



**Audit and Standards Advisory  
Committee**  
5 February 2019

**Report from the Chair of First Wave  
Housing Ltd**

**Report on First Wave Housing Limited**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt  Appendix 1 of the First Wave Housing Ltd Business Plan is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
<b>No. of Appendices:</b>	Four: <ul style="list-style-type: none"> <li>• FWH Business Plan 2019/20</li> <li>• Fraud Risk Review</li> <li>• Fraud Risk Assessment</li> <li>• Company Risk Register</li> </ul>
<b>Background Papers:</b>	N/A
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## 1.0 Purpose of the Report

1.1 This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on First Wave Housing's (FWH) recent performance, 2019/20 Business Plan, audit arrangements, and risk register.

## 2.0 Recommendations

2.1 The ASAC is asked to note:

2.1.1 The plans set out in the latest version of the Company's 2019/20 Business Plan.

2.1.2 The update on recent FWH audit activity, and progress towards implementing previous audit recommendations.

2.1.3 The update to the i4B risk register.

### **3.0 Background Information**

- 3.1 FWH is a local authority owned company of the London Borough of Brent ('LBB', 'the Council'), and is limited by guarantee.
- 3.2 Prior to the 30 September 2017, LBB had a management contract with Brent Housing Partnership (BHP) to provide housing management services. BHP was an arm's length management organisation owned by the Council.
- 3.3 The Council terminated the management agreement with BHP, in relation to the Council housing stock, on 30 September 2017. The majority of BHP's property stock was owned by the Council and the management of these was brought back into the Council with the creation of a new Brent Housing Management department.
- 3.4 However, BHP owned properties in its own right. As a registered provider BHP had access to grant funding that enabled it to buy and build its own properties. When the management agreement with BHP was terminated, ownership of BHP owned properties could not be easily transferred to the Council. Therefore, in October 2017, the Council made the decision to continue to own properties through a separate company but to re-name BHP as First Wave Housing Limited (FWH) and restructure the company. FWH now manages and owns the properties that were previously owned by BHP.
- 3.5 FWH continues to be a Council wholly owned company. FWH has Board of Directors (the Board) with five members, made up of two independent representatives (one of which is Chair of the Board), and three representatives from Brent Council (one councillor and two officers).
- 3.6 FWH's primary activities are to manage its stock of 331 properties and to contribute to Brent's housing strategy by providing good quality, affordable homes to Brent residents. The company is a registered housing provider with the Homes and Community Agency (HCA).
- 3.7 FWH has 329 tenanted properties. Of this 329, 170 are settled homes 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.
- 3.8 The Council provides services to FWH under a Services Agreement worth £1.4 million over 2017-2021. The Council provides corporate services such as: governance services, financial services, and legal services as well as services to support the company's landlord function such as: housing management, repairs, and void management.

### **4.0 Background**

- 4.1 This report provides the ASAC with an update on FWH's: draft 2019/20 business plan, recent audits, and company risk register. Useful background information on performance can be found in section 4 of the 2019/20 Business Plan (appendix 1).

## 5.0 2019/20 FWH Business Plan

5.1 Appendix 1 contains the latest version of the 2019/20 Business Plan at the time of writing (25/01/2019) The final version of the 2019/20 Business Plan will be submitted to Cabinet for approval on 30<sup>th</sup> January 2019. Therefore, there may be changes between the business plan in appendix 1 and the final version that goes to Cabinet. If there are significant changes, officers will verbally update the Committee.

5.2 The FWH Business Plan outlines a number of new opportunities for the Company. These include:

### Tenure and rent rationalisation of FWH portfolio

5.3 The FWH portfolio has four main product types which are:

- Social Rent – These tenancies are Assured Shorthold Tenancy Agreements with rents protected at social rent which are below 50% of market rent. FWH has 89 of these properties from one bed to four bed and they include five new built houses.
- Settled Homes – These properties were purchased with grant providing the tenants with protected rights including the right to buy their home. The rents on these properties are above Local Housing Allowance (LHA) rates for one and two bed units and below market rates for three bed properties. FWH has 170 Settled Homes.
- Intermediate rents – FWH has 25 Intermediate rent properties. Tenants have assured shorthold tenancies. Current rent levels are above LHA levels for one and two bed properties. However three bedroom rents are £307 pw and the LHA is £365.
- Market rent - FWH has 45 one bedroom market rent properties. These properties are below LHA levels. The weekly rent on these FWH properties averages £259 pw and the LHA for the area is £268.46.

5.4 FWH would like to look at rationalising the products within its portfolio to provide distinct products with rent levels set in proportion to the market and LHA levels. It is recommended that rent levels for social rented properties, three bed settled homes and market rented properties are reviewed as each property becomes void and prior to their re-let.

5.5 FWH requests the Council provide FWH with the flexibility to consider the product and rent level for each portfolio property on its re-let. In practice this flexibility would mean market rented accommodation would be considered for letting at local housing allowance levels to households through a nomination agreement between the Council and FWH. This will help assist the Council's homelessness agenda. FWH will continue to look for market rent opportunities where the income is sufficient to make a significant benefit to the aims of the Company and the Council.

## Asset management and Capital Investment

- 5.6 FWH has delivered 2,700 repairs over the first eighteen months of its life. This is an average of six repairs per property which is considered high for the industry. Three blocks, appear to have greater repair requirements. The properties were built less than ten years ago and already require major works. Works include reroofing, safety equipment reinstallation on the roof tops, lift renewal and weather protection for exposed deck access and stairwells. Due to the steel construction method of the blocks the scaffolding solutions are expensive as scaffolding must wrap the build as it cannot tie into the building.
- 5.7 These newly built properties require comprehensive works and some works such as lifts and safety equipment will be required in three years and other work such as reroofing is required to reduce day to day repairs and complaints.
- 5.8 Therefore, it is proposed that an investment plan is drawn up by the Council's asset management team to correct the three blocks' physical failings.

### The sale of four properties via mutual agreement which are within areas undergoing regeneration.

- 5.9 FWH has been approached to sell four properties in regeneration areas by the London Borough of Brent (three properties), and the London Borough of Ealing (one property). The authorities are hoping to acquire these properties via mutual agreement. FWH requires shareholder approval when it disposes of assets which generate a capital receipt. The Council as shareholder is asked to delegate authority to the Chief Finance Officer to dispose of the properties following consideration of terms negotiated by FWH.
- 5.10 FWH would also require the purchasing authority to resolve the relocation of customers and any compensation.
- 5.11 Following negotiation FWH will request Homes England to permit the grant element of the capital receipt to be available to the Council for affordable housing in the borough.

### Working more closely with i4B Holdings Limited

- 5.12 The Shareholder has carried out some initial work which has identified potential benefits of aligning i4B and First Wave Housing. The Company understands that three provisional options have been highlighted by the shareholder:
- The Shareholder, with the Boards, defines the products which suit each company and refine the focus of each company to prevent duplication of products. The Shareholder may wish to support a transfer of assets between the two companies to reflect the product emphasis.
  - The Shareholder supports the merger of the two organisations into one company benefitting from greater economies of scale. The merger would need to take place in such a way as to allow both the receipt of grant and the delivery of a broad range of housing products.

- The Shareholder supports the merger of the two organisations into a group structure which may be able to retain the distinct identities of the sub companies. This option may also be suitable for non-housing and regeneration vehicles owned by the Council to sit within.

5.13 The Council is currently undertaking an analysis of the benefits of the options outlined above in order to inform recommendations for the future structure of i4B and FWH.

5.14 FWH has a SLA with the Council to provide corporate and housing management services. The fee schedules are considered annually. The SLA has increased marginally from a year one fee of £367K to a year two, three and four fee of £379K.

## 6.0 Internal Audit Update

6.1 In March 2018, the FWH Board agreed a programme of internal audit arrangements. This is detailed below.

Table 1 – FWH Internal Audit Plan

Audit	Status
Fraud Risk Assessment	Complete Report provided to ASAC in February 2019
Responsive Repairs Review	Ongoing Report to be provided to ASAC when FWH next attends the Committee.

### 6.2 Fraud Risk Assessment

6.2.1 A fraud risk workshop was delivered by the internal auditors in August 2018. This was attended by the i4B management team and a representative from the Board of Directors, Peter Gadsdon. A facilitated discussion was held on the current and future risks to the Company and a report was presented to the Board with the findings (appendix 3).

6.2.2 The review identified two medium rated fraud risks. The first was:

*FWH may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to fraud as a result of risks not being appropriately treated.*

6.2.3 The second finding was:

*The FWH Board may not have a comprehensive oversight of all counter fraud measures and activities, resulting in losses to fraud going undetected.*

6.2.4 The audit recommended that the Company use the findings from the Fraud Risk Review to perform a fraud risk assessment of the company. In October 2018, officers carried out a fraud risk assessment (appendix 3). The results of the assessment were presented at the October FWH Board meeting. At the

meeting, the Board agreed to transfer the fraud risks identified to the Company Risk Register. These risks will then be reviewed on a quarterly basis

6.3 A responsive repairs audit of the Company is ongoing. Findings and recommendations are being finalised. The audit will be presented to the ASAC when FWH next attends.

## **7.0 Company Risk Register**

7.1 FWH has created a standalone risk register (appendix 1) that is a live document, and is reviewed regularly by FWH officers and the FWH board.

7.2 The risk register includes mitigation strategies that are reflective of the controls that the company has put in place to prevent the company's risks from materialising into issues. Risks are reviewed every quarter by i4B officers and an update is provided at the following board meeting, where the Board is asked to review the key risks, note any movements on the register, and agree the closure of identified risks.

7.3 FWH has identified the following potential risk areas for the Company:

- Unforeseen costs and loss of income as a result of poor quality housing stock;
- First Wave policies and procedures specific to the non-social housing tenures. For example, market rent and intermediate rent are not applied appropriately;
- Rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection;
- Void periods will exceed assumptions;
- First Wave is deemed to have failed a statutory health and safety obligation as a landlord.
- First Wave is deemed to have failed a statutory requirement in its corporate role.
- Reduction in income in market rent because the properties cannot achieve market rent yield
- Six fraud related risks that stem from a fraud risk audit.