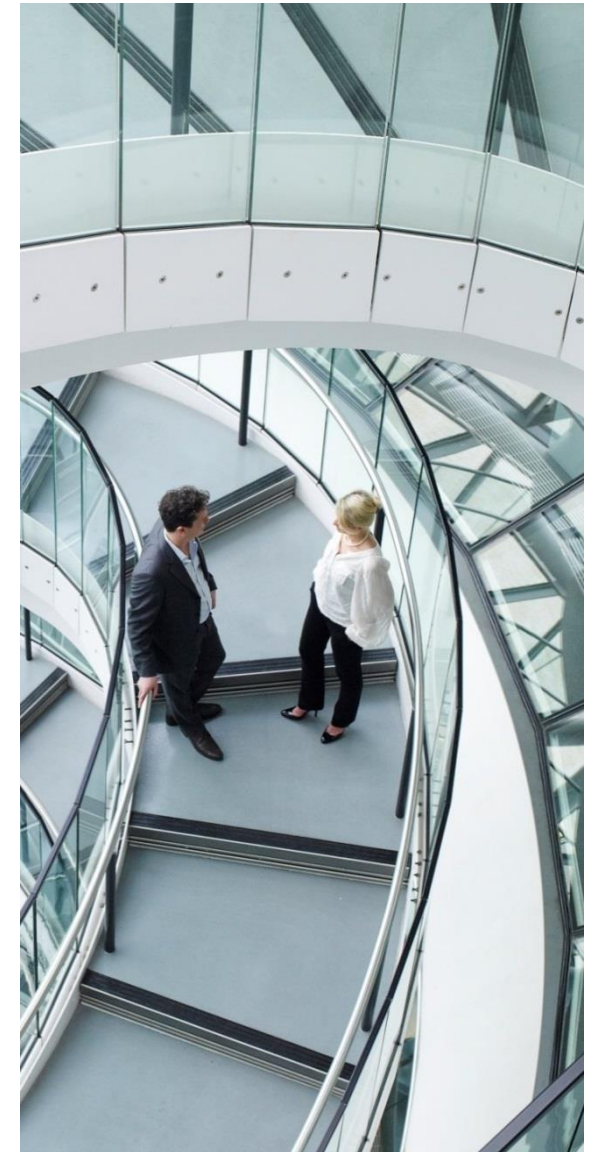
For action:

Chris Brown, Programme Manager – PRS Portfolio Acquisitions (Brent Council)
 Paul Gulley, Head of Commercial Finance (Brent Council)
 Sadie East, Change Manager (Brent Council)

For information:

Martin Smith, I4B Board Chair
 Councillor George Crane, Councillor (Fryent Ward)
 Peter Gadson, Director of Performance, Policy and Partnerships (Brent Council)
 Phil Porter, Strategic Director of Community Wellbeing (Brent Council)

Michael Bradley, Head of Internal Audit (Brent Council)
 Aina Uduehi, Audit Manager (Brent Council)



Executive summary (1 of 4)

Report classification



Reasonable

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	3	3	-
Operating effectiveness	-	-	-	-	-
Total	-	-	3	3	-

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Executive summary (2 of 4)

Headlines

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016, I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

The objective of this review was to consider the design and operating effectiveness (where implemented) of controls relating to Benefits realisation and Management Information and Reporting for I4B.

We noted a number of areas of good practice, including:

- The overall purpose of the company and the goals it seeks to achieve are laid out within the business plan. These have been revised appropriately to include a high level of detail within the current draft business plan that is to be presented to the January 2018 board;
- Although no non-Financial KPIs were included in the original business plan and this is highlighted as part of this review, work has already been put in place to address this and a significant number of non-Financial KPIs have been included in the new draft business plan that includes details of the measures used to derive them, and
- KPIs have been written into the Service Level Agreement with the Council and the Housing Management Contracts which should ensure management reporting is given appropriate attention by other stakeholders and provide I4B with a mechanism to hold contractors accountable.

Although examples of good practice have been noted, areas for further improvement have also been identified. We noted three medium and three low risk findings as part of this review. The key areas of improvement relate to improving the distinguishing the intended benefits of I4B from the perspective of I4B, the absence of non-financial KPIs in the original business plan and management of data in the PRS project tracker. Our other findings relate to areas where procedures could be improved to make the control environment more efficient and effective.

Summary of findings

The three medium risk findings are:

- Distinguishing objectives and implementing an approach for measuring the intended benefits (finding one):
 - Per the original business plan, the intended purpose of I4B is to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes. Displaying a causal link between I4B and any change in the homelessness rate in the Borough is likely to be very difficult given that a number of external factors will affect this rate. However, the original business plan was written before I4B was operational and from the perspective of the Council and as such does not clearly distinguish how the objectives the Council have for I4B differ from the objectives I4B has for itself. As such it is important to ensure a clear distinction between the objectives of I4B and the objectives the Council has for I4B such that I4B can implement a clear approach to measuring its intended benefits.

Executive summary (3 of 4)

- Non-Financial KPIs (finding two):
 - No non-financial KPIs were included in the original business plan. As noted above, the new business plan (to be approved by the board in January 2018) contains a significant number of KPIs of varying nature and should therefore rectify this issue, however as at the date of testing these were not in place.
 - Private Rented Sector (PRS) project tracker (finding three):
 - The process for creating and maintaining the PRS project tracker, which contains a lot of key operational information and drives many of the KPIs, involves complicated manual spreadsheets that have a high risk of transcription error. We are also not aware of any data validation procedures performed to confirm the accuracy of the data on an ongoing basis.
- Three low risk findings are:
- Overall purpose of company (finding four):
 - The new business plan contains a number of goals for the company but it is not outlined how these will interact or the level of priority between them.
 - Monitoring the proportion of LHA rents (finding five):
 - The business plan contains the agreement with shareholders that a maximum of 25% of properties can be let at higher than LHA rates. This metric is not currently monitored.
 - Limited Succession Planning (finding six):
 - The process relating to the non-financial KPIs, PRS project tracker and feedback of performance to the board appears heavily reliant on the knowledge of the PRS Portfolio Acquisitions with limited formal documentation or guidance on these processes. Succession planning appears insufficient should this Programme Manager leave the employment of the Council/ I4B.

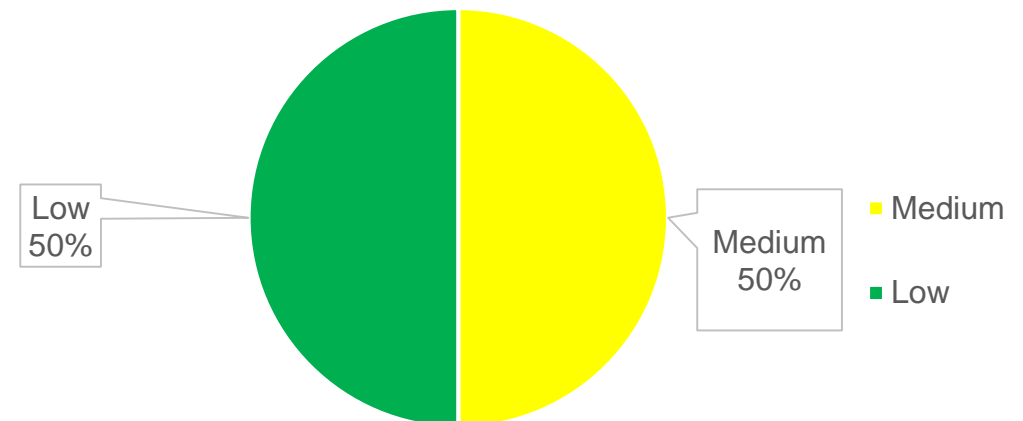
For full details of each of the findings noted as part of this report, please see the Current year findings section of the report.

Executive summary (4 of 4)

Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
Benefits Realisation	-	-	2	1	-	1,2,4
Management Information and Reporting	-	-	1	2	-	3,5,6

Audit findings by risk rating



- 1 *Distinguishing objectives and implementing an approach for measuring the intended benefits*
- 2 *Non-Financial KPIs*
- 3 *PRS project tracker*
- 4 *Overall purpose of company*
- 5 *Monitoring the proportion of LHA rents*
- 6 *Limited Succession Planning*

Medium

Medium

Medium

Low

Low

Low

Rating definitions – see appendix A

Background and scope

Background

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016, I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Brent has one of the highest numbers of households in temporary accommodation in England, for quarter 2 of 2016-17, Brent reported having 2,895 households living in Temporary Accommodation, the 4th highest of all housing authorities in England.

On 14 March 2016 Cabinet approved the council's Temporary Accommodation Reform Plan, which responds to this challenge. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation.

As a wholly owned, Local Authority Company, I4B has been setup to operate at 'arms length' from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.

Given I4B's underlying remit to reduce the number of Brent families living in temporary accommodation, the purpose of this audit was to assess I4B's approach to benefits realisation, management information and reporting. In particular the focus is the extent to which the intended benefits of I4B are clear and measurable, in addition to the sufficiency, completeness and accuracy of the reporting against these and other metrics and performance indicators both financial and non-financial.

Limitations of scope

Our work was limited to the sub-processes and control objectives outlined in Terms of Reference. Our internal audit testing was performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that in relation to the scope per the Terms of Reference, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

As detailed in the Terms of Reference, this review will not provide assurance over the robustness of I4B's financial modelling nor an analysis of costs and benefits of the structure to Brent Council.

This review has been delivered for I4B and does not provide assurance in regards to I4B's reporting to Brent Council

Current year findings (1 of 6)

Distinguishing objectives and implementing an approach for measuring the intended benefits

Control design

1

Finding rating

Rating

Medium

Finding and root cause

Per the original business plan, the intended purpose of I4B is to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Displaying a causal link between I4B and any change in the homelessness rate in the Borough is likely to be very difficult given that a number of social factors will affect this rate.

However, the original business plan was written before I4B was operational and from the perspective of the Council and as such does not clearly distinguish how the objectives the Council have for I4B differ from the objectives I4B has for itself.

The Council's intention for I4B is to support its homeless agenda and reduce the number of families in temporary accommodation. I4B's primary objective for itself is to make a compliant offer to any qualifying tenant nominated by the Council.

I4B could make a compliant offer to every nominated tenant and the number of families within temporary accommodation within Brent could still increase as a result of external factors. As such it is important to ensure a clear distinction between the objectives of I4B and the objectives the Council has for I4B such that I4B can implement a clear approach to measuring its intended benefits.

Risk

In the absence of a clear distinction between the goals of I4B and the goals of the Council, and a clearly define approach for I4B to measure its success against those goals, there is a risk that there will be a lack of clarity regarding the overall success of the company which may impact upon future strategic decisions.

Recommendations

It is recommended that management ensure that there is a clear distinction between what are the goals of I4B and what are the goals of the Council such that I4B.

Once distinguished management should ensure there is a clear approach against which the overall success of the organisation in delivering against its primary objective can be measured and reviewed on a periodic basis.

Current year findings (1 of 6)

Distinguishing objectives and implementing an approach for measuring the intended benefits

Control design

1

Management responses

Partially accepted - This is a joint responsibility on i4B and the Council. i4B has been set up to support and deliver housing and regeneration benefits to the council. i4B's first business is as a PRS landlord tasked with providing quality accommodation for the Council to nominate homeless customers. i4B is able to quantify the number of properties let to nominated customers and will be able to evidence quality through customer surveys and KPI performance. However, the council has a greater awareness of the benefits of each nomination both in financial and quality of life measurement. i4B has approached the council's housing needs service to work jointly to better evidence benefits. As i4B propose new products it will endeavour to agree with the shareholder the most appropriate measurement for success.

Responsible person/title:

Sadie East

Target date:

September 2018

Reference number:

1718BRMIR-1

Finding rating

Rating

Medium

Current year findings (2 of 6)

Non-Financial KPIs

Control design

Page 126

2

Finding rating

Rating

Medium

Finding and root cause

We note that in the original business plan that was improved in November 2016, all of the KPIs included against which performance of the organisation was to be monitored were financial and there were no specific metrics designed to assess the operational performance of the organisation. From discussions with management, it is understood that in advance of I4B beginning to operate, it was considered difficult to identify clear and specific metrics that would be both relevant and achievable.

We do however note that in the new business plan (to be approved by the board in January 2018) that there are now 33 KPIs in place with a large number being non-financial. Reporting on these KPIs is to commence from the January 2018 board meeting onwards.

Risk

In the absence of clearly defined KPIs both financial and non-financial that are appropriate for the nature of I4B's activities against which progress is monitored and reported on a timely basis there is a risk that measurement of on-going performance may not be sufficient and accurate to enable well-informed strategic and operational decisions to be made.

Recommendations

Management should ensure that going forward the newly defined KPIs included in the draft business plan that is to be approved at the January Board meeting are monitored to the Board at each monthly meeting.

All KPIs both financial and non-financial should have quantifiable targets and where I4B is not meeting the targets, explanations should be sought for the cause of the shortcoming and action plans implemented where necessary to address any performance issues identified.

Current year findings (2 of 6)

Non-Financial KPIs

Control design

Page 127

2

Management responses

- Accepted - The Board has agreed the new KPIs and will receive reports on performance at every Board meeting.
- Accepted - Targets will be set for the KPIs and performance monitored by the board. Any issues will be highlighted and addressed.

Responsible person/title:

Chris Brown/James Cook

Target date:

April 2018

Reference number:

1718BRMIR-2

Finding rating

Rating

Medium

Current year findings (3 of 6)

PRS project tracker

Control design

Page 128

3

Finding rating

Rating

Medium

Finding and root cause

The Private Rented Sector (PRS) tracker, is a manual excel spreadsheet that contains details of all current properties owned by I4B along with those identified for purchase. It contains key dates, financial data (such as purchase price and rent amounts) and other information to support a number of the KPIs (such as the status of refurbishment). The tracker is maintained by the Programme Manager – PRS Portfolio Acquisitions and is placed in a dashboard each month.

The processes for creating this collates data from a number of sources and is a very manual process undertaken within complicated spreadsheets that have a high risk of transcription errors. Despite the complexity of the process, there are not currently any data validation procedures performed to confirm the accuracy and completeness of the data on an ongoing basis.

Risk

Given the manual nature of the process, the complexity of the spreadsheets, and the absence of any data validation checks, there is a risk that information in the PRS tracker may not be accurate and complete and errors in the data impacting upon the KPIs being reported may not be identified and addressed accordingly. This is likely to become a higher risk as the number of properties operated by I4B increases.

Recommendations

Management should examine the possibility of using a system based approach to manage and maintain this information.

However, if an appropriate system based approach is not considered the most efficient approach then management should seek to incorporate data validation checks either embedded within the spreadsheet or as review checks to be undertaken as part of the process of updating the PRS tracker in order to give assurance over the accuracy and completeness of data.

Current year findings (3 of 6)

PRS project tracker

Control design

Page 129

3

Management responses

Accepted - The Company and the Shareholder are considering systems able to improve data collection, accuracy and transparency. A process mapping workshop took place on 29 January 2018 which contributed to developing requirements for a system.

Responsible person/title:

Chris Brown

Target date:

November 2018

Reference number:

1718BRMIR-3

Finding rating

Rating

Medium

Current year findings (4 of 6)

Overall purpose of company

Control design

Page 130

4

Finding rating

Rating

Low

Finding and root cause

Within the new business plan, the purpose of the company has expanded from the original homelessness remit to include other elements e.g. 'invest to deliver regeneration and financial benefits for its sole shareholder'. We understand from discussions with management that these other activities are primarily in place to support the homelessness goal (i.e. increase the gross yield and diversify to provide a stronger financial base) and explore other opportunities for how I4B can support the overall strategy of Brent Council. However, it is not outlined how the multiple goals will interact with each other and what level of priority will be given to each of them.

Risk

In the absence of clarity regarding the relationships between the different remits of the company and the prioritisation of these, there is a risk that the intended benefits of I4B's existence are not clearly defined which may result in a lack of clarity regarding the success of the company.

Recommendations

Management should ensure that purpose of the company is clearly defined with the priority of the company's foals and how they interact with each other clearly laid out in the business plan such that the intended benefits of I4B's existence are clear.

Management responses

Accepted - This will be reflected in i4B's new and future business plans. As i4B proposes new products it will endeavour to agree with the shareholder the most appropriate measurement for success.

Responsible person/title:

Sadie East

Target date:

April 2018

Reference number:

1718BRMIR-4

Current year findings (5 of 6)

Monitoring the proportion of LHA rents

Control design

Page 131

5

Finding rating

Rating

Low

Finding and root cause

The I4B business plan contains the following statement that 'The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative.' This is to ensure that I4B remains primarily focussed on the goal of providing affordable accommodation to Brent Residents.

To date all houses have been rented at LHA rates but we are aware that there are plans in the next phase of the business plan to introduce Intermediate Market Rent and Market Rent Properties and currently, as part of either the financial model or the KPIs, there is no process in place to ensure that adherence to this threshold is monitored.

Risk

If the 25% limit is not monitored, then there is a risk that, as other types of rent are introduced, it may be unknowingly breached putting I4B in breach of the covenants of its shareholders agreement.

Recommendations

Management should ensure that the proportion of properties let in excess of LHA rates is monitored and reported to the Board in order to inform future decisions regarding purchasing and tenancy types.

Management responses

Accepted - This has been added to the suite of KPI indicators as KPI 34.

Responsible person/title:

Chris Brown

Target date:

April 2018

Reference number:

1718BRMIR-5

Current year findings (6 of 6)

Succession Planning

Control design

Page 132

6

Finding rating

Rating

Low

Finding and root cause

We understand that the Programme Manager has a fortnightly feedback session with an I4B Board member in order to feedback operational or performance issues between board meetings. Weekly, an update regarding the PRS Meeting is sent to the I4B board to inform them of the proposed acquisitions and seek their comments.

There does not appear to be any methodology documentation for these two processes with the Programme Manager responsible for the production of the necessary data and management of the feedback to the board.

In addition, a significant amount of the non-Financial KPIs are to be sourced from the PRS project tracker which is maintained by the Programme Manager and there does not appear to be guidance documents available for how this spreadsheet is maintained.

Risk

Failure to ensure that key operating procedures including those that form part of periodic reporting are clearly documented places reliance on the current individuals in post and exposes I4B to the risk that were there to be changes in key staff, the necessary processes may not be able to be followed by an alternative staff member.

Recommendations

Management should create guidance documents for how key performance metrics from the PRS project tracker are collated and how the feedback is communicated to senior stakeholders and the board.

Current year findings (6 of 6)

Limited Succession Planning

Control design

Page 133

6

Management responses

Accepted - resources will be identified to provide this guidance.

Responsible person/title:

Chris Brown

Target date:

August 2018

Reference number:

1718BRMIR-6

Finding rating

Rating

Low

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Report classification	Level of assurance	Description
	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	No	Control processes are generally weak leaving the processes / services open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / services open to error or abuse.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:


- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

 <p>Brent</p>	<p>Audit Advisory Committee 20 March 2018</p> <p>Report from Council Management Team</p>
<p>Council Management Team's (CMT) response to the i4B's second report to CMT</p>	

1.0 Purpose of the Report

- 1.1 i4B Holdings Ltd presented its second report to the Council Management Team (CMT) on 8 March 2018. This report presents CMT's response.

2.0 Recommendations

- 2.1 The Audit Advisory Committee notes the response from CMT to the report from the Board of i4B Holdings Ltd (the Company).
- 2.2 The Audit Advisory Committee agrees that twice yearly reports on the Company's work (including updates on performance risk management framework and internal audit) will be provided to the Committee following Council/Company Shareholder meetings which are scheduled for January and June each year.

3.0 Background

- 3.1 On 8 March 2018, CMT considered a report from the Board of I4B Holdings Ltd. The report provided an update on the Company's performance; an update on the Company's new business plan – including key risks and mitigations included in the plan; and an update on internal audit arrangements with the findings of the first two audits. The report also included a brief update on planned audit arrangements for the Council's other housing company, First Wave Housing Ltd.

4.0 Company performance update

- 4.1 CMT noted the progress which the Company has made, including that the average true gross yield achieved is above target (4%+) at 4.92%. CMT also noted the three-month extension of the timescale for meeting the target of purchasing 300 properties by 30 September 2018, and the implications of this slippage. CMT also noted that the original business case assumption was that a net profit would be achieved annually from year 3 onwards and were advised that there was no reason at the time to change that assumption.

- 4.2 In response to concerns raised by the Company about Council services underperforming against targets set out in the SLA, the Council has put a number of measures in place. These include a twice yearly meeting between the Council Chief Executive, representing the shareholder, and the Director and Board members of the Company, to monitor the Company's performance and progress against the plans set out in its annual business plan and provide an opportunity for the Company to raise issues in relation to the Council's delivery of services to the Company. The first of these meetings took place in January 2018. Since implementing these measures, based on an analysis of completions since January 2018, the average number of days from instructing solicitors to final purchase is now running at four days below target at 87 calendar days.
- 4.3 In addition, the Council has reviewed the operation of the end-to-end process from purchasing to letting and has identified issues which might be leading to delays, in particular in relation to handover between services. Actions identified through this review include creating a new post to manage and coordinate the delivery of services to i4B from across the Council, recruitment to this post is underway. The Council is also introducing a single case management system to support the process from purchasing to letting of i4B properties in a consistent way which will improve the Council's ability to work across services and accurately monitor performance.

5.0 The second company business plan

- 5.1 CMT noted the agreement of the Company's second Business Plan and the opportunities for future development contained in the Plan which was agreed by Cabinet in February 2018.

6.0 Key risks

- 6.1 CMT noted the key risks and mitigations set out in the Company's Business Plan.

7.0 Internal audit

- 7.1 CMT noted the Company's audit arrangements and the findings of its first two audits, covering Governance, Risk and Financial Management and Benefits Realisation, Management Information and Reporting; both of which received a judgement of reasonable assurance.

8.0 First Wave Housing

- 8.1 CMT noted the update on First Wave Housing Ltd and the plans for internal audit arrangements.

9.0 Company reporting arrangements


- 9.1 CMT discussed ongoing arrangements for scrutiny of the work of I4B Holdings Ltd and First Wave Housing Ltd. It agreed that the Shareholder meeting between the Council and the Company was the right place for holding the Company to account for its performance against delivery of its business plan. CMT also noted that the Company also reported at least annually to Cabinet as part of the approval process for its Business Plan.

- 9.2 CMT agreed to recommend to the Audit Advisory Committee that it receives reports twice a year following Shareholder meetings, covering the Company's performance, risk management framework and internal audit arrangements.

Contact officer

Carolyn Downs, Chief Executive

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	Audit Advisory Committee 20 March 2018
	Report from the Chief Finance Officer
Public Sector Internal Audit Standards (PSIAS) Action Plan	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One: <ul style="list-style-type: none"> Quality Assurance and Improvement Action Plan
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: michael.bradley@Brent.gov.uk Tel: 020 8937 6526

1.0 Purpose of the Report

- 1.1 The purpose of this report is to inform Members of the progress on implementing the action plan that was produced after the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

2.0 Recommendation

- 2.1 That the Audit Advisory Committee notes the contents of the proposed Action Plan.

3.0 Detail

- 3.1 The PSIAS have been in place since 1 April 2013 and replaced the former Code of Practice for Internal Audit in Local Government 2006. The standard was subject to minor revisions in April 2016.
- 3.2 Attribute standard 1300 – Quality Assurance and Improvement Programme (QAIP) states that: “The Chief Audit Executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.”

- 3.3 The Quality Assurance and Improvement Programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards as well as an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 3.4 The quality assurance and improvement programme must include both internal and external assessments.
- 3.5 A checklist has been developed by the 'Relevant Internal Audit Standard Setters' to satisfy the requirements set out in PSIAS for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Local Government Application Note (as developed by the Chartered Institute of Public Finance and Accountancy (CIPFA)) in order to give comprehensive coverage to both documents.
- 3.6 The Head of Audit and Investigations undertook a self-assessment in August 2017 against the checklist.
- 3.7 The assessment was that, while a majority of the requirements are met, the Internal Audit Service is not yet fully compliant with the PSIAS. The service is working towards compliance. Appendix 1 sets out an update against the actions which were planned to enable compliance with the Standards.
- 3.8 The Quality Assurance and Improvement Programme includes the requirement for an external assessment of internal audit against the PSIAS every five years (this should be completed before 31 March 2018) as defined by the Standard. Brent has yet to complete this external assessment. Brent is part of a Peer Review programme that is independently facilitated by the London Borough of Croydon. We are awaiting a reviewer authority to be allocated.

4.0 Financial Implications

- 4.1 None

5.0 Legal Implications

- 5.1 None

6.0 Equality Implications

- 6.1 None

7.0 Consultation with Ward Members and Stakeholders

- 7.1 None necessary

Report sign off:

CONRAD HALL
Chief Finance Officer

QUALITY ASSURANCE AND IMPROVEMENT ACTION PLAN

PROGRESS UPDATE FOR MARCH 2018 AUDIT ADVISORY COMMITTEE MEETING

Action No	PSAIS Reference	Proposed Actions	Timescales	Responsible Person	Status as at March 2018
Reporting Lines					
1.	1100	Consideration to be given to the role of the Audit Advisory Committee in the appointment of the Chief Audit Executive (CAE).	If necessary, future meeting of the Audit Advisory Committee	Chief Finance Officer	To be considered when next HIA recruitment exercise begins.
2.	1130	Consultancy work to be more explicitly defined in the Internal Audit Strategy document.	31 December 2017	HIA	Completed. Strategy Document updated accordingly – to be highlighted when strategy next reviewed by Audit Committee.
Risk Based Plans					
3.	2010	Review of council's RM framework to promote the development of an approach that requires a risk appetite to be defined at Departmental level as a minimum	31 March 2018	HIA	Review of Council's Risk Management Framework commenced in January 2018 and due to be completed at the end of March 2018. The results of the review will be reported in the meeting of the Committee in June 2018.
		DMT liaison meetings with CAE (HIA)	30 th September	HIA	Draft Plan for


			2017		<p>2018/19 completed in consultation with all departments and CMT. To be presented at March 2018 meeting of the Audit Advisory Committee.</p> <p>Restructure of IA complete. Appointments made to 2xPrincipal Audit Posts. Post of Internal Audit Manager currently advertised. The restructure of the IA team alongside effective delivery of the contracted element of the service will to ensure we have the necessary skills.</p>
4.	2030	Internal Audit risk assessment to be undertaken.	31 December 2017	HIA	<p>Completed November 2017. - Separate risk assessments undertaken of the Audit and Investigations teams.</p>

		IA KPIs, QA and improvement strategy will be prepared and reported.	31 March 2018	HIA	IA KPIs have been developed. Will be reported on appointment of Audit Manager.
Integration with Other Assurance Providers					
5.	2030	Meetings with External Audit will be initiated on a quarterly basis.	30 September 2017	HIA	Initial meeting held. A schedule of meetings will be initiated with the council's new external auditors Grant Thornton. 1 April 2018
		Arrangements to be agreed for the IT shared service.	31 March 2018	HIA / Head of IT	Initial contact made with Lewisham and Southwark to agree a shared IT assurance approach – to include Committee governance. 1 June 2018
Structures & Resources					
2.2 Technical training & development					
6	1230	Induction Training - An induction programme will be prepared in advance of any new members of staff post restructure.	30 October 2017	HIA / Audit Manager	Two new Principal Auditors will start in March 2018. An induction plan is in place.

		Training and Development Plans - The T&D plan for IA staff will be prepared and monitored as part of the appraisal process.	30 June 2018	HIA/ Audit Manager	The training and development plans outlined in this section will be prepared as part of the probation and appraisal process. 30 April 2018
Resourcing					
7.	2030	Audit and Investigations restructure	31 October 2017	HIA	The restructure process is complete. Recruitment process is nearing completion.
		Recruitment Strategy to be addressed as part of Audit and Investigations restructure	31 October 2017	HIA	Strategy is as per Council standard recruitment process with a specialist Internal Audit agency used when that unsuccessful.
		Succession plan to be addressed in planned restructure	31 October 2017	HIA	Although not formalised, our approach will be to target appraisal and development plans with the objective of preparing staff for

					career progression.
Performance Management					
8.	2030	Objectives, development plans and competency framework will be addressed post restructure.	31 March 2018	HIA / Audit Manager	Will be prepared for new staff at appropriate times.
Audit Execution					
Management of Internal Audit Service					
9.	2040	Audit policies and procedures will be formalised in the form of a manual and include appropriate coverage of all the requirements in this section.	31 March 2018	HIA	Some amendments to methods have been made e.g. to follow-up approach. These will be incorporated in a revised manual. 30 th September 2018
		Quality Assurance procedures will be implemented	31 March 2018	HIA	To be in place by 30 th September 2018
Performance of Audit work / audit delivery					
10.	2240/2320	Internal Audit staff to be trained on use of automated tools for audit testing.	31 March 2018	HIA / Audit Manager/Contractor	Not yet started given recruitment position. 30 th September 2018
11.	2440/2500	Annual report to include statement to the effect as to whether the internal audit function conforms to the PSIAS and	30 th June 2018	HIA	To be done as part of Head of Audit Opinion for 2017/18

		results of any QAIP.			financial year. 30 June 2018
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	Audit Advisory Committee 20 March 2018
	Report from the Chief Finance Officer
Internal Audit and Counter Fraud Progress Report (Quarter 3)	

Wards Affected:	N/A
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Four: <ul style="list-style-type: none"> • 3rd Internal Audit & Counter Fraud Progress Report – 2017/18 • Blue Badge Fraud and Enforcement Review • Fraud Awareness Plan 2018/19 • Annual Counter Fraud Plan 2018/19
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: michael.bradley@brent.gov.uk Tel: 020 8937 6526

1.0 Purpose of the Report

- 1.1 This report provides an update on the progress against the Internal Audit Plan for the period 1 January 2018 to 28 February 2018. Appendix 1 to the report also summarises those audits from the 2017/18 plan which have been finalised since the last meeting of the Committee. The report also provides a summary of counter fraud work for the period 1 October 2017 to 31 December 2017 (Quarter 3).

2.0 Recommendations

- 2.1 That the Audit Advisory Committee notes the progress made in delivering the 2017/18 Internal Audit Plan and the counter fraud work in the period of the report.

3.0 Detail

- 3.1 The key points to note with regards to progress for the current year are:
- There were initially 62 audit projects included within the agreed 2017/18 plan (excluding follow up and advisory work). Work has commenced on 23 of these. See Table 5 for list of audits in progress. As previously reported, a number of reviews have been amalgamated, deferred and in some cases deleted. A final reconciliation and full details of movements will be provided in the final progress report for 2017/18.
 - 16 audits from the 2017/18 plan have been completed to draft or final stage:
 - GDPR;
 - Pension Fund Administration;
 - IT Disaster Recovery;
 - Contract Management R&ES;
 - Leasehold Management and Service Charges;
 - Continuous Audit Monitoring (CAM) Phase 1;
 - HR Contract Administration;
 - Payroll;
 - BACS Payments;
 - Asset Management;
 - Capital Programme Management;
 - Introductory Tenancies;
 - PCI Requirements;
 - Extended Troubled Families Grant Claims – 2 claims (October 2017 and December 2018);
 - Barham Trust (Accounts Certification), and
 - Schools Follow Up work.
 - Ten of these audits have an assurance opinion associated with them. Four have reasonable assurance (Leasehold Management; CAM; BACS Payments; PCI Requirements) and four have limited assurance (Payroll; Pensions Administration; IT Disaster Recovery, and Asset Management;). Two are still in draft and awaiting exit meetings (Introductory Tenancies and Capital Programme Management)
 - The remaining six relate to consultancy work which do not have an assurance rating attached.

Table 1 – Summary of Audits Completed Since last audit report





Total Number of Audits Completed	Substantial 	Reasonable 	Limited 	None 	Non Assurance	Total
Finals	-	3	4	-	6	13
Draft	-	1	-	-	-	1
	-	4	4	-	6	14

Table 2 – Audits Removed from the Agreed Plan

Audit	Reason
Continuous Audit & Monitoring - Phase 2 (Resources)	Full audits of key financial systems included in 2018/19 Internal Audit Plan
School Place Sufficiency – (C & YP)	Removed at request of management
Effectiveness of Working across Department (C & YP)	Removed at request of management.
Major Capital Works – Schools Thematic	Removed due to lack of resources. Full audit of schools to be undertaken in 2018/19.
Special Education Provision – Schools Thematic	Removed due to lack of resources. Full audit of schools to be undertaken in 2018/19.
Fraud and Financial Management – Schools Thematic	Removed due to lack of resources. Full audit of schools to be undertaken in 2018/19.
Service Review Implementation (R&ES)	Removed following discussion with management at audit request.
Service Planning & Risk (R&ES)	Removed following discussion with management at audit request.
Code of Governance – Review of Council Constitution (CE)	Removed at the request of management. Audit to be deferred.
Quality of Care (C & WB)	Replaced with Safeguarding Adults
Stock Control (Libraries)	Deferred to 2018/19
Collection of Fees & Fines (Libraries)	Deferred to 2018/19
Assurance Mapping (BHP)	Removed from plan due to transfer of BHP back to Council control.
Health & Safety (Asbestos)	Deferred to 2018/19
Change Management (BHP)	Removed from Plan
Treasury Management	Deferred to 2018/19
Home Care Consultancy (C & WB)	Removed from plan at the request of management
Learning Disabilities (Residential Care) (C&WB)	Deferred to 2018/19
Integrated Asset Management Follow Up	Not required as covered by previous BHP Improvement Plan.

Table 3 – Audits in Progress

Audit
Risk Management Review – fieldwork
IT Security and Access Management – fieldwork
Transport Shared Service – field work
Troubled Families Review - fieldwork
Use of Temporary Workers – fieldwork
Voids Contract Management - fieldwork
Corporate Governance - fieldwork

Table 4 – Audits Completed and in Progress for Investing for Brent (I4B)

Audit
Governance, Risk Management and Financial Management – Final Report issued
Benefits Realisation, Management Information and Reporting Final report issued

Table 5 – Delivery Status as at February 2018

Delivery Status	
Total number of reports to be delivered in current plan	32 (revised)
Number of draft/ final reports/certifications issued to date	16
% of reports issued to date	50%

- 3.2 There has been a number of amendments to the initially agreed audit plan. Audit owners have been consulted on all changes. Requests for additional work have been accommodated. The service has completed a restructure and is now in the process of recruiting to a number of posts in both the Internal Audit and Investigations teams.

3.3 Follow Up of 2016/17 Audit Recommendations

The Public Sector Internal Audit Standards requires the Head of Internal Audit and Investigations to establish a process to monitor and follow up management actions to ensure that they have been actively implemented or that senior management have accepted the risk of not doing so.

The following audits have been followed up since the last report to the Committee:

- S106 & Community Infrastructure Levy;
- Chalkhill Primary School;
- Mora Primary School;
- Leopold Primary School, and
- Wykeham Primary School.

Public Sector Internal Audit Standards

- 3.4 The Head of Audit and Investigations undertook a self-assessment of the Public Sector Internal Audit Standards (PSIAS) against their Quality Assurance and Improvement Plan checklist. The results and action plan were the subject of a separate report to the Committee. An update on progress against the plan is being reported separately to the Committee.
- 3.5 In addition, the standard also requires the internal audit function to be reviewed by an external organization at least every five years. The Internal Audit function has nominated itself for a peer review with the lead authority. The review is now likely to take place in the summer of 2018.

Counter Fraud Progress Report 2017/18 (Quarter 3)

Internal Fraud

- 4.1 There have been 12 new referrals received during Q3 and a total of 26 referrals this year. This includes protected whistleblowing disclosures and a range of case types. It does not include related proactive work or review of the National Fraud Initiative (NFI) data matches.
- 4.2 The four cases where fraud/irregularity was identified involved discrepancies with payroll, irregular bank card transactions and a breach of information security. In each case, appropriate remedial action was taken by management.

Table 6 – Internal Fraud

Internal Fraud	2017/18 Q3	2016/17 Q3	2017/18 Q2	2016/17 Q2	2017/18 Q1	2016/17 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open Cases b/f	12	15	16	22	16	22	16	22	21
New Referrals	12	8	6	4	8	10	26	28	42
Closed Cases	11	5	10	11	8	10	29	34	31
Open Cases c/f	13	18	12	15	16	22	13	16	22
Fraud/Irregularity Identified ¹	4	2	2	4	2	2	8	12	9
Dismissal	0	0	0	1	0	0	0	1	3
Resignation	1	0	0	0	0	1	1	2	5
Warning	1	0	0	1	1	0	2	1	1
Other Outcome (see below)	2	0	2	2	1	1	5	8	4

- 4.3 There has been an increase in internal referrals logged during Q3 compared with the previous two periods. This includes whistleblowing referrals concerning various types of officer conduct. It should be noted that the increase in this type of referral has coincided with a requests that all whistleblowing events are referred to the Audit and Investigations team as well as an increased presence on the council's website that enables members of the public to report all fraud. Four referrals were received from the public in this quarter, which equals the total amount received in both Q1 and Q2.
- 4.4 One referral that has been prominent during Q3 (and into Q4) concerned well documented allegations relating to traces of asbestos found at Paddington Cemetery in May 2017. This was initially reported to the Audit and Advisory Committee (AAC) in December.

¹ NB: Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).

Anti-Fraud Policies

- 4.5 A recent refresh of the Anti-Fraud and Bribery Policy and the Whistleblowing Policy along with the introduction of a new Anti-Money Laundering Policy was approved by the AAC on 5th December 2017. The Investigations team have drafted a publicity plan to promote these policies throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile. The plan is further explained below (4.26).

Tenancy and Social Housing Fraud

- 4.6 The recovery of social housing properties from fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority risk area for the Council. The Audit Commission has estimated that the average national value of each recovered tenancy is £18,000*. A more realistic value is £93,000 as reported by the Cabinet Office (National Fraud Initiative 2016). These are notional values and for consistency in reporting, we use the lesser value. The counter fraud activity up to the second quarter of the year is summarised in table 7.

Table 7 – Tenancy and Social Housing Fraud

Housing Fraud	17/18 Q3	16/17 Q3	17/18 Q2	16/17 Q2	17/18 Q1	16/17 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	61	139	76	160	82	121	82	121	174
New Referrals	51	54	36	90	27	140	114	332	250
Closed cases	65	78	51	111	33	101	149	371	314
Open cases c/f	47	115	61	139	76	160	47	82	121
Fraud Found	21	9	7	13	6	13	34	52	73
Recovered Properties	19	8	7	11	5	10	31	44	63
Applications Refused	0	0	0	0	0	0	0	0	2
Property Size Reduced	1	0	0	2	1	1	2	4	5
Right To Buy	1	1	0	0	0	2	1	4	3
Value of properties recovered*	£342,000	£144,000	£126,000	£198,000	£90,000	£180,000	£558,000	£792,000	£1,134,000
Value of property size reduction ^{2*}	£18,000	0	0	£36,000	£18,000	£18,000	£36,000	£72,000	£90,000
Value of Right to Buy Discount Prevented ^{3*}	£103,900	£103,900	0	0	0	£207,800	£103,900	£311,700	£282,000
Cases with Legal for Possession/Prosecution	13	27	19	37	25	33	13	26	18

4.7 A total of 34 properties with a notional value of £360,000 were recovered as a result of fraud/irregularity up to the end of Q3. This is comparable to last year's performance in this period, where 35 properties were recovered. We believe, however, there may be a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption of a service restructure.

4.8 The total referrals between Q1 and Q3 are lower compared with the same period as last year. However, referral quality has increased and the fraud detection rate of closed cases has remained constant. Higher referrals in the previous two years was a result of proactive work relating to perceived risk factors such as tenants not reporting repairs for a long period. This type of rationale has resulted in a low detection rate despite apparently higher referrals. This approach to proactive work has been revised - the focus in future will be on intelligence-led proactive exercises with improved collaboration with the

² Notional value of recovered properties used for reporting is £18,000

³ Actual amount of RTB discount stopped

Tenancy and other relevant housing teams.

- 4.9 One notable case was a Council tenant whose Right to Buy (RTB) application had been stopped in Q3 with an actual discount saving of £103,900. The investigation found that the tenant entered into an irregular loan agreement with a private company with no means to repay the loan.
- 4.10 In addition to reporting successful tenancy recoveries, the Investigations team undertake detailed value added work even when a tenancy is not recovered. In most of these cases where no further action is taken, the team will often complete a tenancy verification including confirmation of the entire household composition. This will be held on the tenancy file and contributes towards the Tenancy team's objectives. By completing these verifications it serves to prevent fraudulent tenancy succession claims where an applicant may dishonestly claim to reside at a property. During Q3, a total of 15 cases have been closed with no fraud/irregularity and a tenancy verification completed. This is in addition to another 12 cases closed during Q2.
- 4.11 Engagement with the Tenancy and RTB teams has continued during Q3 to enhance joint working, verification processes and increase the quality of referrals for investigation.
- The Investigations team has provided both teams with a specifically designed referral form for both teams to use when tenancy fraud is suspected.
 - It has been agreed that a collaborative proactive exercise between Tenancy and Investigations will be undertaken to target a high risk area where unlawful subletting is known to be prevalent. This exercise will be intelligence-led and initial preparations have taken place for the exercise to commence during Q4.
 - It is proposed that a proactive review of RTB applications will take place during 2018/19. This is despite the RTB team increasing its verification processes over the last 18 months. The planned proactive approach is because RTB remains a high-value and key risk area for the council.
- 4.12 The table below summarises the key housing tenancy fraud figures. It shows that the team has a total recoveries target of 61 and up to the end of Q3, a total of 34 recoveries has been completed. A further five recoveries have been completed up to 15th February and its anticipated further recoveries will be concluded by the end of Q4.

Housing Tenancy Fraud Summary 2017/18:

2017/18 recovery target: 61

Total Recovered Properties to date:	31	
Total Housing Applications Refused to date:	0	(last 3 year average: 60.67)
Total Property Size Reduced to date:	2	(2016/17 total recoveries = 52)
Total Right To Buy Stopped to date:	1	(2015/16 total recoveries = 73)
Total Recoveries (fraud/irregularity identified):	34	(2014/15 total recoveries = 57)
Value of housing fraud identified to date:	£697,900	

External Fraud

- 4.13 'External fraud' includes all other external fraud/irregularity that affects the council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications. The counter fraud activity up to the third quarter of the year is summarised in the table below:

Table 8 – External Fraud

External Fraud	17/18 Q3	16/17 Q3	17/18 Q2	16/17 Q2	17/18 Q1	16/17 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	22	72	13	106	14	57	14	57	20
New Referrals	16	30	29	30	14	83	59	161	99
Closed Cases	20	89	20	64	15	34	55	204	62
Open cases c/f	18	13	22	72	13	106	18	14	57
Fraud / Irregularity ⁴	6	10	2	3	4	4	12	22	10
Prosecution	1	0	NIL ⁴	1	NIL	NIL	1	2	NIL
Warning / Caution	2	4	NIL	1	NIL	1	2	6	3
Overpayment/Saving	6	5	2	NIL	3	1	11	7	7

- 4.14 This type of referral has remained constant from Q1 to Q3. Half of referrals during Q3 were received from the public using the online fraud reporting tool. It should be noted that although there was an increase of referrals during Q2, 17 of these were self-generated by the team as part of an on-going investigation into an organised Freedom Pass fraud.
- 4.15 Since Q1, the team has led on an organised Freedom Pass fraud investigation involving several councils in London with over 100 fraudulent applications identified to date. The team has so far identified 17 fraudulent Brent applications. The main subject of the investigation has been identified, arrested and released pending further enquiries. The investigation is in collaboration with London Councils, Transport for London and the Police and is being led by Brent Council. The fraud has been prevalent since September 2016 and specifically targeted the 'Partially Sighted' entitlement category using false supporting documentation. This has occurred due to inadequate verification controls on supporting documentation, which was addressed with the service area at an early stage. The potential value of a Freedom Pass is approximately £6,000 per year and the cost to councils is significantly more due to the charging structure with London Councils. The case is currently with Legal for consideration of criminal proceedings under the Fraud Act.
- 4.16 An insurance case was prosecuted in Q1 but due to an administration error it was not recorded until Q3 on the case management system. The defendant pleaded guilty to section 2 of the Fraud Act for attempting to defraud the council

⁴ NB: Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action)

with a false damage claim to their vehicle. In addition to the claim being repudiated, the defendant was fined £1,800 and ordered to pay costs/surcharge of £870.

- 4.17 One notable case concluded in Q3 was a Blue Badge case that resulted in a formal caution being offered and accepted as an alternative to criminal proceedings. A further case in Q4 has been concluded in this way and resulted in the offender paying a voluntary contribution of £250 towards the investigations costs.

Savings Summary

- 4.18 The table below summarises the main savings (both notional and actual) identified at the conclusion of investigations. Housing Tenancy remains the highest area of savings for the team. The table does not reflect all positive outcomes such as some NFI data matching reviews, which is reported separately (below) and certain internal fraud cases where it may be difficult to accurately identify a value. It should also be noted that whilst the team no longer has the remit to directly investigate Housing Benefit and Council Tax Benefit, it will take appropriate action to ensure these benefits are corrected where fraud/irregularity is identified.

Savings Summary:	Yr to date	Q4 2017/18⁵	Q3 2017/18⁵	Q2 2017/18⁵	Q1 2017/18⁵	Yr 2016/17
Client Funds	38,108.00		0.00	38,108.00	0.00	43,154.95
Council Tax Benefit	2,311.31		2,311.31	0.00	0.00	1,429.64
Council Tax Support	4,617.66		3,434.91	0.00	1,182.75	1,849.91
Council Tax SPD	1,277.03		1,277.03	0.00	0.00	2,483.02
Direct Payments	34,646.90		34,646.90	0.00	0.00	0.00
Housing Application	0.00		0.00	0.00	0.00	0.00
Housing Tenancy	594,000.00		360,000.00	126,000.00	108,000.00	810,000.00
Insurance Claims	2,670.00		2,670.00	0.00	0.00	0.00
Rent Allowance (HB)	14,655.17		0.00	0.00	14,655.17	12,641.11
Rent Rebate (HB)	26,461.07		26,461.07	0.00	0.00	20,255.77
Pension Fraud/Irregularity	7,154.30		1,427.56	2,231.69	3,495.05	0.00
Right To Buy Fraud	103,900.00		103,900.00	0.00	0.00	415,600.00
Blue Badge	1,000.00		1,000.00	0.00	0.00	3,880.00
Section 17 Payments NRPF	0.00		0.00	0.00	0.00	5,074.32
Year to Date Total:	830,801.44	0.00	537,128.78	166,339.69	127,332.97	1,316,368.72

Proactive Counter Fraud activity

- 4.19 Two proactive exercises were closed in Q3;
- **Conflicts of Interest** – this identified some inadequacy in system controls and, although no fraud was identified, it will now form part of next year's internal audit plan.

⁵ Quarter savings breakdown does not include live cases where values have been recorded e.g. prosecution case.

- **Blue Badge** – a proactive exercise was undertaken in July 2017. There were six parking fines issued for Blue Badge related offences. One vehicle was removed, four badges were retained and 12 parking fines were issued for other parking offences.
- 4.20 There were a number of proactive exercises that were planned from Q3 onwards. An update on these are summarised below:
- **Direct Payments** (Q3) – this is underway and involves a review of four cases provided by the client where fraud/irregularity has been suspected. The review includes checks on the decision making process and monitoring of expenditure. To date, no evidence of fraud has been identified and the exercise is expected to be completed in February 2018. A further proactive exercise in this area is proposed for 2018/19.
 - **Business Rates** in high risk industrial areas (Q2) – this proactive has not commenced.
 - **Council Tax** - students (Q2) – this proactive was considered for Q2 but the data supplied is unclear and will need further preparatory work before taking forward. **Procurement** (Q3) – further preparation into this planned proactive is required.
 - **Blue Badge** – one day per month (Q2/3/4) – we have continued with the quarterly, rather than monthly events. The Investigations team has been working with the parking enforcement teams since Q1 to provide training with Blue Badge enforcement, inspection/seizure of badges and retention of evidence. We have also assisted the parking enforcement team to develop an intelligence database to help identify persistent misuse, respond to customer complaints of misuse and target hotspots.
 - **Housing** – visiting high risk blocks / estates (Q4) – initial preparation for this proactive is underway and will be based on known risk areas for unlawful subletting, supported by good intelligence from both teams. It is anticipated exercise will commence during Q4 and will be a collaborative approach with the Tenancy team.
 - **Blue Badge (Q4)** – the Investigations team led on a successful Blue Badge proactive exercise in January which resulted in good publicity. On this occasion, it included officers from the Enviro-crime and Private Housing enforcement teams along with Police officers from Brent's Partnership Tasking Team and representation from the ASB and Crime team. The operation demonstrated excellent collaborative team work and had multiple successes, which are summarised below;
 - **Investigations team and Parking Enforcement**
 - 35 Blue Badges checked
 - 12 PCNs issued (six for Blue Badge related offences)
 - Two vehicles towed for displaying stolen Blue Badges.
 - **Enviro-Crime Enforcement**
 - Five Fixed Penalty Notices for littering.
 - Found five separate pieces of evidence in black bags dumped on the street.
 - Found a knife off High Street Harlesden - taken by the police as evidence.

- **Private Housing Services Enforcement**
 - Identified several properties where the landlord should hold a licence.
 - Identified unlicensed one-bed maisonette with a minimum of 12 occupants.
 - A separate note describing blue badge enforcement activity is attached at **Appendix 2.**
- 4.21 During Q3, the Investigations team has engaged with the Enforcement Managers Practitioner's Group (EPG) to increase awareness of the team and encourage collaborative working. It was a direct result from this engagement that led to the success of most recent Blue Badge operation in January.
- 4.22 The **National Fraud Initiative** (NFI) 2016/17 data matching exercise is now under way following data submission in October 2016 and matches generated since January 2017. There are a total of 20,463 data matches (8,036 are recommended) across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have either been reviewed or are under review. To the end of December 2017, the overall summary of NFI work is as follows;
 - Matches processed/reviewed 1035 (to Q1 was 854)
 - Investigating 16 (up to Q1 was 52)
 - Cleared 684 (up to Q1 was 507)
 - Fraud/Error identified 319/3 (no change since Q1)
 - Overpayment/Savings identified **£168,177.44** (no change since Q1).

Notable results from NFI reports reviewed is as follows;

 - Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors found resulting in live badges being cancelled. Notional saving of £152,000 recorded (£500 for each badge cancelled).
 - Brent Pensions to deceased persons; 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered.
 - Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.
 - In January, Benefits team have started reviewing several Housing Benefit and Council Tax Support related reports. The reports include matches against both Brent's and other organisations' payroll and pensions records. An update on these results will be reported in the next report but early indications are that there are a few discrepancies with the majority of data matches either already known or previously resolved.
- 4.23 This year we have introduced an enhanced risk scoring system for all types of referrals to complement our existing intelligence checking capability. This has helped to screen referrals and focus resources on higher priority cases.
- 4.24 In June 2017, the Investigation team introduced an online fraud reporting tool for both the internet and intranet (links below), which allows informants to provide information anonymously or supply their contact details. Current figures suggest the system is effective with an increase of online referrals from the

public and a slight decrease in telephone referrals as set out in the table below.

Period	Online referrals	Hotline referrals
Q1	15	5
Q2	24	2
Q3	32	4
Q4 ⁶	21	2

- external; <https://www.brent.gov.uk/firmstep/forms/report-fraud/>
- internal; <https://internal.brent.gov.uk/firmstep-intranet-forms/fraud-affecting-the-brent-council/>

- 4.25 At the end of Q2 the Investigations team introduced a **Simple Caution** process as a disposal method for suitable first-time and low-level criminal offences as part of our sanction authorisation procedure. This acts like a Police caution and can be taken into consideration for future offences. This process falls within the scope of the Anti-Fraud and Bribery Policy. Two cautions (one in Q4) have been processed, both for Blue Badge related offences with £250 received in voluntary contributions.

Fraud Awareness Plan 2018/19

- 4.26 A refresh of the main Anti-Fraud policies was approved by the Audit Advisory Committee on 5 December 2017. This has enabled the Investigations team to promote these policies throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile.
- 4.27 A significant amount of engagement has already commenced as set out in this report and also includes ongoing liaison with all service areas and updating the content of our intranet and internet pages, which has helped to increase referrals. An awareness plan for 2018/19 is set out in **Appendix 3**.

Counter Fraud Plan 2018/19

- 4.28 Since 2014, the Investigations team has taken a generic approach to counter fraud work rather than in previous years where it had specialist teams to investigate specific fraud types. In addition to this approach, the investigative resource has also decreased and this has shaped the way in which it operates and sets its priorities. The generic approach requires a more collaborative approach with the Internal Audit team to ensure the whole service maximises its effectiveness for the council.
- 4.29 A new structure for the Investigations team is in place from the start of Q3 2017/18 which maintains the generic approach to investigations but now includes a Counter Fraud Plan for 2018/19. The plan is based on current workload and is designed to be flexible to ensure it provides the best possible service to the council.

⁶ Figures noted are up to 16 February 2018.

- 4.30 The plan sets out the team's current structure and how it aims to manage key priorities and known risk areas affecting the council. It will work alongside the Internal Audit Plan, Risk report and Corporate Risk Register. It will be reviewed each quarter and updated accordingly. The plan is attached as **Appendix 4**.

5.0 Financial Implications

- 5.1 There are no specific financial implications associated with noting this report.

6.0 Legal Implications

- 6.1 None.

7.0 Equality Implications

- 7.1 None.

8.0 Consultation with Ward Members and Stakeholders

- 8.1 None.

Report sign off:

CONRAD HALL

Chief Finance Officer

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Internal Audit
3rd Internal Audit & Counter Fraud
Progress Report – 2017/18
London Borough of Brent
March 2018

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Executive Summary

Introduction

This report sets out a summary of the work completed against the 2017/18 Internal Audit Plan including the assurance opinions awarded and any high priority recommendations raised.

Summary of Work Undertaken

Final Reports issued since the last meeting in respect of the 2017/18 financial year are as follows:

- BACS Payments
- Asset Management
- Continuous Audit Monitoring (Phase 1)

I4B Reports issued:

- Governance, Risk Management & Financial Management
- Benefit Realisation, Management Information & Reporting


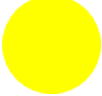

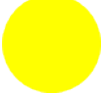
Audit reviews at draft report stage are as follows:

- Capital Programme Management
- Introductory Tenancies
- PCI Requirements

Detailed summary of work undertaken

SUBSTANTIAL / REASONABLE ASSURANCE REPORTS: 2017/18

Only those audits for which Substantial Assurance was given are indicated here.

Audit	Assurance Opinion and Direction of Travel
General Audits	
BACS Payments	 Reasonable
Continuous Audit Monitoring (Phase 1)	 Reasonable
i4B Audits	
Governance, Risk Management & Financial Management	 Reasonable
Benefits Realisation, Management Information & Reporting	 Reasonable

LIMITED ASSURANCE REPORTS – General Audits

For all Limited Assurance reports, we have included a brief rationale, together with details of any **High Priority** recommendations raised, including the agreed actions to be taken and deadlines for implementation. These are the key audits and recommendations which the Committee should be focusing on from a risk perspective.

Asset Management

Key Findings

The Council's Property and Asset Strategy 2015-19 sets out a direction and an action plan for maximising the impact and value of the Council's land and property assets. The strategy is underpinned by four key objectives:

- Support the Delivery of the Borough Plan;
- Promote Community Resilience;
- Value Generation; and
- Support the Delivery of the Regeneration Strategy.

The aforementioned portfolio comprises 140 assets, categorised as operational (47), commercial (73) and parks (20).

The purpose of this audit was to review the design and effectiveness of controls in relation to the Value Generation objective with a particular focus on how revenues from the commercial portfolio are maximised.

We found that the key individuals responsible for managing the commercial property portfolio have a clear understanding of what their job role entails and a broad understanding across the portfolio that has been developed during their time with the Council. Although a strong knowledge base has been noted throughout the Commercial Property team, areas for improvement have been identified in order to ensure the Council is not overly reliant on the knowledge of key personnel and that there is a consistently a clear audit trail of actions and decisions taken

The key areas of improvement relate to the approach to arrears management, collation of policies and procedures, retention of individual case documentation, and the risk of error and manipulation in the billing process

One High risk, three Medium risk and two Low risk findings were identified as a result of this audit. The action points agreed by management for the high risk finding are set out below.



Recommendation	Management Response / Responsibility / Deadline for Implementation
<p><u>Arrears Management (High Risk)</u></p> <ul style="list-style-type: none"> a. Management should introduce a standardised staged debt recovery process for the collection of income and arrears relating to Commercial Property. This process should be followed in all instances unless authorisation is given by an appropriately designated individual to delay the application of the stages. b. Management should consider whether there is a more efficient approach to ensuring unmatched commercial property income is identified and rectified in a timely manner. Management may wish to explore whether commercial property income could be paid in to a different account so as to ensure that any unmatched items are not lost within a general suspense account. c. Given the level of current arrears, management should consider revising the checks over prospective tenants including introducing credit checks to ensure that new tenants have sufficient capability to meet rental payments as they fall due 	<p>All Agreed.</p> <p>Commercial Portfolio Manager</p> <p>31 March 2017</p>

Follow-Up of Previously Raised Recommendations

The approach to our follow up of internal audit recommendations has changed to improve organisational effectiveness and performance. We have moved from a process of self-certification to a more robust approach of confirming the implementation of agreed recommendations by carrying out verification work on all high and medium priority recommendations. Following the completion of any additional work, a follow up action plan report will now be issued setting out which recommendations which remain outstanding. Management will then be given a deadline for updating Internal Audit on the status of the outstanding recommendations. The Audit Advisory Committee will be updated on the status of implemented and non-implemented recommendations due as part of the normal reporting arrangements.

Set out below is a summary of the findings from the follow-up work completed since the last meeting (excluding BHP recommendations).

Recommendations are classified as either Implemented (I); Partly Implemented (PI); Not Implemented (NI). Partly implemented recommendations are those assessed as requiring further work in order to meet the objective of the recommendation.





The current status of implementation is as outlined in the table below:

Details	Implemented	Partly Implemented	Not Implemented
Chalkhill Primary School	8	-	-
Mora Primary School	9	2	-
Leopold Primary School	16	-	-
Wykeham Primary School	7	1	-
Salisbury Primary School	15	-	-
S106 & CIL	1	3	3

Definitions

Audit Opinions

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Report Classification	Level of Assurance	Definition
	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.





Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Critical	A finding that could have a: Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability
High	A finding that could have a: Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in significant fines and consequences; or

	Significant impact on the reputation or brand of the organisation.
Medium	A finding that could have a: Moderate impact on operational; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations resulting in fines and consequences; or Moderate impact on the reputation or brand of the organisation.
Low	A finding that could have a: Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Audit Team and Contact Details

London Borough of Brent	Contact Details
Michael Bradley – Head of Audit & Investigations	 020 8937 6526 michael.bradley@brent.gov.uk
Aina Uduehi – Audit Manager	 aina.uduehi@brent.gov.uk
Michael Cassel – Counter Fraud Manager	 020 8937 1495  michael.cassel@brent.gov.uk 020 8937 1265

Blue Badge Fraud and Enforcement Review

Introduction

The purpose of this note is to set out the current position with how the Council manages Blue Badge fraud / misuse.

Background

The Audit and Investigations team have historically been responsible for investigating all allegations of Blue Badge fraud and misuse. This has been achieved through close liaison with the Independent Travel Team (who administer Blue Badges) and the Parking Monitoring team and parking contractor (who assist with obtaining relevant evidence).

From 2013, the Parking Monitoring team have had a full-time Blue Badge Enforcement Officer to investigate Blue Badge misuse.

Detail

The Audit and Investigations team continue to lead on on-street proactive drives and retain the responsibility for investigating Blue Badge fraud through to prosecution where appropriate. Since October 2017, the team has also introduced an internal formal caution process as an additional method of disposal to manage appropriate low-level and first-time offences. Since April last year, the Audit and Investigations team has worked with the parking contractor, Parking Monitoring team and the Independent Travel Team to increase awareness and technical knowledge. The parking contractor now has in place a system for checking, seizing and referring Blue Badge fraud. The team has also assisted the Parking Monitoring team in developing an intelligence database to help them manage reports of misuse, identify hotspots to assist with tasking on-street parking enforcement and also to identify more serious cases for referral to Audit and Investigations.

Audit and Investigations has updated the relevant council webpages to ensure that members of the public can report Blue Badge fraud and in a consistent manner. The link to report fraud externally can be found here; <https://www.brent.gov.uk/your-community/crime-and-community-safety/fraud-affecting-the-brent-council/>.

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Draft Fraud Awareness Plan 2018/19

Introduction

The purpose of this report is to set out the draft Fraud Awareness Plan for 2018/19.

Objective

To raise awareness of the risk of fraud amongst officers, residents and members to ensure that Brent's assets are adequately protected.

Background

A refresh of the main anti-fraud policies was approved by the Audit Advisory Committee on 5 December 2017. This has enabled the Investigations team to promote these policies amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile.

A significant amount of engagement has already commenced which includes liaison with all service areas and updating the content of our intranet and internet pages. Main anti-fraud policies; (a) Anti-Fraud, Bribery and Corruption Policy, (b) Anti-Money Laundering Policy and (c) Whistleblowing Policy.

Related policies; (a) Disciplinary Policy, (b) Staff Code of Conduct, (c) Conflicts of Interests Policy and (d) Financial Regulations (and related guidance). These include the equivalent policies and regulations relating to schools.

Detail

Activity	Description	Notes	Qtr
Policies	Update policies	Update anti-fraud policies on intranet and internet pages including related content.	1
E-learning	Review current e-learning for staff.	New starter induction – review current e-learning mandatory course. Existing staff – introduce e-learning mandatory course.	2
Website	Update content and contacts	Review content within both intranet and internet pages.	1-4
Workshops	Fraud awareness sessions.	Deliver fraud awareness sessions / workshops throughout council service areas, schools and other stakeholders.	1-4
Yammer	Increased presence on Yammer	Publish appropriate investigation outcomes. Publicise fraud alerts / guidance. Online workshops / group chats and advice on anti-fraud related matters.	1-4
Technology	Consider new technologies to prevent / detect fraud.	Introduce new systems e.g. i-Latch (housing – tenancy checker)	2
Service Engagement	Team meetings	Representation at Committee, CMT, DMT, Service Managers, service team meetings	1-4
Advice	Provide an advisory service	Encourage teams to approach for advice and guidance. Take proactive approach to assisting with new procedures / process in other service areas.	1-4
Collaboration	Enhance closer / joint working.	Set up workshops with key partner teams such as HR, Legal, Housing, Parking to improve joint working, closer collaboration, and increase understanding of each other's work.	1-4
Publicity	Public awareness	Poster campaign to communicate Brent's approach to fraud and means of reporting suspected fraud.	

Further Action

The plan will be reviewed each quarter and amended accordingly to achieve its objectives.

Draft Annual Counter Fraud Plan 2018/19

Introduction

The purpose of this report is to set out the draft Counter Fraud Plan for 2018/19.

Objective

To ensure the resources of the Investigations team are adequately targeted to achieve the aims of the council's anti-fraud policies.

Background

The Investigations team's work is split between reactive and proactive activity. Reactive work largely consists of referrals to the team from the Internal, Housing or External fraud types. Proactive activity is generated from within the service and can incorporate any of the reactive fraud types.

All referrals are risk assessed so that resources can be targeted efficiently. The overall counter fraud resource allocation for 2018/19 is as follows:

- **Housing** (including related proactive work)* = 50% (minimum) 570 days;
- **Internal / Whistleblowing**** = 15% 170 days;
- **External***** = 15%, 170 days, and
- **Proactive** (including NFI, fraud awareness and raising team profile)**** = 20%, 225 days.


* **Housing** remains a key fraud risk area and includes unlawful subletting, non-residency, successions / false assignments, housing/homeless applications and Right to Buy. Housing proactive work will be included within the 50% where possible to assist with the fraud awareness/raising profile objective. Ongoing proactive work will include our existing involvement with Gas Forced Entries for council tenancies, which has been demonstrated to be a good source of fraud detection and higher referral quality. NB: Info Sharing Agreements with Housing Associations/RSLs will be reviewed/renewed. We will review our working practices with these organisations as some now use private investigators, credit reference agencies and other fraud prevention systems to help recover their properties i.e. there is less reliance on LA fraud teams to investigate their tenants.

** **Internal / Whistleblowing** is almost impossible to predict and quantify due to its nature. A high priority or more complex case can quickly take up team resource e.g. serious financial irregularity or corruption allegation. The fraud type affects all areas of the council and will often take priority. In most cases, the decision to investigate will be taken regardless of what the initial intelligence suggests and as such, increased planning and managing client expectations becomes a significant factor. It is probable that during 2018/19, the time spent in this area will be higher than 15% especially with related plans for raising fraud awareness and team profile.

*** **External** will include Blue Badge, Council Tax, Business Rates and all application-based fraud types. The capacity to manage this area of fraud has historically been affected by the higher priority fraud types above.

**** **Proactive** (including NFI, fraud awareness). All the above fraud types are reactive and therefore difficult to quantify. The counter fraud plan will be predominantly made up of proactive activity based on known and intelligence led key fraud risk areas, fraud awareness/publicity plans, corporate risk register and Internal Audit delivery. Example 1: Housing Tenancy high risk areas. Example 2: Staff Identity Checks in key service area in conjunction with fraud awareness plan. Example 3: specific proactive in Essential User Permits following internal audit completion. The proactive area will be the easiest to quantify in terms of a counter fraud plan e.g. planned Blue Badge operations, fraud awareness workshops / service engagement in key fraud risk areas and review-based proactive work (i.e. NFI).

IMPORTANT: It should be noted that due to the often confidential and sensitive nature of the team's work, a significant amount of activity cannot be published in advance.

	Audit And Advisory Committee 20 March 2018
	Report from the Chief Finance Officer
Cover Report: Draft 2018/19 Internal Audit Annual Plan	

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One: • Draft 2018/19 Internal Audit Annual Plan
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: michael.bradley@Brent.gov.uk Tel: 020 8937 6526

1.0 Purpose of the Report

- 1.1 This report sets out the draft Internal Plan for 2018/19 and the basis on which the Plan has been prepared.
- 1.2 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003 (as amended). The Public Sector Internal Audit Standards (PSIAS) require, "...chief audit executive to establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".
- 1.3 In accordance with the terms of reference for the Committee and in accordance with Standard 2000 – Managing the Internal Audit Activity as outlined within the Public Sector Internal Audit Standards, the Audit Advisory Committee is asked to review and approve the 2018/19 Internal Audit Plan.

2.0 Recommendation

- 2.1 The Audit Advisory Committee approves the content of the plan (Appendix 1). This is in line with the Committee's role, as defined in the Constitution: *[To] consider the strategic and annual audit plans, and consider the level of*

assurance these can give over the Council's corporate governance and risk management arrangements.

3.0 Detail

- 3.1 The audit planning process reflects that the control environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan.
- 3.2 Based on the budget available for internal audit work, we have made provision for:
- Sufficient coverage of all major financial systems to provide the necessary audit assurance;
 - New systems and emerging high risk areas;
 - Cross cutting reviews for a selection of corporate themes;
 - Schools audit coverage via establishment visits;
 - Follow up reviews to monitor implementation of audit recommendations; and
 - An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.
- 3.3 The Plan has been based on the assessment of risk in a 2017/18 assurance mapping exercise as well as items from departmental risk registers and consultation with senior managers.
- 3.4 The Audit Plan aims to focus upon areas of highest risk and is sufficient to provide Members and management with an independent assurance on the adequacy of the Council's governance, risk management and internal control framework.
- 3.5 The draft Audit Plan has been discussed with senior management. It will also be shared with the Council's incoming external auditor, Grant Thornton. The plan will be delivered through a mixture of in-house provision and an external contractor, PricewaterhouseCoopers (PwC).

4.0 Financial Implications

- 4.1 The proposed Internal Audit Plan for 2018/19 will be delivered in accordance within the existing approved budget.

5.0 Legal Implications

- 5.1 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards 2013, also require proper planning of audit work.

6.0 Equality Implications

- 6.1 None

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Members were consulted on the preparation of the Annual Internal Audit Plan via an item in the Members' Bulletin in January 2018.

Report sign off:

CONRAD HALL

Chief Finance Officer

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Draft Annual Internal Audit Plan 2018/19

Corporate/Cross cutting Reviews

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
1. Emergency Planning (EP)	A review of the adequacy and effectiveness of Emergency planning arrangements.	A task and finish group of members and senior officers was set up and reported on its findings in 2017/18. Improvements to the EP framework were made as a result. The group agreed that the Audit and Advisory Committee should obtain assurance that the arrangements are satisfactory. To include assessment against minimum standards for London.	3	10
2. Gifts and Hospitality/ Declarations of Interest	Review of the adequacy of the corporate policy and procedure for recording officer and member declarations in these areas.	An audit of Gifts and Hospitality in BHP in 2017/18 identified areas of inadequacy and non-compliance. Adequacy of the policy and procedures to ensure transparency and integrity is evidence via prompt, complete declarations of interests and appropriate management of the offer and receipt of gifts and hospitality. To cover officers and members' arrangements.	1	10
3. Data Security	To focus on management of risk of data breaches.	Focus on arrangements for preventing, identifying and managing data breaches. Specific areas to be selected based on recent suspected and actual data breaches. Incident handling, remediation and control improvement to be included in scope. Some aspects of data security covered in 17/18 plan.	3	15

4. Use of Social Media /RIPA		This review will consider the council's policy and procedures for use of social media with regard to its appropriateness in relation to RIPA requirements. A random selection of service areas will be selected for testing.	1	10
5. Functional (Establishment) Visits	Individual service functions across the council.	<p>This audit resource will be held as part of contingency to undertake reviews of specific services or functions. The reviews will focus on a range of key areas of control such as recruitment, financial management, risk management and general compliance with corporate policy and procedures.</p> <p>Areas will be identified as part of ongoing liaison with Internal audit and CMT and DMTs.</p>	Any	50
Total				95

Children and Young People

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
1. Unaccompanied Asylum Seeking Children	Help and advice for children. Includes benefits entitlements from the Council and can include applications for homelessness.	The risk in this area is that a Council may not discharge its responsibilities for asylum seeking children resulting in potential reputational damage.	1	15
2. School effectiveness- School monitoring	Council's monitoring controls; would include finances and schools improvement service.	To include financial governance and procurement. There is a risk that the Council may not identify poor financial performance promptly resulting in delayed corrective action or financial loss through breach of school budgets. (Maintained schools)	2	15
3. Virtual School	Review of governance and performance of Virtual School arrangements.	Pupil premium is mostly given to schools but some is held back for children's tuition. This area has not previously been audited.	2	10
4. LAC - Looked after Children and Permanency	Provision of care for children who are not able to live with their families.	Each child referred to the LAC service must be found a suitable placement to meet their needs through a commissioning process. There are a number of preferred providers who provide placements such as fostering, residential care and mother and baby units. Placements can be made outside of the preferred providers subject to appropriate checks. Potential areas for review are: management reporting; performance management arrangements use of 'non-standard' providers, and consistency and quality of data.	4	20

5. Children in Need (CIN) (split across Locality Service and LAC)	Includes initial assessment and development of CIN plan.	Risk - Children do not receive appropriate level of service leading to the Council failing in duties under S17 of the Children Act, exposing vulnerable children to danger and reputational damage. Potential review around workforce planning and progress in recruiting permanent social workers.	2	15
6. Schools audits	Risk based establishment visits to maintained schools.	The schools audit approach has changed from a thematic approach to establishment audits. Ten school visits will be undertaken. To be selected on a risk basis in consultation with schools improvement team and schools finance.	All	70
Total				145

Regeneration and Environmental Services

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
1. Community Safety	Safer Brent Partnership includes the Council, police and social services.	Community safety activities e.g. ASB, community safety, intervention, presence, information sharing, noise, engagement. Includes work to tackle gang violence The ASB team from BHP will be amalgamated with the council team so some potential for benefits realisation of this merger to feature in scope.	1	15
2. Highways	LA responsibilities for management and maintenance of highways in the borough including contract monitoring.	A 2017/18 audit review provided advice on the development of a departmental contract management team. Potential for work on how this is operating in practice with regard to the reactive repairs contract. Alternatively, the review can focus on the planned maintenance programme with coverage of member/ community involvement in the programme.	3	15
3. Car Parks	Management of car parks in the borough	External contract for majority of car park provision with FM team managing civic centre provision. Potential areas for review of strategy, delivery, maintenance etc.	2	10
4. Cemeteries and Crematoria	Operation of in-borough cemeteries and crematoriums, establishment visits and monitoring.	This hasn't been audited and the reputational risk is high if issues arise. Grave space management, future demand and income management are all likely scoping areas.	1	15

5. Arboriculture	Maintenance of trees in the borough,	Review to assess the quality of service delivery taking account of recent procurement activity. Also effectiveness of links to insurance claims against the council.	2	15
6. Licensing	LA administration of licences e.g. alcohol, gambling, trading etc.	Likely to cover the operation of new Tascomi IT system in Licensing service. Alternative areas may be decision making process, monitoring of non-renewals and identification/ treatment of breaches of conditions. Also debt collection: Very transactional, high volumes, small amounts involved per licence. Previously issues around debt collection.	2	15
7. Planning	Service currently uses IDox (Acolaid) system but will be procuring a new system	Implementation of a new system for use in a number of Brent services and across three boroughs is planned for Jan 2019. This audit work will comprise providing advice and guidance e on the design of new processes in the Planning service at that time.	4	5
8. Trading Standards	Trading standards activities - investigations and premises visits.	Brent undertakes trading standards services for Harrow. Individual teams are set up for Harrow and Brent (a restructure is occurring in Q4 2017/18). Potential scope areas include the currency of the contractual arrangements with LB Harrow and the effectiveness of the governance arrangements). (Payment arrangements may be complicated, inflationary uplift is potentially not sufficient.)	1	15
9. Building Control	Compliance with building control processes.	Brent wins a lot of work on discretionary services (outside borough) by referral. An associate model is used with monitoring by Building control team. Review likely to provide assurance on the associate model and capacity management of team.	1	15
10. Parking Enforcement	Parking enforcement activities	Scope to include deployment arrangements to ensure adequately risk based.	2	15

11. Regeneration	Regeneration policy, strategy and implementation	<p>The Local Plan and development management policies are key elements of place-shaping arrangements. Assurance is already provided via a statutory requirement to have an external, government inspection.</p> <p>This review will consist of a high level review of the arrangements for refresh of the local plan and policies and the effectiveness of public consultation.</p>	4	5
Total				140

Community Wellbeing

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
12. Residential and nursing care	All residential care homes in which Brent residents reside - includes in and out of borough care homes.	Independent assurance is provided on care providers by the Care Quality Commission and other external assurance sources. This review will focus on the effectiveness of the placement approval, set up and payment process.	3	20
13. Health and Safety	Health and safety: set up, monitoring and compliance. Compliance with asbestos regulations Compliance with electrical safety standards in residential properties Water safety assessment/ testing of water tanks in residential property Compliance with Fire Safety legislation in residential property	To consider cross-cutting control and focus testing in this year on one of: legionella, asbestos, electrical safety and gas safety. (Fire safety was audited in 2015/16 – an initial assurance rating of 'no assurance' was increased to 'reasonable at follow-up')	2	15

14. 'Joint Front Door' approach to assessment (ASC)	Assessing needs of adults and determining appropriate care packages.	<p>This will be jointly sponsored by Brent Customer Services and focus on the 'front door' arrangements and the effectiveness of self-assessment arrangements.</p> <p>A recent split of the care management service to Customer Service team and ASC Duty team had the objective of focussing on less unscheduled reviews (emergency issues), less complaints and people's issues being resolved more quickly.</p> <p>This review will primarily consider process flows between ASC BCS and ASC Duty Team</p> <p>Possible further scope area is the effectiveness of annual review process.</p>	2	15
15. Home Care	Care for residents in need in their own homes.	Significant change is occurring in this service in 2018/19. Internal Audit will provide input on risk and control aspects of this change process.	1	15
16. Section 20	The Council has a statutory duty to issue section 20 notices to all leaseholders before work is carried out.	<p>The Council has a statutory duty to issue section 20 notices to all leaseholders before work is carried out.</p> <p>This review to provide assurance on whether charges are calculated accurately and promptly.</p>	1	20
17. Out of hours call service		<p>Previously delegated formally to BHP through a formal management agreement..</p> <p>This review to provide assurance on this area under any new arrangements.</p>	3	15
18. Disabled Facilities Grants		This will be across ASC and Housing services and will be jointly sponsored. Potential areas of scope are assessment of applications and monitoring of outcomes.	2	15
19. Responsive Repairs	Repairs service	<p>Previously delegated formally to BHP through a formal management agreement. Housing directorate monitored the performance.</p> <p>This review to provide assurance on risks including customer satisfaction, anti-fraud controls and efficiency of service.</p>	3	15

20. Right to Buy	Processing of R2B transactions, compliance with R2B legislation	Recent change in policy; audit to focus on impact and any change in processes.	2	15
21. Libraries - Stock Control		Deferred from 2017/18. Stock assets are appropriately safeguarded.	1	5
22. Libraries - Collection of Fees and Fines		Complete and timely collection arrangements are in place for income.	2	10
23. Brent Direct Leasing	Leasing of properties from landlords	Previously delegated to BHP through a formal management agreement. To provide assurance in this area under any new arrangements.	2	15
			Total	155

Resources

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
IT				
24. Servers and Data Centres	Physical and logical security of servers and data centres.	<p>Service is moving to operate on same infrastructure – this review to cover effect of change.</p> <p>This could also include cloud computing risks and the process for periodic review of end user access for key applications and the AD network domain.</p>	3	15
25. Applications	Review of IT general controls over core systems.	<p>May include:</p> <ul style="list-style-type: none"> - User access - Change Management - Back up/DR - User activity (audit logs/administration) - Key performance indicators to measure and evaluate the Council's investment in ICT programmes and projects. <p>Potential key applications for review are Northgate and Mosaic.</p>	1	15
26. Mobile Working	Mobile Working	<p>Delivery of the digital transformation agenda for internal staff through enhanced teleworking capability. All Brent staff have access to log into the Council's network remotely via virtual private network (VPN) enabling flexible working.</p> <p>Mobile device policy restricts sensitive documents from being stored on devices including iPhone and iPads.</p>	2	15

27. IT Operations	Effectiveness and maturity of IT processes and controls against industry standard frameworks e.g. ITIL.	Potentially include service level targets and monitoring, change management policies and processes, release and deployment policies and processes, availability management and problem and incident management and reporting. Capita and IEG4 host and support the benefit system. Third party provider performance is a potential area of focus.	3	15
Finance				
28. Key Financial systems	Accounts payable, accounts receivable, general ledger, NNDR, Council Tax, Housing Rents and Housing benefits	A change in approach will be piloted to replace the continuous audit monitoring approach (CAM). Alongside a management control tracker process, four of the key financial systems will receive full end to end risk based reviews. Any key control design or compliance issues arising from these will be fed into the management tracker.	All	50
29. ORACLE controls	Control framework concerning roles and responsibilities within Oracle	A review of control design aspects of the Oracle system with specific regard to the risks around separation of duties in key processes. 'New Oracle' going live in May 2018 which largely involves a move to 'in-housing' Oracle support desk. (This will require joint Finance/IT sponsorship of this review.)	1	10
30. Purchase cards	Use of procurement cards for purchasing	Government procurement cards and pre-paid cards: two different products. Strategic considerations around use of P-cards for low value transactions. Approval occurs in Oracle. Consideration of appropriateness of use and monitoring for mis-use to be included.	3	10
31. Income collection	Collection of income including Direct Debit, internet, phone, post, person, standing order, cheque and GiroBank payments.	To look at end-to-end process for incoming cash for specific processes (e.g. income for pest control) to check if these processes are streamlined and efficient. Also petty cash usage – should be eliminated but assurance required on position. Additional risk factors to consider are: the new income management system, Axis Income Management (AIM), is due to go live in early April 2018 intended to streamline overall arrangements. Additionally. The number of bank accounts used to receive	4	15

		income will be reducing from the present eight to two.		
32. Budgetary Control	Includes budget setting and monitoring, including virements.	<p>Oracle budget management (devolved departmental budget monitoring). Hyperion system implemented in 2016/17. Issues around system access and functionality resulted in compliance issues. Recent improvements and focus on compliance has improved procedures.</p> <p>The budget monitoring process is administered through a workflow. Different levels of service are defined depending on level of support needed from the Finance function. Then budget is monitored against actuals from Oracle.</p>	2	15
33. Payroll	Payroll policy and procedures	Extended follow-up of audit work conducted in 2017/18	3	10
34. VAT	VAT policy and procedure framework	Included at request of management – to include compliance issues e.g. with zero-rated decisions;	4	10
Procurement				
35. Procurement	Service will leave the shared service with LB Harrow at end of 2017/18.	<p>Procurement service will be restructured in 2018/19.</p> <p>Audit will provide advice and guidance on the developing structures and processes as they are developed.</p>	1	20
HR				
36. Staff Performance Management	The Council's staff performance management framework.	<p>A new Workforce Strategy has been developed in 2017 that covers the performance management framework. A new approach to managing poor performance has also been implemented.</p> <p>Audit to consider poor performance and appraisal systems.</p> <p>Oracle used for staff performance management. Some system and functionality issues.</p>	2	15

37. Sickness and absence	Processing, recording, administering and monitoring of absence. Includes Processing, recording, administering and monitoring of staff sickness.	Manager self-service is used to record absences - managers record sickness and absence. A new (2017/18) attendance management policy defines triggers that require further investigation. Audit to cover adequacy of, and compliance with policy.	3	15
38. IR35	From April 2017 anyone engaged through a personal service company (PSC) providing a service similar to an employee should pay tax and NI contributions similar to an employee.	Audits to review the arrangements to review and record the intermediary status of existing (and any future) personal service company arrangements.	2	10
Property and FM				
39. Facilities Management	Hard and soft services. Includes contract management.	Client Team managing a large mainly outsourced operation (Total Facilities Management (TFM)) including cleaning, security, catering, portering, landscaping and helpdesk service). The team also covers asset management on the retained estate and audio visual services.	3	15
Customer Services				
40. Discretionary Housing payments	Administration of discretionary housing payments to residents in need	Review of risk and procedures in this area	3	15
41. Risk –based verification (RBV) - Benefits	Benefits application system	Review to consider the risk associated with this process and whether tolerances are effectively controlling levels of fraud and error.	1	10

42. Income Management and Debt management systems	Systems AIM and ASH introduced in 2017/18	Audit advice on the risk and control aspects of new processes will be provided as systems develop.	1-2	10
43. Client affairs	Appointeeship and deputyship services	Review to specifically consider the use of pre-paid cards to facilitate expenditure by clients	2	5
44. I Expenses	Review and processing of expenses.	Some evidence of non-compliance. Review to cover general control framework with specific testing on appropriateness of claims.	4	10
Total				305

Performance, Policy and Partnerships

Auditable Unit	Auditable Unit Description	Notes	Quarter	Days
45. Policy and Strategy	Overarching council strategy and delivery.	Brent 2020 is an overarching corporate strategy. Review to cover how delivery is monitored and reported. Scoping of this work to potentially include the transformation strategy based on three outcome-based work streams. i.e. The effectiveness of governance and impact of work streams to deliver strategic objectives	2	15
46. i4B Holdings / First Wave Housing	Wholly owned subsidiary of LBB to procure properties and contribute to reduction of T/A costs.	Independent assurance is provided to the i4B board on their key risks. This review will specifically cover LBB's risks in this arrangement. Consideration will also be given to the governance arrangements for First Wave Housing. A separate annual audit plan will be prepared for I4B.	1	15
47. Digital Strategy	Alignment of the IT strategy to the wider business strategy and objectives.	There is a Digital Strategy in place as part of Brent 2020; the strategy focuses on digital transformation, to support the transformation in the delivery of the Council's front line services, reducing the need for back office support by providing self-service functionality to residents via the web. Review may include an assessment of ownership and leadership of the strategy and its communication across the Council in addition to the capacity and capability of operational and technical resources to deliver against key priorities. The extent to which this is supported by underlying policies, procedures and an effective governance structure.	2	15

	Total		45
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Available resource = 1100 days. Contingency of 15% leaves available 935

Less 75 days for follow up work

Les 20 days for Risk management work

840 days available

Allocated above total = 885

(Plan oversubscribed by 45 days)

Follow-Ups

The audits listed below were finalised in 2017/18. They will be individually followed up and reported separately.

This work will seek to ensure that agreed actions contained in our 2017/18 reports have been implemented. Status of implementation of 2017/18 audit recommendations will be updated and reported in our progress reports to senior management and the Audit Advisory Committee throughout 2018/19.

An average of 2 days per fw-up. Allow 75 days

	Corporate/Cross Cutting
1.	Use of Interims and Consultants
2.	Business Continuity Planning (BCP)
3.	Procurement
	Children and Young People
4.	Troubled Families
5.	NRPF
	CWB
6.	Introductory Tenancies
7.	Voids Contract
8.	Temporary Accommodation
9.	Homelessness
10.	Leasehold Management and Service Charges
11.	Gas Servicing
12.	Former BHP Owned Properties
13.	Rent Arrears Management
14.	S117 Mental Health Act (Aftercare Services)
15.	Direct Payments
16.	Public Health – Payments to GPs
17.	Public Health – Service User Development
	Regeneration and Environmental Services
18.	Contract Management Review

19.	S106 / Community Infrastructure Levy
20.	Schools Expansion Programme
21.	South Kilburn Regeneration
	Resources
22.	Asset Management
23.	Management of Capital Programme
24.	BACS
25.	IT Disaster Recovery
26.	PCI DSS
27.	IT Security & Access Management
28.	IT Governance & Third Party Management
29.	GDPR
30.	Information Governance
31.	Payroll
32.	Pensions Administration
33.	HR – Contract Administration
34.	Income Generation
	Performance, Policy & Partnership
35.	Grants to Voluntary Organisations
36.	Performance Management

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Topic / Date	26-Jun-17	20-Sep-17	10-Jan-18	20-Mar-18	26-Jul-18	17-Oct-18	11-Dec-18	05-Feb-19	02-Apr-19	08-May-19
Internal Audit & Investigations										
Internal Audit Annual Report, including Annual Head of Audit Opinion	X				X					
Review Internal Audit Charter				X				X		
Internal Audit and Investigations Progress Report	X	X	X	X		X		X		X
Draft Internal Audit and Investigations Annual Plan				X					X	
Preparation for Peer Review (self-assessment; plan; peer review)		X	X	X	X	X		X		X
External Audit										
External Audit progress report	X	X	X	X	X	X	X	X	X	X
External Audit plan								X		
External Audit - Certification of grants and returns (as and when)				X					X	
Statement of Accounts & External Auditor's Report		X			X					
External Auditor Annual Audit Letter			X				X			
Financial Reporting										
Treasury Management Mid-term Report	X	X				X				
Treasury Management Strategy & Annual Investment Strategy			X					X		
Draft Statement of Accounts	X				X					
Capital Programme Update*						X				
Minimum Revenue Policy (MRP) 2018/19 Report (Including an introduction to the revised MHCLG guidance on Investments & MRP)*					X					
Treasury Management Outtrun Report	X				X					
Governance										
To review the performance and management of I4B Holdings Ltd and First Wave Housing		X		X	X					
Review of the use of RIPA Powers				X					X	
To consider issues that had been raised under the Planning Code of Conduct							X			
Receive and agree the Annual Governance Statement*	X	X			X				X	
Risk Management										
Risk Management Annual Review, including Risk Management Strategy			X				X			
Strategic Risk Register	X		X		X		X			
Emergency Preparedness					X					
Audit Committee Effectiveness										
Review the Committee's Forward Plan		X	X	X	X	X	X	X	X	X
Quarterly private meetings between the Chair of Audit Advisory Committee and the Head of Audit and Risk Management										
Determine and Deliver Training Requirements for Audit Committee Members as Required				X					X	

* Tentative - to be confirmed

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