



Audit and Standards Advisory Committee

Tuesday 5 February 2019 at 6.00 pm

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

Membership:

Members

David Ewart (Chair)

Councillors:

Donnelly-Jackson

Kansagra

Naheerathan

Nerva

Stephens (substituting for A Choudry)

Substitute Members

Councillors:

Kabir, Lo and Long

Councillors:

Colwill and Maurice

Independent Members

Margaret Bruce

Robert Cawley

Sheila Darr

Karen McArthur

Independent Advisor

Vacancy

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 part of 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 significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then 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 of 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 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 is the subject of a registrable personal interest.

Agenda

Introductions, if appropriate.

Item	Page
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1	Apologies for absence and clarification of alternate members	
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2	Declarations of Interest	
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Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.

3	Deputations (if any)	
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To hear any deputations received from members of the public in accordance with Standing Order 67.

4	Minutes of the previous meeting	1 - 8
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To approve the minutes of the previous meeting as a correct record.

5	Matters arising (if any)	
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To consider any matters arising from the minutes of the previous meeting.

Standards Items

There are no Standards items to be considered at this meeting.

Audit Items

6	Emergency Preparedness Update	9 - 24
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The report briefly outlines the progress made since the last update to the Committee provided in July 2018. It details the type and number of incidents in Brent and provides some information around initiatives and programmes of work under way to enhance our resilience and response arrangements.

Ward Affected:
All Wards

Contact Officer: Daryl Jooste
Civil Contingencies Manager
Email: daryl.jooste@brent.gov.uk
Tel: 020 8937 5415

7	External Audit Plan	25 - 42
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This document provides an overview of the planned scope and timing of the statutory audit of Brent Council ('the Authority') for those charged with

governance.

8 Accounting Policies 43 - 60

The Council is required to adopt accounting policies each year to set out how the Statement of Accounts will be produced.

Ward Affected:
All Wards

Contact Officer: Conrad Hall
Chief Finance Officer
Email: conrad.hall@brent.gov.uk
Tel: 020 8937 6528

9 2019/20 Treasury Management Strategy 61 - 80

The report presents the draft Treasury Management Strategy for 2019/20 for consideration by the Committee.

Ward Affected:
All Wards

Contact Officer: Daniel Omisore
Head of Finance
Email: daniel.omisore@brent.gov.uk
Tel: 020 8937 3057

10 Report on i4B Holdings Ltd 81 - 172

This report provides the Audit and Standards Advisory Committee with an update on i4B Holdings Ltd's (i4B) recent performance, proposed 2019/20 Business Plan, audit arrangements, and risk register.

Ward Affected:
All Wards

Contact Officer: Peter Gadsdon
Director of Performance, Policy and Partnerships
Email: peter.gadsdon@brent.gov.uk
Tel: 020 8937 6095

11 Report on First Wave Housing Limited 173 - 222

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

Ward Affected:
All Wards

Contact Officer: Peter Gadsdon
Director of Performance, Policy and Partnerships
Email: peter.gadsdon@brent.gov.uk
Tel: 020 8937 6095

12 Annual Review of the Internal Audit Charter 223 - 236

The report sets out the revised Internal Audit Charter which has been appended to the report for consideration and approval.

Ward Affected:

Contact Officer: Michael Bradley

All Wards

Head of Audit and Investigations

Email: michael.bradley@brent.gov.uk

Tel: 020 8937 6526

13 Internal Audit Progress Report for the period September 2018 to January 2019 237 - 248

The report provides an update on progress against the Internal Audit Plan for the period 1 September 2018 to 31 January 2019.

Ward Affected:

All Wards

Contact Officer: Michael Bradley

Head of Audit and Investigations

Email: michael.bradley@brent.gov.uk

Tel: 020 8937 6526

14 Counter Fraud Quarterly Progress Report 2018-19 249 - 256

The report provides an update on the counter fraud work undertaken for the period 1 April 2018 to 31 December September 2018 (Quarters 1-3).

Ward Affected:

All Wards

Contact Officer: Michael Bradley

Head of Audit and Investigations

Email: michael.bradley@brent.gov.uk

Tel: 020 8937 6526

15 Audit and Standards Advisory Committee - Self Assessment options 257 - 260

The report provides options for the conduct of an assessment of the performance of the Audit and Standards Advisory Committee.

Wards Affected:

Not applicable

Contact Officer: Michael Bradley

Head of Audit and Investigations

Email: michael.bradley@brent.gov.uk

Tel: 020 8937 6526

16 Forward Plan and Agenda for the Next Meeting 261 - 262

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.

Wards Affected:

Not applicable

Contact Officer: Conrad Hall

Chief Finance Officer

Email: conrad.hall@brent.gov.uk

Tel: 020 8937 6528

17 To agree a date to hold a meeting between the Chair, the Vice-Chair and the Independent Members of the Committee

18 Exclusion of Press and Public

The following items are not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972:

- Item 10 – Appendix 1 to i4B Holdings Ltd Business Plan 2019-20
- Item 11 – Appendix 1 to First Wave Housing Ltd Business Plan 2019-20

19 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.

Date of the next meeting: Wednesday 20 March 2019



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.



MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE Tuesday 11 December 2018 at 6.00 pm

PRESENT: Mr Ewart (Chair), Councillors A Choudry (Vice-Chair), Donnelly-Jackson, Naheerathan and Nerva, and Independent Members Robert Cawley, Sheila Darr and Karen McArthur

Also Present: Councillor S Choudhary

Absent: Councillor Kansagra and Independent Member Margaret Bruce

Everyone introduced themselves as this was the first meeting attended by Bianca Robinson (Senior Lawyer – Constitutional and Governance, Brent Council) and Councillors Donnelly-Jackson and Naheerathan.

1. **Apologies for absence and clarification of alternate members**

The Chair informed Members that he had received apologies for absence from Carolyn Downs (the Council's Chief Executive) and Althea Loderick (the Council's Strategic Director of Resources).

It was noted that Independent Persons Nigel Shock and Keir Hopley had given apologies for absence.

2. **Declarations of Interest**

In relation to Agenda item 7, David Ewart declared that he had worked together with Marc Dorfman, the independent reviewer of the Planning Code of Practice, at the London Borough of Ealing.

3. **Deputations (if any)**

There were no deputations.

4. **Minutes of the previous meeting**

It was **RESOLVED** that the minutes of the previous meeting of the Audit and Standards Advisory Committee, held on 17 October 2018, be approved as an accurate record.

5. **Matters arising (if any)**

Report on i4B Holdings Ltd and First Wave Housing Ltd
(Item 5 of the minutes of the minutes of the previous meeting)

It was noted that an update on the operation of the Council's wholly owned companies – i4B Holdings Ltd and First Wave Housing Ltd, would be provided either at the February 2019 or the March 2019 meeting of the Committee.

Independent Advisor to the Committee

(Item 5 of the minutes of the minutes of the previous meeting)

Conrad Hall (the Council's Chief Finance Officer) informed the Committee that he had approached leading recruitment agencies in the field. A job advertisement was expected to go out either in late December 2018 or early January 2019. Mr Hall said that he would discuss the details of the recruitment process with the Chair and the Vice-Chair of the Committee.

Risk Management Framework Review

(Item 5 of the minutes of the minutes of the previous meeting)

It was noted that an update on the Risk Management Framework Review would be provided at the meeting of the Committee on 5 February 2019.

Lender Option Borrower Option Loans

Mr Hall noted that KPMG (the Council's former External Auditor) were still considering the objection to the Council's accounts that had been raised in respect to the Council's Lender Option Borrower Option (LOBO) loans. Mr Hall explained that KPMG had emailed him earlier that day to explain that they were looking to issue their provisional view in January 2019 and Mr Hall, therefore, expected that he would be able to provide an update to the Committee at the meeting on 5 February 2019.

Paul Dossett (Partner, Grant Thornton – External Audit) explained the process in detail – after the auditor had issued their provisional view, the objector and the Council would usually have 20 working days to respond. The auditor then took into account whether the points that had been raised were substantive and would issue their final view. Once this had happened, the objector could not raise any further points of legality unless they took their objection via appeal to the court system at their expense within 21 days. He referred to his experience and noted that his understanding was in cases where there were had not been complications in taking out the LOBOs, auditors had not found the process to be unlawful. However, in other instances, such as when inverse LOBOs had been taken out, work on some objections continued, but his understanding was judgement was likely to be that the LOBOs had been taken out without this being contrary to the interests of the local authorities at the time.

Mr Hall provided more information about the nature of the LOBOs, pointing out that these were transactions in which the Local Authority had entered in the late 1990s and early 2000s, with the most recent one being about ten years old. The objection that had been made to the Council's accounts argued that the decisions to enter into the LOBO contracts were unreasonable and called on the auditor to take action. Although it had been difficult to locate some documents related to the decisions taken to enter into the loans the auditor now had everything that Brent had been available to locate. The evidence that was available showed that Brent had withdrawn substantially less money than other local authorities. Furthermore, the Council had recently been able to redeem one of the LOBOs at favourable terms.

An Independent Member asked whether the transaction was ultra vires, and Mr Hall replied that the Objector contended that this was or may be the case, which would be for the auditor to determine.

A Member commented that some local authorities, like the London Borough of Croydon, had used money from the Public Works Loan Board (PWLB) to repay their LOBOs and asked whether more information on the issue could be provided at the next meeting of the Committee on 5 February 2019.

The level of Council's reserves

(Item 8 of the minutes of the previous meeting)

The contents of the discussion on the level of the Council's reserves had been reflected in the Update Report from the Vice-Chair of the Audit and Standards Advisory Committee presented at the Full Council meeting on 26 November 2018.

It was noted that although the level of the Council's reserves had been considered to be adequate for the present situation, monitoring it would continue.

Counter Fraud Quarterly Progress Report 2018/19 (Fraud case)

(Item 10 of the minutes of the previous meeting)

Michael Bradley (the Council's Head of Audit and Investigations) provided an update on an internal fraud case. The case was heard at a Harrow Crown Court on 5 December 2018 and the former employee had been sentenced as follows:

- Two years imprisonment per offence to run concurrently suspended for two years;
- 240 hours unpaid work;
- Compensation in the sum of £44,669.57; and
- Costs in the sum of £2,500 payable within 12 months.

It was noted that Mr Bradley would circulate the factors that the judge had taken into account when making this decision to all Members of the Committee.

Mr Bradley pointed out that the Council had asked for costs of £27,232. However, the judge had concluded that £2,500 was all that the defendant could afford to pay.

The Committee heard that the Council had been successful in recovering the full amount of the fraud. In response to a question related to measures that had been put in place to prevent similar situations from occurring in the future, Mr Bradley said that details on an audit of the relevant controls would be presented at the next meeting of the Committee on 5 February 2019.

6. Quarterly Update on Gifts and Hospitality

Debra Norman (the Council's Director of Legal and HR) presented the report which updated the Committee on gifts and hospitality registered by Members and a recent case involving the Freedom of Information Act and Independent Persons. Ms Norman reminded the Committee that Members were required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50,

with a list of declared items being available at Appendix 1 to the report (page 15 of the Agenda pack).

Ms Norman referred to the case of Cyril Bennis v Information Commissioner & Stratford-on-Avon District Council (EA/2107/0220) which related to an unsuccessful complaint of misconduct against a Councillor in relation to their handling of a planning matter and the subsequent refusal of the Local Authority to withhold disclosure of information received from one of its Independent Persons (IPs) (for more details please see paragraphs 3.4-3.11 of the report (pages 12 and 13 of the Agenda pack)). She highlighted that the First Tier Tribunal (FTT) had judged that the ICO's decision notice to be wrong in its assessment of the public interest test in relation to the Section 36 of the Freedom of Information Act (FOIA) exemption as it had not placed not enough weight on the fact the IPs opinion would have been made public if there was to be a hearing. However, it was noted that the Council had been correct to rely on Section 40 (2) of the FOIA. The FTT found the correct approach was to consider the rights of the Councillor concerned as a data subject and for unsubstantiated complaints against Councillors, e.g. the details of unsubstantiated complaints, those details should not be published.

Ms Norman informed Members that the Committee on Standards in Public Life had undertaken a review of local government ethical standards with the aim to implement robust standards arrangements to safeguard local democracy, maintain high standards of conduct, and protect ethical practice in local government. Brent had made a submission (following a discussion with Members) which had been included in the consultation which had closed in May 2018. It was expected that the Committee on Standards in Public Life would publish its report by the end of 2018.

RESOLVED that the contents of the Quarterly Update on Standards (Gifts & Hospitality) report, be noted.

7. **Planning Code of Practice Review update**

The Chair explained that the Planning Code of Practice Review Update report would be considered by the Audit and Standards Advisory Committee, following which a formal decision on the recommendations outlined in the paper would be made by the Audit and Standards Committee.

Debra Norman (the Council's Director of Legal and HR) introduced the report which provided an update on the outcome of the Independent Review, and the consequential recommended changes, in relation to the Planning Code of Practice. Ms Norman reminded Members that the Council had undertaken an internal review which had proposed various changes to the Code which had been approved by Full Council (Appendix 2 on page 43 of the Agenda pack).¹ She added that an Independent Review had been carried out simultaneously and the Independent Expert's report had been attached at Appendix 1 (page 21 of the Agenda pack). Members heard that a summary of its key findings was available in paragraph 3.3 of the report (page 18 of the Agenda pack) – Ms Norman highlighted that the Independent Review had supported the changes made and approved by the Council in January 2018, noting that 'the overall structure of Brent's Code and changes were sound'. In addition, the Independent Expert compared Brent's Code

¹ The additional changes that had arisen from the independent review had been highlighted in red.

of Practice to neighbouring authorities positively and noted that the Planning Committee meeting he had observed had been well chaired; its governance arrangements were good; officer presentations made the technical reports easier to understand; and Members demonstrated an understanding of material planning matters. Furthermore, he had noted that a small proportion of recommendations made by officers were rejected and suggested that the Code should clarify that if a Planning Committee Member opted to act in a representative (as opposed to decision making) capacity then they would be subject to the same rules as other Members. When the Council explained their rationale and the process which addressed this, the Independent Expert was content with the explanation provided.

A specific recommendation outlined in the Independent Review report related to the fact that the Council should consider re-inserting a 'call-in' section in the Code. This was addressed by gate-posting where further information on call – in could be found and referring to the updated terms of reference of the Planning Committee which includes a clear and robust call-in criteria.

It was also noted that the Local Authority should consider referring all officer, Member and council applications to be decided by the Planning Committee. After consideration, the Council's response to this recommendation had been that there was no overriding justification for automatically referring such applications to the Planning Committee in all cases. The normal rules put in place provided a discretionary system to support both flexibility and proportionality with officers referring applications to the Planning Committee as appropriate.

RESOLVED that:

- (i) The contents of the Planning Code of Practice Review Update report, be noted and;
- (ii) The proposed changes to the Planning Code of Practice be recommended for approval by the Audit and Standards Committee.

8. External Audit Progress Report

Sophia Brown (Senior Manager, Grant Thornton - External Audit) introduced the report which provided the Committee with an update on progress in delivering Grant Thornton's responsibilities as the Council's external auditors. Ms Brown noted that the paper also included a summary of emerging national issues and developments that might be relevant to Brent. She said that Grant Thornton had been began their planning and risk assessment work on 5 November 2018 and they had familiarised themselves with major business process systems so they could identify key controls to be monitored and tested. The Grant Thornton Team had met with the Internal Audit Team in order to learn more about their work and understand how it would impact Grant Thornton's testing strategy. Moreover, the Team had engaged with the auditors of the Council's wholly owned companies – i4B Holdings Ltd (i4B) and First Wave Housing Ltd (FWH) in order to plan audit work and the closure of the 2018/19 accounts.

Ms Brown pointed out that the Accounts Audit Plan would be presented to the Committee at the meeting scheduled to take place on 5 February 2019.

The Committee welcomed the report and Members asked questions that related to the audit of i4B. Conrad Hall (the Council's Chief Finance Officer) said that the timing of the next substantive update on the operation of the Company was to be confirmed but would either be February or March 2019. Nevertheless, he assured Members that the process of auditing the group accounts had been simplified as the same external auditor had been appointed to look at the accounts of the Council, i4B and FWH. This led to a discussion about the risk associated with using a single external auditor and Paul Dossettt (Partner, Grant Thornton – External Audit) explained that different teams worked on i4B and FWH and, therefore, the team working on the Council's account had no ability to influence the conclusions their colleagues reached.

Mr Hall pointed out that although information about the operations of i4B would be included in the update presented to the Committee, Members should be aware that specific queries related to the social value and the value for money delivered by i4B could fall in the remit of other committees such as the Housing Scrutiny Committee.

RESOLVED that:

- (i) The contents of the External Audit Progress Report, be noted;
- (ii) The timing of the next substantive update on the operation of i4B Holdings Ltd and First Wave Housing Ltd be confirmed prior to drafting the Agenda for the Audit and Standards Advisory Committee meeting on 5 February 2019.

9. Internal Audit External Quality Assessment

The Chair explained that Members and officers originally wanted the Council's internal audit function to be reviewed externally. However, as the pan-London peer review mechanism administered by the London Borough of Croydon had not been able to provide an independently selected reviewer, the Audit and Standards Advisory Committee had previously agreed the review to be carried out by the newly recruited Internal Audit Manager who reported directly to the Council's Chief Finance Officer in relation to this task.

Colin Garland (the Council's Internal Audit Manager) introduced the report and reminded Members that having a professional, independent and objective internal audit service was one of the key elements of good governance in local government. He added that the principal objective of the review was to assess conformance to the Public Sector Internal Audit Standards (PSIAS). Mr Garland had used a questionnaire consisting of 75 questions which had been designed by the Global Institute of Internal Auditors (IIA Global) and he had spoken to senior stakeholders such as the Head of Internal Audit and Investigations, the Chair and the Vice-Chair of the Audit and Standards Advisory Committee, the Chief Finance Officer, the Chief Executive and a number of Strategic Directors.

Mr Garland explained the Chartered Institute of Internal Auditors used a scale of three ratings – 'Generally Conforms'; 'Partially Conforms' and 'Does not Conform' to measure the effectiveness of Internal Audit against the PSIAS, with the outcome for Brent being 'Generally Conforms' (paragraphs 4.1 and 4.2 on pages 66 and 67 of the Agenda pack). Nevertheless, there were a few areas of improvement, such as revising the Key Performance Indicators with the external service provider and risk

management, which had been outlined at Appendix 1 (pages 69 and 70 to the Agenda pack).

The Committee welcomed the report and expressed their satisfaction that Brent's Internal Audit function had achieved a 'Generally Conforms' rating. However, Members asked whether a specific date for reviewing the actions marked as 'ongoing' could be set. They questioned whether the Council's Internal Audit function would be successful in identifying a shortfall in resources which could lead to a situation such as the one at Northamptonshire County Council. This led a wider discussion whether the Members understood the role of external auditors; the provisions for them to meet with external auditors outside the formal Committee meetings; and their interactions with senior officers. Paul Dossett (Partner, Grant Thornton – External Audit) explained that although it was considered good practice to hold such meetings, Grant Thornton had not had a reason to request one. In relation to Members of the Audit and Standards Committee interacting with senior officers, Mr Hall noted that there was already substantial such interaction. For example, although it was unusual for Chief Executives (and sometimes even Chief Finance Officers) of other authorities to attend the meetings of their respective audit committees. Brent's Chief Executive, with the exception of this meeting for which there was an unavoidable diary clash, had attended all other meetings of the Committee.

A Member enquired whether it would be possible for details of the discussions Mr Garland had had with various stakeholders to be circulated to the Committee so Councillors could be aware of the engagement levels among officers. Conrad Hall (the Council's Chief Finance Officer) explained that sharing the notes of these conversations could impact senior officers' willingness to speak freely to reviewers and advised that this would not be practical. Michael Bradley (the Council's Head of Audit and Investigations) suggested that Mr Garland could attend an informal meeting with the Chair and the Vice-Chair to provide them with general feedback without breaking the rules of confidentiality.

Members felt that it would be beneficial to hold an open and honest discussion about improving the performance of the Audit and Standards Advisory Committee. They noted that commissioning an external body to carry out an extensive review would not be feasible, but carrying out a self-assessment and identifying areas for improvement should be sufficient. Mr Hall suggested that he could provide a briefing note which could facilitate a conversation on assessing the committee's own effectiveness. In addition, it might be possible to create an internal questionnaire and carry out preliminary work in order to provide a structured guidance for the self-assessment.

RESOLVED that:

- (i) The contents of the Internal Audit External Quality Assessment report, be noted;
- (ii) An update against the actions related to the areas for improvement, including the ones marked as 'ongoing', be provided at the Committee meeting on 20 March 2019;
- (iii) Providing that the pan-London peer review mechanism became operational again, a peer review of Brent's Internal Audit function

against the PSIAS be requested prior to the next due date in five years' time;

- (iv) A briefing note to facilitate a conversation on assessing the Committee's effectiveness be provided by the Chief Finance Officer to the Committee meeting in February 2019 or March 2019;
- (v) The feasibility of creating an internal questionnaire and carrying out preliminary work in order to provide a structure and guidance for the self-assessment be considered; and
- (vi) The Independent Members be involved in the self-assessment of the Committee's effectiveness.

10. **Forward Plan and Agenda for the Next Meeting**

The Chair directed Members' Attention to the Committee's Forward Plan (page 71 of the Agenda pack) and suggested that it might not be necessary for Grant Thornton to provide External Audit progress reports at all future meetings due to their high frequency.

An Independent Member suggested that the Committee considered the Council's response to the report on local government ethical standards issued by the Committee on Standards in Public Life.

RESOLVED that:


- (i) The contents of the Audit Advisory Committee Forward Plan, be noted;
- (ii) The frequency of External Audit progress reports being provided to the Committee be reduced, if necessary;
- (iii) An item related to the Council's response to the report on local government ethical standards issued by the Committee on Standards in Public Life be added to the Forward Plan; and
- (iv) An item related to the self-assessment of the performance of the Committee be added to the Forward Plan.

11. **Any other urgent business**

None.

The meeting closed at 7.07 pm

DAVID EWART
Chair

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Executive
Emergency Preparedness Update	

Wards Affected:	All
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:	N/A
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Daryl Jooste Civil Contingencies Manager Email: daryl.jooste@brent.gov.uk Tel: 020 8937 5415

1.0 Summary

- 1.1 At the January 2018 Audit Advisory Committee, it was resolved that an Emergency Preparedness item be added to the forward plan to be discussed in July 2018 and annually thereafter going forward. We have chosen to bring this annual update forward to bring it into line with the London-wide assurance and challenge process that has recently been instigated.
- 1.2 This report briefly outlines the progress made since the July 2018 report, details the type and number of incidents in Brent and provides some information around initiatives and programmes of work under way to enhance our resilience and response arrangements.

2.0 Recommendations

- 2.1 The Audit and Standards Advisory Committee is asked to note the contents of the report.

3.0 Detail

Assurance

- 3.1 Brent undertakes an annual self-assessment of response and resilience capabilities and submits these centrally to London Resilience. Results from the 33 Local Authorities are collated to identify trends, areas for improvement and areas of good practice. Sub-regionally, peer challenge of the self-assessment scores are undertaken, overseen by Chief Executives and Directors with responsibility for Emergency Planning & Resilience. Our self-assessment is attached at appendix [A]. The Local Authorities Panel is considering the collated results from across London and a regional action plan is in development which will be supplemented by a local action plan once this is completed. A few common themes where improvement is desirable across all Local Authorities have already been identified and a local action plan to address these is being drawn up in conjunction with relevant guidance and support from London Resilience. Themes identified across all local authorities are:
- Humanitarian Response
 - Community Engagement and management
 - Media and Comms management
 - Governance

Emergency Shelter & Accommodation

- 3.2 Brent has made use of the Emergency Accommodation Protocol (a product of one of the Task & Finish Group recommendations) on 4 occasions since its inception, to accommodate small numbers of evacuees from emergencies in local hotels. The protocol recognises the need for quality accommodation to be sourced in a timely manner for those affected by emergencies and balances the needs of those affected with the resource requirements, especially demands on officer time, cost to the council and the ease of implementation in the midst of an emergency. Also, 3 new emergency shelter venues have been identified and agreed with the building owners to be used in case of an emergency in the local area. These are the Windmill Court Community Hall, the Watling Gardens Community Centre and the new Premier Inn, Wembley Stadium location.

New Emergency Response Officers

- 3.3 In August 2018, we recruited an additional 10 new Emergency Response Officers. These staff volunteer to join the scheme and 2 are placed on call each week to provide the immediate 24/7 response to any incident in the borough under the supervision of the Emergency Duty Officer (also on call 24/7). This takes our total number of trained Emergency Response Officers to 24.

Standardisation

- 3.4 To avoid 33 different ways of doing the same thing, London Resilience has commissioned a piece of work to standardise, as far as possible, certain

elements of the Local Authority Response, underpinned by a common Concept of Operations. This ensures that during a multi-borough or pan-London response, there is consistency between the responders regardless of their home authority. Areas selected for standardisation include Liaison Officers, Emergency Centres and Control Centres. Brent is largely already compliant with the new doctrine and adjustments are being made in other areas to become so, where necessary.

Digital Tools

- 3.5 The council's digitisation strategy has enabled electronic capabilities to be developed in areas where manual, paper-based recording and reporting previously existed. Two examples of this are the Situation Reporting tool, which is accessible from any device being used by Response Officers on scene to quickly and succinctly gather and share relevant information regarding the incident back to base and the Electronic Evacuee Registration tool which allows real time recording and analysis of evacuee data as evacuees arrive at a Rest Centre following an emergency to form an initial database of affected people. Paper systems are, of course, retained as back up in the event of system failure. Systems have been tested during simulations and subsequently deployed during live incidents and proven to work well in the field.

Brexit

- 3.6 Assessment on our ability to respond to an emergency in the community.
- 3.6.1 Core response capabilities: Brent Council's core response capabilities (such as staffing, vehicles and software systems) are sourced and maintained in-house and are not critically dependant, in the immediate term, on external suppliers or support.
- 3.6.2 Additional response capabilities: Response capabilities that are provided by suppliers and voluntary sector partners e.g. the British Red Cross, Vodaphone etc. are sourced from well-established, UK-based and multi-national organisations.
- 3.6.3 Other capabilities: Contractors who provide services such as street cleansing or highways management and exist as part of the council's business-as-usual operation may have a role during an emergency. Such suppliers are subject to regular contract management to identify any emerging issues early. There are likely to be stresses in certain sectors, post-Brexit, but the impacts of these are likely to emerge and become known over time and should not manifest acutely at the time of an emergency or as a result of the emergency.
- 3.7 Potential role of Emergency Planning during Brexit
- 3.7.1 Business Continuity: All council services complete an annual assessment of their capability to deliver services during a disruption to business. Whilst not specifically examining the impacts of Brexit, Business Continuity Plans do

gauge the impacts (and short term solutions) of scenarios like loss of staff which is one of the concerns as it relates to Brexit.

- 3.7.2 Emergency Plans: The constraint of fuel supply has always been a risk to the UK, not in relation to Brexit prior to this point but Brexit may cause the situation to become acute. Brent maintains a Fuel Disruption Protocol for these situations and in the event of actual constraint, HMG would activate the National Emergency Plan for Fuel, which rations fuel to the public and non-essential business users. Brent Council is an authorised recipient of fuel in these circumstances for our “life and limb” services, which are already known and assessed in order to ensure they receive fuel under a Temporary Logo Scheme, maintained by Emergency Planning.
- 3.7.3 Reporting: Central Government has indicated that during the Brexit period, they may require local authorities to report any issues experienced that are related to Brexit. Indicators such as community tension, staff shortages, shortages of material or food are likely to have to be reported to central government as they occur on the ground. Emergency Planning, will provide the conduit between local and central government via London Resilience once the reporting regime is known.

Incidents

- 3.8 There have been 11 incidents since July 2018 that have warranted an attendance by Emergency Response staff. Of those, 8 caused the Silver (senior manager) level to be notified and all but 2 of those notifications were for information only (the 2 exceptions were not for anything more than “sense-checking” a plan of action or requesting authority to proceed with the intended actions). This demonstrates that Brent’s operational arrangements are adequate in dealing with the types of incidents faced to date and align with the UK’s Response Doctrine principle of subsidiarity. Gold (Chief Executive/Strategic Director) level was informed in most cases for information and exercised their Gold Functions in two instances (for approval of expenditure, setting of strategy and direction of resource). Again, this aligns well with the subsidiarity principle.

A summary table of incidents is provided overleaf:

DATE	INCIDENT TYPE	LOCATION	ROLES ACTIVATED / INFORMED (A/I)									KEY ACTIONS
			Duty Officer	Silver	LALO	Surveyor	Rest Centre	Red Cross	GOLD /	Comms	Other	
10/07/2018	Fire – Commercial Premises also affecting flats above	54 High Rd, NW10	A	I	A					I		LALO attended scene. Liaise with emergency services. Liaise with residents and landlord. Public info re road closures.
12/07/2018	Fire – Confined entirely to Industrial Estate	East Lane	A	I	I	I			I	I		Monitored remotely via CCTV. Remote liaison with emergency services. Public info re road closures and traffic disruption.
13/07/2018	Page 13 Flooding - surface water –heavy rainfall	Borough wide	A	I	A				I	I		Monitored and received reports from emergency services into CCTV. Deployed gully suckers and Highways Teams to locations based on priority. 2x LALO's to Church Rd, NW10 for flooded properties. Liaised with emergency services and flooded residents Rehoused 4x residents overnight. Housing Assoc informed to take up repairs/rehousing following day.
22/10/2018	Fire – Commercial Premises	High Rd NW10	A									Minor restaurant fire, monitored remotely. Liaised remotely with emergency

												services, no assistance required. Public info re traffic disruption
31/10/2018	Fire – Single house	57 Waverley Ave HA9	A	I	A				I	I		LALO attended scene. Liaise with emergency services. No rehousing reqd
12/11/2018	Infrastructure & Environmental – 400 litre diesel spill onto public highway	Blackmore Drive, NW10	A	I								Veolia to soak up. Highways to close road and inspect carriageway. Liaison with Royal Mail re diversions to their site. Thames Water and Env Agency notified – quantity of diesel entered public drains.
14/11/2018	Police-led operation	Lynton Close	A	A	A		A		A	A		Stood by resource as per operational plan
16/11/2018	Flooding – surface water - burst water main	Parkfield Rd NW10	A	I	A				I	I		EP & LALO attended scene. Liaison with utility company. Removal of lamp column to enable excavation and repair. Highways to inspect carriageway re reinstatement Visited affected/flooded properties to ensure welfare of residents. Ensure Thames Water reps and loss adjuster aware and undertaking further resident liaison. Planning for alternate fresh water supply (bottled water) if mains supply delayed.
21/11/2018	Fire – Single	171 Malvern	A									Monitored remotely (pipe bomb

	Flat	Rd, NW6										incident also in progress). Liaison with emergency services determined no assistance required
21/11/2018	Possible Explosive device - Pipe bomb	Craven Park NW10	A	I	A		A		I	I		EP & LALO attended scene. Temp shelter of 7 residents at Harlesden Police Station, meals provided. Liaison with police CID re searches.
12/12/2018	Road Traffic Accident – bus into commercial premises	77 Chamberlayne Road	A	I		I						Monitored remotely via CCTV. Building Surveyor stood by Public information re road closures and traffic disruption
04/01/2019	Fire – Residential block	Windmill Court, NW2	A	A	A	A	A		A	A		EP & LALO attended scene. Liaise with emergency services. Updates provided to Gold and chain of command. Rest Centre established and additional staffing attended. Sourced hotels rooms in case required. Housing Needs interviewed potentially affected residents. BHM on scene to survey damage and liaise with residents. Comms piece worked up in case of enquiries. Repairs to damaged properties.

Initiatives

- 3.9 One of the common findings of the assurance work mentioned earlier was that Community Engagement is an area for development across all Local Authorities. Whilst Brent maintains community resilience web pages with helpful pointers and advice, it is recognised that more work is needed in order for our communities to become more resilient and able to look after themselves and each other during an emergency. Brent Emergency Planning is looking to refine its offer to our communities to help them better prepare for an emergency and understand the potential impacts that an emergency may have on them.

4.0 Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5.0 Legal Implications

- 5.1 There are no legal financial implications arising from this report.

6.0 Equality Implications

- 6.1 There are no equality financial implications arising from this report.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

IAP Self-Assessment Record (Brent)

Boroughs do not complete columns A-E					Boroughs to complete columns F, G and, where required, H		
#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
1,1	Governance	The authority has taken to Corporate Management Board a paper that outlines how it will improve resilience, taking into account the EP2020 targets	<p>In doing so, the Local Authority has ensured senior management is aware of the pressures facing, and recommendations to enhance, Local Authority resilience in preparation for the anticipated challenges of the next decade.</p> <p>April 2018 revised edition of EP2020 includes the recommendations from the Sean Ruth report.</p>	<p>Established: Paper to Corporate Management Board on the improvements required to resilience, which incorporates relevant EP2020 targets.</p> <p>Advanced: Local, borough-level work plan to deliver EP2020 targets.</p> <p>Evidence expectations: Minutes of Corporate Board meeting or email from CEO confirming approval of EP2020 targets.</p>	Established	Brent is largely compliant with the EP2020 recommendations. As such, the approach has been to deal with the elements individually as they arise, many of which require further input from the centre according to the implementation plan. CE well-sighted on EP2020 via CE liaison Officer, LAP, WL Resilience Group and CELC. Leader briefed in advance of this item at London Councils.	
1,2	Governance	The authority has a Director with responsibility for resilience	Reporting into Corporate Management Board and holding budgetary responsibilities, Directors are best placed to drive forward improvements in resilience. This should include EP2020 targets that are for implementation at the local/borough level. This is likely to be the Director who attends the sub-regional grouping meetings.	<p>Established: Board assigns the responsibility for resilience to a Board-level Director.</p> <p>Evidence expectations: <i>Minutes of Corporate Management Board meeting or email from CEO confirming the lead Director for resilience</i></p>	Established	The Strategic Director Resources has responsibility for Emergency Planning and Resilience. This Director also attends the sub-regional meetings and chairs the quarterly Business Continuity Steering Group meetings.	
1,3	Governance	The authority has a suitable governance structure for resilience, under which it can implement resilience across the organisation	A defined governance structure for resilience, with links to the Director with responsibility for resilience, through which the local-level improvement plan is monitor and steered. The structure may be stand-alone or incorporated into existing structures. For the latter, terms of reference should include responsibilities for resilience.	<p>Established: An agreed governance structure for resilience.</p> <p>Evidence expectations: <i>Documented governance structure, which may be in the form of a flow diagram, terms of reference for relevant groups and committee and/or an email from the CEO that confirms the governance structure for resilience .</i></p>	Established	Governance follows departmental structures, driven by the Council Management Team and overseen by the Chief Executive. Annual report regarding Emergency Preparedness to Audit Committee. A stand alone group with ToR and representation spanning the corporate resources directorate, exists for Business Continuity and is chaired by the Strategic Director Resources.	
2,1	Standardisation	Corporate Management Board has approved the transition to a standardised approach	<p>This includes:</p> <ul style="list-style-type: none">Amending the Borough’s Generic Emergency Plan to align with the LLA Concept of Operations (CONOPS) and the Standardised Emergency PlansIntroduction of the Standardised arrangements, covering:<ul style="list-style-type: none">BECC Management ProceduresLocal Authority Liaison Officer ProceduresEmergency Centres Plan and the four Standard Operating Procedures (Survivor Reception Centre; Rest Centre; Family & Friends Reception Centre; and Humanitarian Assistance Centre)Training LA staff in the above Emergency Plans, using the standardised training course content <p>Transition must complete by September 2019.</p>	<p>Established: Board briefed on the timeline for standardisation and has approved the proposed changes and timescales.</p> <p>Evidence expectations: <i>Minutes of Corporate Board meeting or email from CEO.</i></p>	Established	No single overall briefing (as per 1.1) but as milestones in the Standardisation Implementation Plan are reached, corporate board is kept apprised. Thus far CONOPS has been briefed and currently BECC standardisation is the subject of a separate paper to the board.	
2,2	Standardisation	The authority has sufficient local resources to deliver the transition activity within the timetable agreed by the Local Authority Panel (LAP).	<p>Implementation is expected to take place from July 2018 to September 2019, concluding with Exercise Preparer 2019. LLA CONOPS (and amendments to Generic Emergency Plan), BECC Management Procedures and LALO in first tranche (July 2018-May 2019). Emergency Centres in second tranche (May-September 2019)</p> <p>Transition must complete by September 2019.</p>	<p>Established: The organisation has evaluated that it has available the necessary resources required for transition to standardisation.</p> <p>Evidence expectations: <i>Documented programme of work, identifying the volume of activity and the resource(s) designated to complete each phase of work.</i></p>	Established	Approach will follow Standardised Implementation Plan V3 and be delivered by the current EP resource.	Resource requirements to administer standardisation will be met within existing EP resource and proceed according to the timetable proposed in the Standardised Implementation Plan
3,1	IRC - notification, situational awareness, assessment and activation	The authority is able to maintain a 24/7 watching brief for signs of an incident. This includes a 24/7 single point of contact to whom notifications of emergencies may be issued by other agencies.	<p>Single point of contact may include a call centre, duty officer or similar. Where a caller leaves a message, it is returned within 5 minutes.</p> <p>Links with 'Monitoring': LLA CONOPS, paragraph 24(i).</p>	<p>Established: A robust, 24/7 single point of contact that is trained to receive notifications of incidents and use METHANE to record and then forward the notification information.</p> <p>Evidence expectations: <i>Detail of the 24/7 point of content within the Generic Emergency Plan, approved by Corporate Management Board. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Advanced	>Major Emergency Plan (Last reviewed 2017 and currently under review to incorporate CONOPS) >Duty Officer and Silver Handbook (Last reviewed 2018) >Duty Officer monthly meeting minutes	24/7 Emergency Duty Officer on call. Direct number provided to emergency service partners. Council call centre provided rota in advance. Rota lists alternative numbers and off-duty officer numbers in case no contact is made with the primary on-call. Borough profiles document current.

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,2	IRC - notification, situational awareness, assessment and activation	Prior to activating its emergency response arrangements, the authority can gather information about a potential (nearby) incident and, where required: - assess the strategic impact and brief Council Gold; - give an early warning to its services; and - share information about the incident with partner organisations (local and regional)	<p>This is likely to be carried out by a duty officer, such as Council Silver and/or LALO. This person receives the initial notification of a potential/nearby incident and take steps to understand its potential scale. Mechanisms exist to notify core council services of the incident. Core council services have a 24/7 single point of contact for incident notification. Mechanisms exist to assess the strategic impact and brief Council Gold. Mechanisms exist to be able to share information about the incident with other organisations within the borough and across London, including via the London Local Authority Coordination Centre (LLACC).</p> <p>Links with 'Information Sharing and Communications': LLA CONOPS, paragraph 24(ii).</p>	<p>Established: Officers with this responsibility have been trained and the process tested to gather information about a new/potential incident and the deployment of a council response/activation of council resources.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority gathers information about an incident, assesses the impact of the incident and alerts its service areas/departments. Generic Emergency plan or associated procedure details how the authority shares information with partner organisations. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Advanced	<p>>Major Emergency Plan >Emergency Communications Protocol >Duty Officer and Silver Handbook >Locally agreed (BRF) Multi-agency Incident Coordination and Alerting Action Card</p>	<p>Duty Officers will >use LALO to gather on scene information >use external contact list to make contact with external agencies to gather information >Alert on call Silver, Gold and Comms team as a default position (either for info or to activate) >Alert required on call services via on call rotas >mass message the organisation on instruction from Gold (to alert or instruct) >Provide an initial Situation Report (METHANE) to the chain of command as soon as is practicable >undertake initial public advisory by posting to council twitter feed (until comms officer is in place)</p>
3,3	IRC - notification, situational awareness, assessment and activation	Following declaration of a Major Incident, the authority can escalate its operational arrangements to Level 3 'Incident Response and Coordination' within 120 minutes/2 hours.	<p>Within this timescale, it is suggested the Boroughs can meet the following sub-timescales:</p> <ul style="list-style-type: none">• 30 minutes - Council Gold and Council Silver to be available to receive a briefing about the incident, either over the telephone or face-to-face.• 60 minutes - deploy a LALO to the scene to attend the Forward Control Point (MSL 2016)• 120 minutes - provide the core BECC functions of borough Situational Awareness, Information Management and resource coordination (as defined in the standardised BECC Management Procedures and LLA CONOPS).• 120 minutes - Council Gold and Silver Groups able to convene (teleconference or face-to-face)• 120 minutes - notify, brief and deploy the department-level response <p>Links with 'Incident Response and Coordination': LLA CONOPS, paragraph 24(iii), with timings taken from MSL 2016 and LLACC Operating Procedures where previously defined.</p> <p>Core command and control structure is detailed in the LLA CONOPS, Appendix A.</p>	<p>Established: Demonstrable evidence that the authority has a plan which it can implement to be able to activate its arrangements within the defined period of time following declaration of a Major Incident.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedures/plans sets out the organisation's C&C Structure, plus details the activation processes for the roles, including checklists/action cards providing details of staff initial and ongoing activities. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p> <p><i>NB. If your borough works to different timescales, please provide these in your response. This includes: Council Gold; Council Gold Group; Council Silver; Council Silver Group; Resilience Advisor; Loggist; BECC; LALO.</i></p>	Established	<p>>Major Emergency Plan >Internal Contact List (updated quarterly) >Duty Officer and Silver Handbook >Silver and response officer rota</p>	<p>>Gold and Silver on call at all times (Gold Chief Executive or nominated deputy by default, Silver by a rota, Duty Officer by rota, LALO by rota, Rest Centre Manager by rota) >Contact list maintained for above roles to allow one-to-one communication >Pre-established conference call number set up ready for use to allow "all informed" briefing/coordination >LALO's selected to live within 60 minutes travel time of Brent >All staff have full remote working capability so coordination and information management begins immediately without being tied to a physical location >Duty Officers selected to live within 60 mins of Brent to allow travel to and opening of initial BECC >CCTV staff trained to act as basic call handlers and information officers (on shift at the Civic Centre 20 out of 24 hours)</p>
3,4	IRC - notification, situational awareness, assessment and activation	The authority is able to deploy core departmental services in response to an emergency for at least the first 48 hours of an incident	<p>These services include:</p> <ul style="list-style-type: none">• Communications• Highways• Building Control• Environmental Health• Social Care <p>Departments maintain Business Continuity Plans and other emergency procedures which define their role in the response to a civil emergency, while maintaining the provision of core services to residents outside the emergency response.</p>	<p>Established: Departments maintain a system/process by which they can be notified of and respond to an incident, and can maintain their response for at least 48 hours.</p> <p>Evidence expectations: <i>Departmental plan(s) or associated procedures/sets out the way in which the Department activates and provides its services for 48 hours. Records of staff training for relevant Departmental emergency response staff, showing numbers to cover 48 hours. Exercise record, validating the robustness of the process to activate and then maintain services for up to 48 hours. Departmental Business Continuity Plans which detail critical services and how these will be maintained in the face of pressure from the emergency response and where a Department's operations are directly affected by the emergency e.g. total loss of a care home from fire.</i></p>	Established	<p>>Service Level BC Plans, updated annually. >Current up to date On call rotas (provided to EP as produced, weekly, monthly, quarterly) >Internal Contact list (updated quarterly) >Annual mass notification Comms Test results (Jan 2018) >EP Plan Tracking and briefing matrix</p>	<p>>Each service maintains a Business Continuity Plan, updated annually. >All essential services maintain a 24/7 on call rota >All senior management grades contact details are kept by EP in a resilient environment and programmed to a mass messaging system to allow mass notification in an emergency. >Emergency Plans have designated departmental or service owners and are subject to a schedule of review</p>

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,5	IRC - decision making and recording incident information	Gold and Silver levels can make and record decisions in a consistent manner	<p>A defined and documented decision making process, in which it is made clear what decisions need to be recorded and how decisions should be made and recorded. Process is applicable to the Gold and Silver levels within the local authority's command and coordination structure.</p> <p>Example decision making processes included the JESIP JDM - https://www.jesip.org.uk/joint-decision-model</p> <p>Good practices suggests the record of a decision should be uniquely numbered and, as a minimum, captures:</p> <ul style="list-style-type: none">• The decision required• Situation at the time of the decision (i.e. the context of the decision)• The options and whether each option was chosen and the rationale for this• Name, role and signature of the person making the decision• Time & date of the decision	<p>Established: A procedure that guides decision making, including a decision log template, for Gold and Silver level staff. Relevant staff have been trained in the procedure, and have demonstrated their ability to adhere to procedure.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority makes and records decisions. Template Decision Record. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Established	>Major Emergency Plan	<p>>Major Emergency Plan contains an Aide Memoir for Gold and Silver staff regarding strategic decision making, objective setting etc.</p> <p>>Currently no template exists in the format suggested and reliance is currently on personal logging and loggists to record this</p> <p>>A decision-making template will be developed to include the suggested headings</p>
3,6	IRC - decision making and recording incident information	The authority maintains personal logs for decisions and actions	<p>Log should capture events and actions specific to a role in relation to an incident. It may be either electronic or paper based with a suitable back-up log available. There should be a clear process by which the authority can retain information relating to the incident (including the Incident Log).</p>	<p>Established: Incident Log (primary and backup) either paper or electronic, with staff trained in its use and a process by which the log is retained after the conclusion of the incident.</p> <p>Evidence: <i>Template personal log (primary and backup). Training records for staff the BECC Loggist. Documented process through which incident information is retained, including the log. Exercise record, validating the quality of the log keeping. Repository of information relating to all previous incidents.</i></p>	Established	>Incident Log book	<p>Suggested template log book from Standardisation programme in use. Issued to responders (LALO's and Rest Centre Managers) in paper form. Available electronically also.</p>
3,7	IRC - decision making and recording incident information	The authority is able to maintain an incident (BECC) log, detailing key events and actions for the organisation during an incident.	<p>Log should capture events and actions relating to the incident. It should adopted the expectations set out in the BECC Procedures. It may be either electronic or paper based with a suitable back-up log available. There should be a clear process by which the authority can retain information relating to the incident (including the Incident Log).</p>	<p>Established: Incident Log (primary and backup) either paper or electronic, with staff trained in its use and a process by which the log is retained after the conclusion of the incident.</p> <p>Evidence: <i>Template log (primary and back-up). Training records for staff the BECC Loggist. Documented process through which incident information is retained, including the log. Exercise record, validating the quality of the log keeping. Repository of information relating to all previous incidents.</i></p>	Established	<p>>BECC Manual V12 July 2017.</p> <p>>Everbridge Incident Management System (current log system provider)</p>	<p>>Loggist role currently fulfilled by CCTV staff however will change to a dedicated role during BECC standardisation</p> <p>>Primary log is electronic and electronic versions of the paper log (as well as a physical paper log) are available as back up.</p> <p>>The recommended Excel log (standardised) has been adopted (and modified) as the fall back option</p>
3,8	IRC - Coordination	Council Gold is able to set, monitor and amend a working strategy for the emergency response.	<p>Those at Council Gold level can create a strategy that best fits the situation. They can monitor the success and continued suitability of the strategy and, where required, amend the strategy to fit a revised situation.</p>	<p>Established: Council Gold has been trained and tested in the writing, monitoring and amending of a working Strategy.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedures/sets out the responsibilities and associate actions for Council Gold in relation to setting, monitoring and amending Strategy. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Established	>Major Emergency Plan	<p>>Major Emergency Plan contains an Aide Memoir for Gold and Silver staff regarding strategic decision making, objective setting etc</p> <p>>Last tested Safer City 2017 and BC Exercise 2016</p>
3,9	IRC - Coordination	Council Silver is able to set, monitor and amend a tactical plan for the emergency response.	<p>Those at Council Silver level can develop a Tactical Plan that details how the organisation will strive to meet the Strategy set by Council Gold. Council Silver is able to monitor the success and continued suitability of the Tactical Plan and, where required, amend it to fit a revised strategy.</p>	<p>Established: Council Silver trained and tested in the writing, monitoring and amending of Tactical Plans.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedures/sets out the responsibilities and associate actions for Council Silver in relation to setting, monitoring and amending Tactical Plans. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Established	>Major Emergency Plan	<p>>Major Emergency Plan contains an Aide Memoir for Gold and Silver staff regarding strategic decision making, objective setting etc</p> <p>>Silver Taining 2017 (15 officers) covered off development of tactics in response to strategic direction</p>

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,11	IRC - Humanitarian Support	The authority is able to maintain a sufficient number of staff for core emergency response roles to respond for 48 hours. These staff are suitably trained, equipped and empowered to fulfil their respective role.	<p>Core emergency response roles (minimum number in brackets):</p> <ul style="list-style-type: none">• Council Gold (4)• Council Silver (4)• Resilience Advisor (varies by the size of the Emergency Planning team)• Loggist (one for Council Gold, another for Council Silver = 8)• LALO (4)• BECC Manager (4)• BECC staff (4 per role: BECC Message Handler; BECC Loggist; BECC Info Officer; BECC Officer)• Comms Link Officer (4)• Service Link Officer (4 trained in each department) <p>Training provided meets the Training Needs Analysis expectations of frequency, quality and quantity. Equipment Needs Analysis identified the required equipment and other supporting resources.</p> <p>* Staff numbers per role per 24 hours based on 3 staff working 8-hour shifts plus 1 reserve. Assumes 'on-call' role. If a pooling approach is used, the number of required staff is likely to increase, and should be based on risk assessment.</p>	<p>Established: Roles are documented, staff are trained and the robustness of the procedures for each role has been tested.</p> <p>Evidence expectations: Documents detailing the roles and responsibilities. Up-to-date Training and Equipment Needs Analyses for each role. Records of staff training for relevant emergency response staff, showing number of staff available for each role. Duty rosters, where relevant.</p>	Developing	>BECC Procedures Document (revised for standardisation)	>Current BECC staffing model is the Functional Coordinator model with senior individuals trained in one of the 4 functional areas (Welfare, Logistics, Operations and Comms). >The suggested standardised staffing model will require recruitment and training to the new suggested roles and there is a paper to the corporate board in this regard >This transition will retain the previously BECC trained senior staff in the Service Link Officer Roles
3,12	IRC - Humanitarian Support	The borough has identified suitable emergency centre locations across its area and has in place arrangements to use these locations	<p>Pre-identified locations, with arrangements in place to contact the keyholder/gain access to the venue, may help ensure Emergency Centres can be opened without delay.</p>	<p>Established: A list of locations within the borough that includes keyholder/access details, which regularly updated and is held by relevant emergency response staff (e.g. Council Silver and the BECC)</p> <p>Evidence expectations: A list of venues, which includes contact and access details, the address and capacity and limitations of the venue. List updated regularly (annually as a minimum) and available to emergency response staff in either hard or soft copy.</p>	Established	>Rest Centre map	>33 venues plotted on GIS map with venue information including capacity and contact details >Each venue contacted annually to confirm status and contact details
3,13	IRC - Humanitarian Support	The authority is able to open and operate a Rest Centre, and support the Police in their operation of a Survivor Reception Centre and Family and Friends Reception Centre (FFRC), for 48 hours: <ul style="list-style-type: none">• SRC, staff deployed at earliest opportunity, maximum deployment-to-site time of 3 hours• RC, open within 3 hours• FFRC, timings in line with opening of the Police Casualty Bureau	<p>Minimum number of trained staff* for the combined requirements of SRC, RC and FFRC:</p> <ul style="list-style-type: none">- Emergency Centre Manager (12)- Emergency Centre Officer (36, which assumes a minimum of 3 ECOs per centre <p>RC: Local Authorities are responsible for setting up and operating this centre type.</p> <p>SRC and FFRC: The Police are the lead organisation, with the Local Authority playing a crucial supporting role. The Police should set up the centre, with Local Authorities providing staff for a range of roles that support centre users.</p> <p>Source: Emergency Centres Plan and associated Standard Operating Procedures</p> <p>* Staff numbers per role per 24 hours based on 3 staff working 8-hour shifts plus 1 reserve. Assumes 'on-call' role. If a pooling approach is used, the number of required staff is likely to increase, and should be based on risk assessment.</p>	<p>Established: Demonstrable evidence that the timescales can be met and all roles suitably filled, trained and equipped. Rationale and organisational approval for any deviations from the recommended number of staff.</p> <p>Evidence expectations: Emergency Centre Plans, that detail how the authority opens and operates a SRC, RC and FFRC. Action cards for staff roles. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process to activate within timescales.</p>	Established	>Emergency Centre Procedures	>24 Rest Centre staff trained and able to act in manager or staff capacity >Exercise in May 2018 (full Rest Centre) with special needs clients >Registration-only exercise in Sep 2018 with 60 evacuees to test new registration capability
3,14	IRC - Humanitarian Support	The authority is able to open and operate a Humanitarian Assistance Centre within the agreed timescale of 72 hours	<p>Local Authorities are responsible for setting up and operating this centre type. Boroughs use the services of voluntary agencies, primarily the British Red Cross, in addition to other relevant agencies e.g. transport provider involved in the incident, Cruse Bereavement Care, the Association of British Insurers and Citizens Advice Bureau.</p> <p>Minimum number of trained staff* for the HAC:</p> <ul style="list-style-type: none">- Senior HA Officer (4)- Emergency Centre Manager (as there is limited overlap with SRC, RC and FFRC, boroughs do not require additional ECMs for the HAC) <p>Source: Emergency Centres Plan and associated Standard Operating Procedures</p> <p>* Staff numbers per role per 24 hours based on 3 staff working 8-hour shifts plus 1 reserve. Assumes 'on-call' role. If a pooling approach is used, the number of required staff is likely to increase, and should be based on risk assessment.</p>	<p>Established: Demonstrable evidence that the timescales can be met and all roles suitably filled, trained and equipped. Rationale and organisational approval for any deviations from the recommended number of staff.</p> <p>Evidence expectations: Emergency Centre Plans, that detail how the authority opens and operates a HAC. Action cards for staff roles. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process to activate within timescales (noting unlikely to be 'live play' exercise due to comparatively high costs of activating a HAC)</p>	Established	>Brent HAC Plan >Rest Centre Procedures	>HAC Plan identifies larger venues suitable for establishment of a HAC, 2 staff as HALO >Rest Centre Procedures identify 4x HA Service leads (will be rebranded to Senior HA Officer as part of standardisation but essentially the same role)
3,15	IRC - Humanitarian Support	Able to identify vulnerable people or other special interest groups who require targeted information	<p>Special interest groups e.g. schools and care homes along high-pressure pipeline routes under Pipeline Safety Regulations (see PSR 'Further guidance on emergency plans for major accident hazard pipelines' para 39).</p> <p>This may see the BECC collating information from a range of service areas include Social Care and Housing.</p> <p>It is a given that this activity complies with any GDPR and Information/IT Security expectations.</p>	<p>Established: A process detailing the roles responsible for the identification of vulnerable people and special interest groups, the robustness of which has been demonstrated.</p> <p>Evidence expectations: Generic Emergency plan or associated procedure details how the authority identifies vulnerable people and other special interest groups. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</p>	Established	>ID of vulnerable people plan	>Plan contains process by which potentially vulnerable people are identified as well as SCP's (sensitive centres of population). >Vulnerable people and sites are plotted onto GIS and available for extract by Duty Officers (updated every 24 hours automatically)

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,16	IRC - Humanitarian Support	The authority is able to process the receipt, storage and onward dissemination of physical donations.	<p>Part of the humanitarian and community assistance response, Boroughs should expect to receive physical (as well as financial) donations. The scale of physical donations has shown to overwhelm the responders e.g. following London riots in 2010.</p> <p>Links with EP2020 Target 19</p>	<p>Established: A documented process to receive, sort, store and disseminated physical donations, with clarity around responsible council teams. Process has been demonstrated to be robust.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority will receive, store and disseminated physical donations. Storage locations may have been identified and documented, or, instead, a process to identify storage locations at the time of the incident. Records of staff training for relevant emergency response staff in the use of the process. Exercise record, validating the robustness of the process.</i></p>	Developing	<p>>Brent Recovery Plan (Sep 2017)</p> <p>>Voluntary Sector Capabilities Document (London Resilience)</p>	<p>>Brent Recovery Plan allocates the role of coordinating physical donations to the Health and Welfare sub-group and the role of coordination of disaster appeals and funding to the Community Recovery sub group</p> <p>>We have an MOU (now negotiated centrally) with the British Red Cross who are likely to undertake the collection, storage and allocation of physical donations as well as establish a disaster appeal fund on behalf of LA's. British Red Cross are a standing member of the Borough Resilience Forum and their capabilities are well-understood at local responder level</p> <p>>More operational detail around the suggested process and logistics of this capability need to be developed</p>
3,17	IRC - Humanitarian Support	The authority is able to complete a Humanitarian Assistance Impact Assessment	<p>The requirement to complete a Humanitarian Assistance Impact Assessment forms part of the Humanitarian Assistance framework. It forms a core part of the process through which the need to activate various types of Humanitarian Assistance is made.</p>	<p>Established: A documented process to complete a Humanitarian Assistance Impact Assessment, with staff trained in the process, and have tested the robustness of these processes.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority completes a Humanitarian Assistance Impact Assessment. Responsible emergency response role identified in the procedure. Template form. Records of staff training for relevant emergency response staff in the use of the process. Exercise record, validating the robustness of the process.</i></p>	Established	>London Resilience HA Framework	>HALO's trained to request HAIA from relevant agencies. Template available
3,18	IRC - Augmenting the emergency response	The authority is able to coordinate convergent volunteer council staff and re-task staff to support the emergency response.	<p>Convergent volunteers are those who are not part of a pre-identified group. Instead, they are staff who, at the time of an incident, make it known that they are available and would like to assist.</p> <p>This assumes the organisation has an agreed process by which it can instruct staff who are not carrying out a critical business activity to support the response to an emergency. In addition, it assumes there is supporting policy and job descriptions/contracts that permit the movement of staff around the organisation as required during an emergency.</p> <p>From a practical perspective, training, equipment and other requirements may limit the ability to re-tasking someone at the time of an incident to another task/role. Therefore, re-tasking of staff should be guided by risk assessment.</p> <p>e.g. Camden instructed all staff in non-critical roles to support the response to Chalcots Tower evacuations.</p>	<p>Established: A process that describes who is responsible for collating offers of support from council staff, before coordinating the deployment of the volunteers. The process should include a risk assessment. The robustness of the process has been demonstrated.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority coordinates convergent council volunteers. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the process.</i></p>	Established	<p>>A Briefing, Tasking and Deployment form is available to manage staff who present to volunteer</p> <p>>A risk assessment for responders is maintained</p>	<p>>The form has a standard briefing included re H&S, media handling, points of contact and general conduct. Blank space exists for incident-specific detail to be inserted at the time</p> <p>>The risk assessment covers off risks typically present at incident scenes and at emergency centres and could be adapted at the time to suit, if modification or specific taskings were required.</p>
3,19	IRC - Coordination	LALO is empowered to represent the organisation and is suitably competent to coordinate on-scene local authority resources	<p>Source: LLA CONOPS and LALO Procedures.</p>	<p>Established: Scheme of Delegations or similar empowers the LALO to represent the organisation and coordinate resources. LALOs have demonstrated their ability to act in such as role.</p> <p>Evidence expectations: <i>Generic Emergency plan, associated procedure or Scheme of Delegations which details the role of LALO and its level of authority, approved by Corporate Management Board. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the LALO role to represent the council and coordinate its resources at the scene of an incident.</i></p>	Established	>LALO Handbook and Operating Procedures (Standardised)	>Standardisation recommends LALO is Silver's rep (a move away from actually being Silver). Training has incorporated this recommendation therefore LALO's are able to represent but are simply a conduit of information between the scene and decision makers (Silver & Gold)

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,2	IRC - Coordination	The authority is able to establish and maintain a control centre for the duration of an incident.	<p>In line with LLA CONOPS and BECC Management Procedures, the Borough Emergency Control Centre coordinates local authority resources, manages information, maintains situational awareness, produces situation reports and processes requests for mutual aid. The authority maintains primary and secondary/fall back BECC locations</p> <p>Minimum staffing: BECC Manager and BECC Officer. Full staffing: BECC Message Handler; BECC Loggist; BECC Info Officer; BECC Officer; Comms Link Officer; Service Link Officer.</p>	<p>Established: All BECC roles exist in procedures, staff have been trained in their roles and the robustness of procedures and the BECC locations tested via exercise.</p> <p>Advanced: e.g. Most, if not all, BECC roles are on-call. All standardised BECC roles adopted, with staff trained.</p> <p>Evidence expectations: <i>Borough Emergency Control Centre procedures which details how the authority sets up and operates its control centre. Staff cards, with initial and ongoing actions for BECC roles. Clarity on areas such as Information Management and Situational Awareness. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the procedure and function of the BECC.</i></p>	Established	>BECC Procedures (Standardised) >Exercise Safer City annual test of BECC	>Roles are being reviewed in light of standardisation. Paper to CMT in this regard to recruit sufficient numbers to meet the suggested numbers >Full time primary BECC maintained, secondary BECC identified, remote working capability allows secondary BECC to be operated from anywhere although a preferred site is available at a council-owned premises.
3,21	IRC - Communication	The authority has a communications strategy to enable the scaling up of communications arrangements for the purpose of warning and informing members of the public about the risks of the emergency and the available (council) support services using a range of media.	<p>Be able to produce regular messages and communicate these to members of public in your administrative area via the most appropriate tools, which include social media, council website, news media and face-to-face via street walkers.</p> <p>Other communications objectives include the ability to carry out the following on a 24/7 basis:</p> <ul style="list-style-type: none">• monitor and, where appropriate, communicate via social media• provide interviews via radio, television or other medium• release a holding statement at the earliest stages of an incident (i.e. within 1 hour)• amend the council website• receive and respond to media enquiries	<p>Established: A communications officer on-call and able to escalate a full comms response within 2 hours of notification.</p> <p>Evidence expectations: <i>Communications Strategy, approved by Corporate Management Board (may be included in the Generic Emergency Plan and or a Corporate Crisis Communications Plan). Plans/Procedures which detail how the authority produces regular messages and the various options to communicate these with members of the public. Records of staff training for relevant emergency response staff. Exercise record, validating the robustness of the communications process.</i></p>	Established	>Emergency Communications Protocol	>On call comms officer at all times >Plan describes methods of alerting based on audience need and channels >Plan deals with media handling and interviews >Plan last briefed to full Comms team Nov 2018
3,22	IRC - Communication	The authority has the means by which it ensure senior politician(s) are notified of and can remain sighted on the incident impact and the borough's response	Senior politicians may include the Leader of the Council, Deputy Leader or other member of Cabinet including the Portfolio Holder(s) for Emergency Planning and Business Continuity. Initial notification by Council Gold, with ongoing briefings by either Council Gold or the Council's Communications Team.	<p>Established: Council Gold role includes responsibility to brief senior politicians.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details the role of, and to activate, a senior elected Member. Records of training for relevant senior elected Members in their role. Exercise record, validating the robustness of the process.</i></p>	Established	>Major Emergency Plan	>Details command structure including reporting line from CE to Leader and Elected members
3,23	IRC - Communication	The authority has the means by which it can communicate at any time of the day or night with all staff about an incident	This may include notifying staff of an incident in order to seek volunteers to support the response or to be able to provide updates to all staff on the impact of the incident to the community or council operations.	<p>Established: A formalised process to communicate with staff, which has been shown to be robust. Staff with responsibilities within the process are appropriately trained and equipped.</p> <p>Evidence expectations: <i>Documented process to communicate with staff, including procedure for responsible staff to follow. Staff training records. Record of its successful use, either in exercise or real incident.</i></p>	Established	>Emergency Communications Protocol >Mass notification system and internal contact list >Annual internal notification exercise report (Jan 2018)	>Emergency Comms Protocol describes methods for all internal and external communication >Annual mass notification exercise and 3 monthly update of internal contact list
3,24	IRC - Augmenting the emergency response	The authority is able to make an appropriately authorised bilateral or multilateral mutual aid request within 2 hours of identifying the need for support.	<p>Bilateral mutual aid requests are direct between two boroughs</p> <p>Multilateral mutual aid is disseminated across London by the LLACC. The LLACC collates responses, which are passed back to the requesting borough.</p> <p>Use the approved mutual aid form. Local discretion on the level of authorisation, though this is likely to be the CEO, Council Gold or someone with delegated authority.</p> <p>Out of scope: the process by which mutual aid staff and resources are received, inducted and used to support the council's response to the emergency, as this is unlikely to form part of the immediate response.</p>	<p>Established: Documented mutual aid process underpinned by Council Silver, Council Gold and BECC roles available to implement the process.</p> <p>Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority makes a request for mutual aid, before coordinating the responses and then any loaned staff or other resources. The process includes references to the role of Council Gold to authorize requests. Records of staff training for relevant emergency response staff in the use of the process. Exercise record, validating the robustness of the process.</i></p>	Established	>WL EP quarterly meetings >Mutual Aid request form >Mutual Aid aide memoir	>WL EP Group has compiled a shared resources directory and process to share physical resources >A shared storage depot has been identified for pooling of emergency response equipment >Mutual aid for staff will be as per BECC Operating procedures and coordination by LLACC. Information Officer trained in completion of request form with approval at the Gold level

#	Category	Requirement	Supporting information	Assurance expectations	Assurance Response	Rationale and Evidence	Notes
3,25	IRC - Augmenting the emergency response	When sharing staff with other authorities, the authority is able to quickly confirm the training history its staff	It is essential that, when loaning staff to other authorities, you can verify their suitability for the requested role. This includes the ability to check training records in short order.	Established: BECC has access to training records of core Emergency Response roles. Advanced: Without delay, the BECC can obtain the training records of all staff. Evidence expectations: <i>Generic Emergency plan or associated procedure details how the authority can confirm its staff emergency response training records as part of the mutual aid process. Records of staff training for relevant emergency response staff in the use of the process, which may include HR staff if they have a role in this process. Exercise record, validating the robustness of the process.</i>	Established	>Training Matrix and register	>Available via EP on shared drive
3,26	IRC - Augmenting the emergency response	The authority has agreed its approach to using voluntary organisations as part of its response to emergencies	Voluntary agencies offer great value to the response, augmenting that which is provided by a local authority. Like any external organisation representing the authority, use of voluntary organisation's should be define within emergency response plans and joint training and exercising to demonstrate the robustness of the voluntary sector involvement. Engagement with voluntary sector is direct or via the Borough Resilience Forum.	Established: Where voluntary organisations form a part of the emergency response, the Generic Emergency Plan or associated procedure details how they will be part of the response, including their role and scope of involvement. Joint training and exercises have taken place. Evidence expectations: <i>Generic Emergency plan or associated procedures details how the authority involves voluntary organisations in their response to emergencies. Where the role is formalise, records of joint staff training for relevant emergency response staff in the use of the process. Record of joint exercising, validating the robustness of the use of voluntary organisations. Minutes of BRF meetings where relevant.</i>	Established	>MOU with British Red Cross >Brent Community Directory >Voluntary Sector Capabilities Document (London Resilience)	>BRC and Victim Support are memers of the BRF. >Contacts established with Salvation Army >Community directory of organisations available via Policy, Performance & Partnerships. >Working relationship with CVS
3,27	IRC - Community Engagement	The Prevent Lead or equivalent is able to monitor, identify and report on community tension	Tensions may lead to conflict, which has implications to emergency planning. Cohesion contingency plans exist to prevent the threat of imminent cohesion-related disorder from becoming a reality and to limit the extent and impact of cohesion related disorder when it does occur. Community tension can be reported into the council's Major Incident response and recovery structures. Links to Guidance for local authorities on community cohesion contingency planning and tension monitoring, 2008.	Established: Has a multi-agency tension monitoring group, led by officer(s) from the local authority and/or the local police force, which feeds information into Council Silver via the BECC. Relevant council staff are trained on their role and the plan validated via exercise. Evidence expectations: <i>Documented capability in relation to the process of monitoring, identifying and reporting on community tension in partnership with local stakeholders. Staff training records. Record of the exercise or real incident that demonstrates of the robustness of the plan.</i>	Established	>Prevent Lead part of LPN	>Nominated Prevent Lead has appropriate contacts with faith and police sectors and is able to respond to requests for information and engage with groups re community tension monitoring. >In incidents with potential for community tension, PREVENT lead feeds info into situation reports
3,28	IRC - Community Engagement	The authority has a plan for how it would engage with and support a community response	For example, the authority maintains details of key networks and stakeholders in its faith and voluntary sectors, has identified their capacities, capabilities and resources and can communicate with the community. Linked to EP2020 Target 6.	Established: Engagement with key networks and stakeholders means information, including contact details the key networks and stakeholders in the community and an awareness of the way in, and extent to, which the community can respond to an incident, is available to emergency response staff. The plan also details how the council should work with the community during times of emergency. Evidence expectations: <i>Documented details of key networks and individual stakeholders from faith and voluntary sectors, which are available to emergency response staff. Staff training records in relation to the community engagement plan. Robustness of the community engagement arrangements validated by exercise.</i>	Established	>Via policy Performance and Partnerships >Voluntary Sector Capabilities Document (London Resilience)	>Director PPP has named role in Brent Recovery Plan as lead for community engagement during an incident. Appropriate and well-developed partner contacts in place and good working relationships with this sector >Good working relationship with Brent Multi-faith forum including key contacts on the emergency contact list >Capability assessment undertaken but poor response apart from 3 offers of new shelter venues, which have been visited and added to the Rest Centre list.

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External Audit Plan

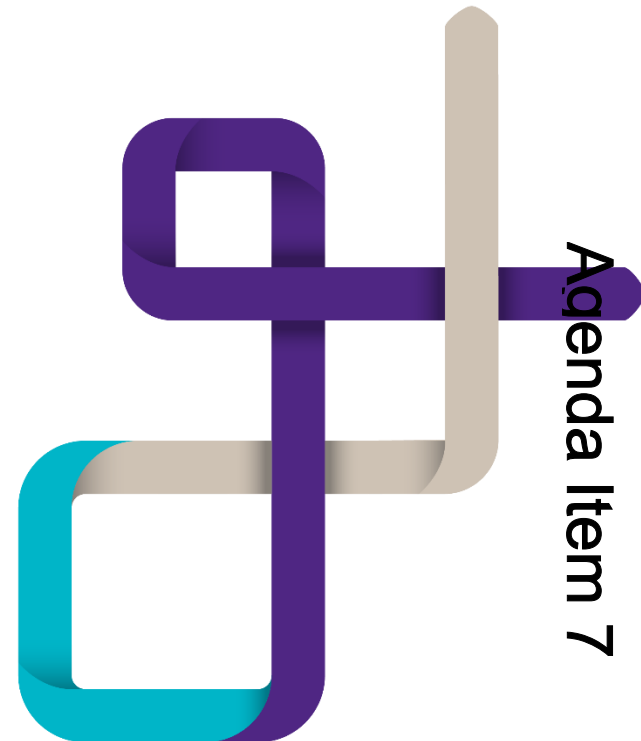
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Brent Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Brent Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Advisory Committee); and
- value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Advisory Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Page 27	Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Barham Park Trust, First Wave Housing, I4B and LGA Digital Services.
	Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <p>Brent Council</p> <ul style="list-style-type: none">• Valuation of land and buildings• Valuation of the pension liability• Management override of controls <p>Brent Council Pension Fund</p> <ul style="list-style-type: none">• Valuation of level 3 investments <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
	Materiality - Authority	We have determined planning materiality to be £20m (PY £12m) for the group and £20m (PY £12m) for the Authority, which equates to 1.85% (PY 1.06%) of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1m (PY £0.6m).

Introduction & headlines continued

Materiality – Pension Fund	We have determined planning materiality to be £8m (PY £12m), which equates to 1% of your net assets from the previous financial year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £400k (PY £600k).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk: <ul style="list-style-type: none">Financial outturn and sustainability, including the Authority's arrangements for addressing the risks arising from Brexit
Audit logistics	Our interim visits will take place in January and February and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £153,684 (PY: £199,590) for the Authority and £16,170 (PY: £21,000) for the Fund, subject to the Authority meeting our requirements set out on page 15.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit approach of the Authority

External factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

The Authority has a history of managing its finances well, delivering savings of £164m since 2010. In the Authority's Medium Term Financial Strategy one main assumption is that a £40m net expenditure reduction will be required over the next 4 years to balance the budget. The accuracy of this savings requirement will be made clear with the Spending Review in Spring 2019.

The Authority is currently consulting on savings and income generation proposals to identify £20m of net expenditure reduction for the next 2 years.

Brent's population is growing at one of the quickest rates in the country, and at the same time, more people with complex needs are in need of council help, further increasing demand for local services.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model. The Authority already calculates the impairment of trade receivables in line with IFRS 9 with its financial instruments generally included in the Statement of Accounts on the basis of professional advice by Arlingclose, the Authority's treasury advisers.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not anticipate any material impact from the adoption of these accounting standards.

The Authority has a loan portfolio which includes £80.5m of LOBO loans. During the year the Authority had the opportunity to redeem £10m of its inverse LOBO loans on favourable terms with £5.8m premium. The Authority has clearly documented the rationale for redeeming the LOBO loan amount.

Implications of Brexit

The UK is expected to leave the European union on 29 March 2019 (Brexit). The arrangements for the UK following our withdrawal are not yet clear. There is a risk that many aspects of life will be affected by Brexit and the uncertainty it is causing. There may be implications for financial planning for the Authority resulting from this uncertainty including an impact on the value of the Authority's assets post 31 March 2019.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

We will review the Authority's consideration of the risks of Brexit on the delivery of services and asset values as part of our Value for Money audit procedures

We will have regular dialogue with finance officers and consider the impact of any proposed changes on our audit strategy. We will ensure that any proposed changes are considered early to minimise impact on the year end audit process.

Key matters impacting our audit of the Fund

External factors

Financial Pressures

The Pension Fund had its most recent triennial review in 2016, which set the rates for 2017/18 through 2019/20. The review reported that the Fund was valued at £676m, sufficient to meet 55% of the £1,238m liabilities accrued up to that date. The resulting deficit at the 2016 valuation was £562m.

Deficits of all London Borough pension funds have surged in the past year, with Brent reporting the third largest shortfall.

During 2017/18, the average employer contribution rate was 32.0% of pensionable pay and this will increase to 33.8% in 2019/20 to cover the cost of future benefits built up by active members.

Brexit will have a significant impact on the funding and investment strategies of UK pension schemes, and defined benefit schemes in particular are likely to face a number of regulatory issues and uncertainties. The Fund will need to manage potential risks by reviewing potential options and developing contingencies for different outcomes.

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs [Corporate Plan](#) for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and tPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Pooling

The Pension Fund is a participating scheme in the London Collective Investment Vehicle (LCIV). The Fund's intention is to invest its assets through the LCIV as and when suitable pool investment solutions become available. At 31 March 2018 the Fund had 61% (£507m) of its assets under management overseen by the LCIV, achieving fee savings of £100k.

Our response

We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

You will see changes in the terminology we use in our reports that will align more closely with the ISAs

We will ensure that our resources and testing are best directed to address your risks in an effective way.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Council	Yes		<ul style="list-style-type: none"> See pages 7 to 9 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Barham Park Trust	No		<ul style="list-style-type: none"> None 	Analytical review performed by Grant Thornton UK LLP
First Wave Housing	No		<ul style="list-style-type: none"> None 	Analytical review performed by Grant Thornton UK LLP
I4B	No		<ul style="list-style-type: none"> None 	Analytical review performed by Grant Thornton UK LLP
LGA Digital Services	No		<ul style="list-style-type: none"> None 	Analytical review performed by Grant Thornton UK LLP

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Audit scope

Audit of the financial information of the component using component materiality

Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements

Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Brent Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Brent Council.</p>	<p>Not applicable</p>
Management over-ride of controls	Authority	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	Authority	<p>The Authority revalues its land and buildings on a rolling five-yearly basis with a proportion of the asset base being revalued each year. The Authority engages the services of external valuation experts. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1,636m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and • consider the impact of Brexit on asset values.

Significant risks identified continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Authority	<p>The pension fund net liability, as reflected in the Authority balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£842m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Consider the impact of Brexit on pension fund liabilities.
The valuation of Level 3 investments is incorrect	Fund	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, where available, at the latest date for individual investments and agreeing these to the fund manager reports at that date. We will reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit of the Authority.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group or the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Matter	Description	Planned audit response
1	<p>Calculation and determination</p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements 	<ul style="list-style-type: none"> • For the Authority, we have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. Materiality at the planning stage of our audit is £20m (PY £12m) for the group and £20m (PY £12m) for the Authority, which equates to 1.85% (PY 1.06%) of your prior year gross expenditure for the year. • For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. Our materiality at the planning stage is £8m (PY £12m) which equates to 1% (PY 1.5%) of your prior year net assets for the Fund.
2	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality
3	<p>Matters we will report to the Audit and Standards Advisory Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Advisory Committee any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> • In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m (PY £0.6m). • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400k (PY £600k). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Advisory Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

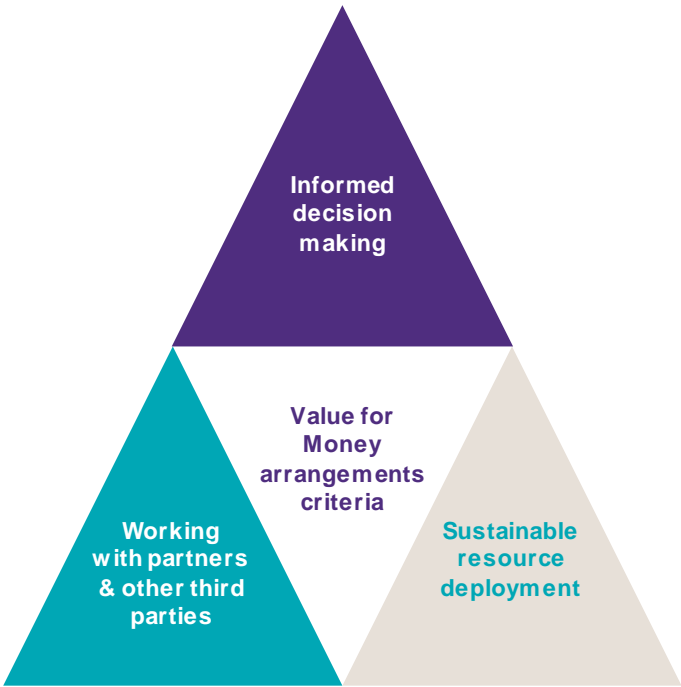
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below :



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



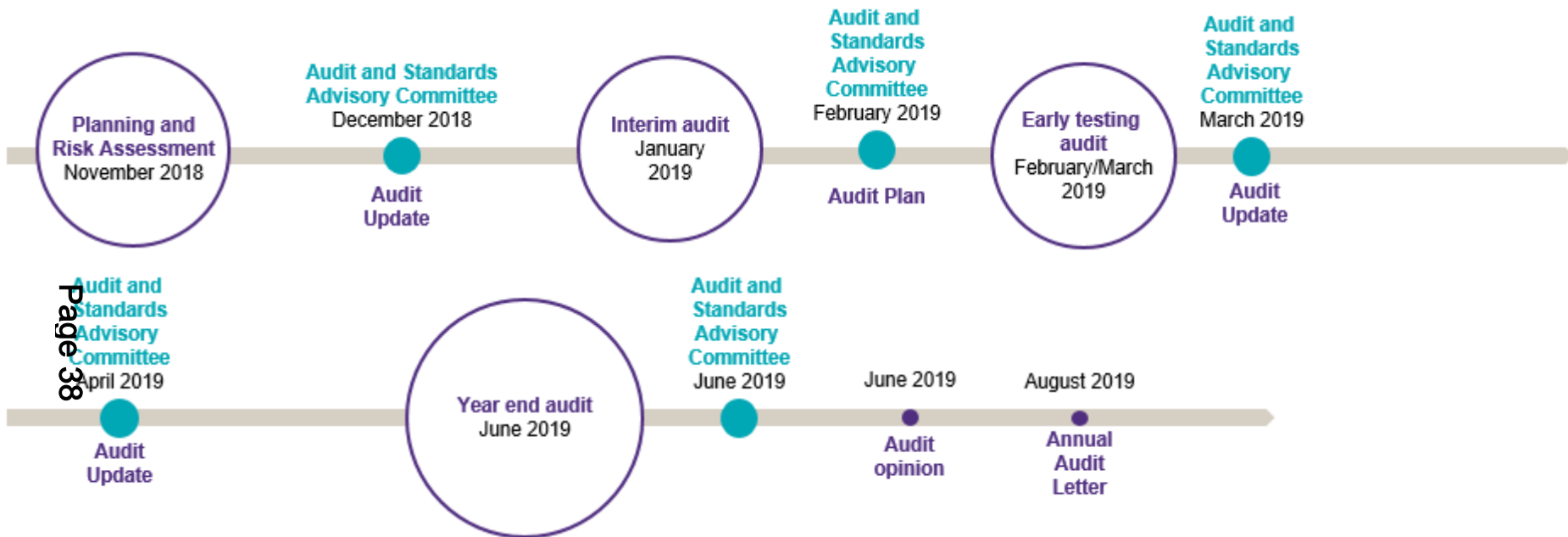
Financial outturn and sustainability

The Authority has historically performed well at managing its financial position although reductions in funding and increasing demand for services has made this increasingly challenging.

The Authority is planning to make £40m savings over the next four years to balance the budget and is currently consulting on savings and income generation proposals to identify £20m of net expenditure reduction for the next two years.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2018/19. We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.

Audit logistics, team & fees



Paul Dossett, Partner

Engagement lead for the Authority and leads the work performed on the audit. Signs the audit opinion and holds regular meetings with senior managers.



Danni Swain, Audit Executive

Performs main detailed work on the audit on a day to day basis. Manages the audit team and first point of contact for the Authority's finance staff.



Sophia Brown, Senior Audit Manager

Engagement manager responsible for the overall management of the audit; consideration of VFM work, quality assurance of audit work and outputs.

Audit logistics, team & fees continued

Audit fees

The planned audit fees are £153,684 (PY: £199,590) for the Authority and £16,170 (PY: £21,000) for the Fund financial statements audits completed under the Code, which are in line with the scale fees published by PSAA. In setting your fees, we have assumed that the scope of the audit, and the Authority and Fund and related activities, do not significantly change.

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

The Authority plans to improve upon its timetable for earlier production of the accounts from the prior year and aims to complete its draft accounts by the end of April.

A successful outcome will be a collaborative process and we will work with the finance team to ensure that the deadline is met in the current year, including carrying out as much early testing as possible, having early discussions on our working paper requirements and agreeing any changes in accounting policies and other issues arising in advance of the year end.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £153,684 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teachers pension grant	3,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £153,684 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Subsidy	20,000 plus £800 per diem rate for additional work if required	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit of £153,684 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.


Independence & non-audit services continued

Service	£	Threats	Safeguards
Audit related			
I4B Holdings Ltd audit	27,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,000 in comparison to the total fee for the audit of £153,684 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
First Wave Housing Ltd audit	25,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £153,684 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Objection to the 2018/19 accounts	TBC	None identified	

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Chief financial Officer. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.



 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Accounting Policies	

Wards Affected:	All
Key or Non-Key Decision:	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"> Draft Statement of Accounting Policies
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall Chief Finance Officer Email: conrad.hall@brent.gov.uk Tel: 020 8937 6528

1.0 Purpose of the Report

- 1.1 The council is required to adopt accounting policies each year to set out how the Statement of Accounts will be produced. The Accounting Policies are based on the previous year's accounting policies with some minor changes to cover new accounting standards and clarify the existing accounting policies.

2.0 Recommendations

- 2.1 The proposed Accounting Policies at Appendix A are reviewed as the basis for the production of this year's Statement of Accounts.

3.0 Detail

- 3.1 The Chartered Institute of Public Finance Accountants (CIPFA) annually issues the Code of Practice on Local Authority Accounting in the United Kingdom (henceforth referred to as the "Code of Practice") which sets out how local authorities should account for their transactions and financial position in their Statement of Accounts. One of the requirements of the Code of Practice is for local authorities to set out their Accounting Policies within the Statement of

Accounts. The Accounting Policies explain how the Code of Practice has been interpreted and applied to the authority.

- 3.2 The key element of Brent Council's approach to the Accounting Policies is that it follows and applies the Code of Practice unless otherwise stated in its Accounting Policies.
- 3.3 Accounting Policies can only be updated in certain circumstances: only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.
- 3.4 If an authority does change its accounting policies then it is required to retrospectively apply the changes to its Statement of Accounts, and issue a third balance sheet to aid readers of the accounts in comparing the accounts to previous years, unless the Code of Practice contains transitional arrangements that do not require such a disclosure.
- 3.5 The updates to the councils accounting policies this year fall into three categories:
 - 3.5.1 Removal of extraneous detail to produce a more focused set of accounting policies, for example, the paragraph on accounting for the Carbon Commitment has been removed as this is covered by both the Code of Practice itself, and the application of the accrual principle within the Accounting Policies. None of these changes will change the council's accounting, so do not require a restatement of prior years.
 - 3.5.2 Clarification of existing accounting policies: upon review of the accounting policies in previous years were not as clear as they could be. These items have been clarified to make the council's accounting policies clearer. An example is the update of references to Fixed Assets to Non-Current Assets. None of these changes affect how the council accounts for transactions, so a prior year restatement is not necessary.
 - 3.5.3 Update for the latest version of the Code of Practice, and underlying financial standards. The Accounting Policies have been updated to bring them into line with the current Code of Practice. An example is that IAS 18 on Revenue (i.e. Income) has been replaced by IFRS 15. IFRS 15 does change the recognition of income for some complex cases, but these cases have not been found at Brent Council, so adoption of IFRS 15 is not expected to change accounting for revenue in the council's Statement of Accounts.

4.0 Financial Implications

- 4.1 This entire document is focused on Accounting Policies, but there are no specific financial implications of this proposal.

5.0 Legal Implications

- 5.1 It is necessary for the council to adopt Accounting Policies under the Code of Practice. The Code of Practice sets out the proper accounting practices defined by Section 21(2) of the Local Government Act 2003. These proper practices apply to Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015.

6.0 Equality Implications

- 6.1 There are no equality implications of this report.

Report sign off:

CONRAD HALL
Chief Finance Officer

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Statement of Accounting Policies

1. Code of Practice

The general policies adopted in preparing these accounts are in accordance with the current Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance Accountants (CIPFA)), henceforth referred to as the “Code of Practice”. This Code of Practice is based upon International Financial Reporting Standards (IFRS), with some adoptions from International Public Sector Accounting Standards (IPSAS).

Accounts drawn up under the Code assume that a local authority’s services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

1.1 Materiality

The Council has presented information in the accounts to provide a full picture of its performance and financial health, any of which, if omitted, might influence decisions made on the basis of these accounts. Information about transactions and balances of low financial value and which are non-influential for decision-makers (immaterial) have been omitted where possible to improve the readability of the statements.

1.2 Rounding

It is not the Council’s policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

2. Comprehensive Income and Expenditure Statement

2.1 Accruals of Expenditure and Income

The Statement of Accounts is prepared on an accruals basis with the effects of transactions and other events being recognised when they occur, and recorded in the accounting records and reported in the financial statements of the periods to which they relate. This means that:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The exception to this is the Cash Flow Statement which is prepared in accordance with International Accounting Standard (IAS) 7.

2.3 VAT

Income and expenditure accounts are VAT exclusive, unless VAT is irrecoverable, in which case it is included.

2.4 Revenue Grants

Grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.

2.5 Charges to Revenue

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The provision for depreciation are charged to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement to the relevant service.

This results in a charge to the General Fund for depreciation for all General Fund fixed assets used in the provision of services. The charge is allocated to each individual service on the basis of the capital employed in its provision. Depreciation charges are reversed out of the General Fund in the Movement in Reserves Statement.

Depreciation is a bottom line charge to the HRA. An amount equal to depreciation is credited to the Major Repairs Reserve via the Movement on the HRA statement, and the impact of this is offset by crediting the Movement on the HRA statement with the same amount from the Capital Adjustment Account.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed in the Movement in Reserves Statement and the notes to this statement.

2.6 Council Tax and National Non Domestic Rates (NNDR)

Council Tax included in the Comprehensive Income and Expenditure Statement (CIES) account is Brent's accrued income for the year including its share of the surplus or deficit arising. The collection of Council Tax on behalf of the Greater London Authority

(GLA) is in substance an agency arrangement so these amounts are not shown in the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement. There will be a debtor / creditor position between Brent and the GLA to be recognised in Brent's balance sheet if the net cash paid to the GLA is not exactly its share of cash collected from Council Taxpayers. In this case, Brent's accrued income will be shown in the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement. The 'Operating Activities' section of the cash flow statement only includes Brent's share of Council Tax cash collected during the year.

The income collected from NNDR is shared between the Council, Central Government and the Greater London Authority (GLA) rather than being paid over to government and redistributed (so is now acting as principal and agent.) Apart from its own share of NNDR transactions, Brent accounts only for the effects of timing differences between the collection of NNDR attributable to major precepting authorities and central government and paying it across.

2.7 Foreign Currency Transactions

Transactions in foreign currencies are accounted for in Sterling at the rate ruling on the date of the transactions. The Pension Fund accounting policies deal with the only foreign currency de-nominated assets disclosed on the balance sheet.

2.8 Jointly Controlled Operations

The council has jointly controlled operations in the form of pooled budgets in conjunction with Brent CCG and Central and North West London NHS Foundation Trust. The Council's joint operations with Brent CCG relate to the Better Care Fund and the Brent Integrated Community Equipment Service. The Council's joint operation with the Central North West London Mental Health Trust relate to the management of the joint Mental Health Service in Brent. The authority recognises the income that it gains and expenditure that it incurs on the Comprehensive Income and Expenditure Statement. The Balance sheet recognises any assets and liabilities resulting to the council from the pooled budget.

3. Balance sheet – Non Current Assets

3.1 Plant, Property and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment (PPE).

All expenditure on the acquisition, creation or enhancement of PPE above the Council's de minimis of £5,000 is capitalised on an accruals basis in the accounts. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie most repairs and maintenance) is charged as an expense when it is incurred.

Property, Plant and Equipment are initially measured and subsequently valued on the basis required by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). This is performed by the Council's In-house Valuer and its appointed valuers Wilkes, Head and Eve LLP. Property, Plant and Equipment are classified into the groupings required by the Code of Practice.

Individual categories of assets are valued on the following basis:

- Council dwellings are valued using a beacon principle (i.e. using sample dwellings) based on their Open Market Value (OMV) but adjusted to reflect their value as social housing
- Other Land and Buildings are included in the balance sheet at their OMV. The exceptions to this are school buildings and Social Services establishments that are included at their Depreciated Replacement Cost (DRC).
- Surplus assets are included in the balance sheet at their OMV.
- Community assets are included in the balance sheet at depreciated historic cost where appropriate otherwise they are included at a nominal value.
- Infrastructure assets, vehicles, plant, furniture and equipment have been valued at depreciated historic cost.
- Assets under construction are held at their invoiced construction cost at year end.

Revaluations of Property, Plant and Equipment are planned on a five year cycle with a proportion of the asset base being revalued each year. Material changes to asset valuations resulting from works or similar investment outside of the agreed revaluation of assets cycle will be adjusted in the period as they occur.

3.1.1 Depreciation and Amortisation

Depreciation is the measurement of the cost or revalued amount of the economic benefits of the tangible non-current assets that have been consumed during the financial year.

Amortisation is the measurement of the cost or revalued amount of the economic benefits of the intangible non-current assets that have been consumed during the financial year.

Consumption includes the wearing out, using up or other reduction in the useful economic life of a non-current asset whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Depreciation is calculated on all building assets using the straight line method as set out below. Land Assets are not depreciated.

Buildings (including HRA)	5 – 60 years as determined by the valuer
Infrastructure	10 – 40 years
Plant, Vehicles, Equipment & Machinery	Up to 10 years

Housing Revenue Account dwellings are depreciated by an estimate of the consumption of economic benefits.

Where buildings assets are revalued, the accumulated depreciation at the beginning of the year is written down to the revaluation reserve.

3.1.2 Component Accounting

Local authorities are required to value the components of major assets, where the components are of material value and have a significantly different economic life to the asset itself.

Componentisation will be undertaken where the value of the individual component is over £2m and the value of that component is in excess of 20% of the total gross carrying value of the building and will be undertaken when buildings are valued or re-valued, or enhancement expenditure of £0.25m is incurred.

Where componentisation applies the assets will be broken down into the following broad categories;

- **Building main structure** - including foundations, structure, doors, windows and internal finishes - Design life 60 years.
- **Heating systems** - boilers, hot water systems, piping, air ventilation, pumps - Design life 25 years.
- **Electricals** - fixed wiring, lighting - Design life 30 years.
- **Mechanical plant** - lifts - Design life 30 years.
- **Roof structure** - Design life 50 years.
- **Externals** - drains, service mains, car parks, play areas, landscaping - Design life 60 years.

The estimated life of the individual categories may vary and the above is intended as a guide. In some circumstances further break down to additional components maybe justified for unusual or specialist building elements.

The remaining life of each of the elements is given, then the blended remaining useful life is calculated and applied to the overall asset.

3.2 Investment Properties

Investment properties are properties held solely for capital appreciation or rental income. The Code of Practice requires that investment properties are not depreciated, but instead held at fair value, in this case OMV, and their book value is adjusted annually where there has been a material change in value.

3.3 Heritage Assets

Heritage Assets are defined as:

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to

knowledge and culture, or an intangible asset with cultural, environmental or historical significance.

Heritage assets are carried at valuation rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. The Council's valuation is as per an insurance valuation. Revaluations will be carried out as and when the insurance valuation is updated.

3.4 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. Expenditure on purchasing intangible fixed assets such as computer software has been capitalised at cost when it is probable that future economic benefit or service potential will flow to the authority.

Amortisation is the equivalent of depreciation for intangible assets and is calculated using the straight line method based on estimated economic life of between 5 to 7 years.

3.5 Impairment

Impairment reviews on groups of assets are undertaken on an annual basis by the valuer. Impairment is recognised where the asset's carrying value is greater than its net recoverable value in use or through sale, and the loss is specific to the asset, or a small group of assets. Losses not specific to the asset or a small group of assets, such as a general fall in market prices will be treated as revaluation losses.

Impairment losses are recognised against historic cost, and revalued net book value (for revalued assets). Losses for revalued assets will be recognised against the revaluation reserve to the limit of the credit balance for that asset in the revaluation reserve, and thereafter in surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement. Losses for non-revalued assets will be recognised in surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement.

The impairment review includes an annual assessment of whether there is indication that the recoverable value of any impaired assets has increased, reversing part or all of the impairment.

For Plant, Property and Equipment, and Intangible Assets, if there is indication that the recoverable value has increased, the valuer will reassess the economic life of the asset for the purposes of determining depreciation. The impairment will be reversed to the extent that up to the carrying value of the asset had there been no impairment. This reversal will in the first instance be used to reverse any charge made to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement, and then to the revaluation reserve.

4. Balance sheet – Current Assets

4.1 Inventories and Long Term Contracts

Inventories are valued at the lower of cost and net realisable value. The Council only obtains inventories through exchange transactions.

4.2 Cash and Cash Equivalents

IAS 7 defines cash and cash equivalents as cash, bank balances, and very short term investments used for cash management purposes. The Council uses bank overdrafts as part of its cash management strategy, therefore these are disclosed as part of cash and cash equivalents in line with IAS 7. Short term investments invested for three months or less with a known maturity value and date are included in cash and cash equivalents; the Council uses money market funds as an integral part of its cash management, so these investments are also disclosed as part of cash and cash equivalents.

4.3 Work in Progress (Construction contracts)

Under the Code of Practice, construction contracts undertaken by the Council for the Council's customers are accounted for as set out in the code. This is separate from Assets under Construction where the Council is constructing assets for its own use. The Code of Practice requires use of the percentage completion method for calculating accounting entries for such contracts. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed. The percentage of completion is assessed based on costs incurred for work performed to date.

Until the point where outcome of the construction contract can be reliably estimated, revenue will only be recognised in line with construction costs to date. Once construction costs can be reliably measured, revenue will be recognised using the percentage completion method described above. Any expected losses will be immediately recognised as an expense.

5. Balance sheet - Liabilities

5.1 Provisions, Contingent Liabilities, and Contingent Assets

The Council makes a provision in compliance with IAS 37 where there is a present obligation as a result of a past event where it is probable that the Council will incur expenditure to settle the obligation and where a reasonable estimate can be made of the amount involved.

In addition to the provisions listed in note 9 to the Core Financial Statements, there is a provision for unrecovered debts, this has been netted off against the debtors figure on the balance sheet (see note 2 to the Core Financial Statements).

The Code of Practice requires provisions to be split into current provisions (within a year) and long term provisions. The current provision for insurance is estimated by on the basis of professional advice provided on the insurance fund.

The provision for Council Tax debts is based on an assessment of the likely future collection of Council Tax arrears compared to the total level of arrears. Collection of arrears continues for several years after the original liability arises, and the provision is re-assessed each year based on collection trends and movements in amounts due. Debts are not actually written off until there is no realistic chance of collection, at which point the write-off reduces both the debtors and provision totals.

A contingent liability is disclosed in the notes to the accounts where there is either a possible obligation as a result of a past event where it is possible that the Council will incur expenditure to settle the obligation; or a present obligation as a result of a past event where it is either not probable that the Council will incur expenditure to settle the obligation, or where a reasonable estimate of the future obligation cannot be made.

A contingent asset is disclosed in the notes to the accounts where a possible asset arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

5.2 Employee benefits

The Council recognises a provision for the entitlement of its employees to benefits within the reported financial year. This provision is estimated based on the entitlement of the Council's employees to leave as at the 1 April for the previous financial year.

Regulations prohibit Council tax payers from being charged for this provision, so any movement in this provision is transferred to the Accumulated Absences Account.

The Council accounts for employee benefits in accordance with the Code which is based on IAS 19. The underlying principle of IAS 19 is that an organisation should account for employment and post-employment benefits when employees earn them and the authority is committed to providing them, even if the actual provision might be many years into the future.

5.3 Reserves

Reserves are divided into usable and unusable reserves. Within the usable reserves there are amounts set aside for earmarked purposes out of the balances on the Council's funds.

6 Balance Sheet - Financial Instruments

6.1 Financial Assets

Financial assets are classified into three types:

- Loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments – the Council does not hold any of these assets
- Fair value through income and expenditure

6.1.1 Loans and Receivables

Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans

that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus interest outstanding, and interest credited to the financing and investment income and expenditure section of the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under a contract will not be made, the asset is written down and a charge made to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on the derecognition of the asset are credited/debited to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement.

6.1.2 Fair value through income and expenditure

Investments where there is an active market (e.g. certificates of deposit or gilts). These are treated in the same manner as Loans and Receivables.

6.2 Premature Redemption of Debt

The practice for the Comprehensive Income and Expenditure Statement is to amortise premia and discounts over a period which reflects the life of the loans with which they are refinanced determined as described below. This will not be followed in the following situations:

- Where it is permissible and advantageous to capitalise premia (in which case the question of amortisation will not arise)
- Where the loans redeemed are not refinanced (when premia and discounts will be taken directly to the Revenue Account)
- Where discounts and premia are amortised over a broadly similar period, for convenience they will be shown as a net figure.

The practice for the HRA is different. In this case, discounts and premia are amortised, individually, over the remaining life of the loan repaid or ten years, whichever is the shorter.

6.3 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure

Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount respectively would be deducted from or added to the amortised cost of the new or modified loan and the write down to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain / loss over the term of the replacement loan, at present up to a maximum of thirty years. The reconciliation of amounts charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

7 Capital Financing

7.1 Capital Expenditure

Capital expenditure on building assets is added to the value of the asset and depreciated over the remaining useful life.

Capital expenditure on HRA dwellings is added to the value of fixed assets.

Revenue expenditure funded from capital under statute (REFCUS) represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets owned by the Council. Such revenue expenditure incurred during the year has been written off as expenditure to the relevant service revenue account in the year.

7.2 Capital Government Grants and Contributions

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.

7.3 Leasing

The Council has acquired a number of assets, mainly vehicles, plant and computer equipment, by means of leases. The Council assesses whether or not leases have to be disclosed on balance sheet in line with IAS 17, using guidance from the Royal Institute of Chartered Surveyors as directed by the CIPFA. Where the terms of the lease transfer substantially all the risks and rewards incidental to ownership leases are recorded on balance sheet as finance leases, other leases not reported on the balance sheet are known as operating leases.

Finance leases are initially recognised on the balance sheet with assets and liabilities equal to the net present value of the minimum lease payments. Where a contract

does not detail an interest rate for a specific asset, or provide sufficient information for its calculation, the interest rate implicit in the lease will in the first instance be estimated based on interest rates for other assets within the lease. If there is no interest rate detailed in the lease then a suitable interest rate is applied.

Assets financed by finance leases are treated as having an economic life equal to the minimum length of the contract and are depreciated over this period.

Finance lease repayments and interest payments are calculated using the actuarial method (allocating interest to the period it relates to) and assumes that a single payment is made at the end of the contract year. Where a contract starts part way through a single financial year payments will be apportioned to that financial year based on the number of days of the contract year within the reported financial year.

Rentals payable under operating leases are charged to revenue in the year in which they are paid and no provision is made for outstanding lease commitments.

Two interpretations of the International Financial Reporting Standards apply to contracts and series of transactions where the substance of the contract or transactions may be a lease under International Financial Reporting Standards. The Council first assesses whether or not contracts contain a service concession under IFRS Interpretations Committee (IFRIC) 12, and then whether or not there is an embedded lease under IFRIC 4. The disclosure of service concessions is complex and dealt with in further detail below. Embedded leases are disclosed as set out in IFRIC 4, accounting policies for major embedded finance leases are set out below.

7.3.1 Service Concessions and the Private Finance Initiative (PFI)

Contracts and other arrangements that have been determined as “service concessions” are accounted for under IFRIC 12, the Code of Practice and the additional provisions of IPSAS 32 Service Concession Arrangements: Grantor.

Where new assets are identified these assets are recognised at fair value being the relevant elements of the capital cost in the PFI operators’ financial model.

Where the PFI operator’s right to third party income is recognised in reductions to the unitary payment, a proportion of the finance lease creditor is re-allocated to a deferred income balance based on the proportion of fixed payments (if any) from the Council and expected third party payments. The deferred income balance is amortised to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the PFI scheme.

The Council’s ongoing liabilities for these service concessions are recognised on the balance sheet. This has been done by recognising a finance lease creditor and written down accordingly.

The assets acquired with these service concessions will be depreciated over the useful estimated economic life of the assets; with the exception of the assets generated by a Social Housing PFI. Legal title to the majority of assets from the Social Housing PFI will remain with the PFI operator, so these assets will be depreciated over the life of the contract, not their useful economic life.

Lifecycle costs will be capitalised in line with the directions of the Code of Practice on capitalising expenditure for these service concessions. All lifecycle costs for the Street lighting PFI are treated as revenue maintenance expenditure due to the nature of maintaining street lighting.

7.4 Minimum Revenue Provision

The Minimum Revenue Provision (MRP) included within this year's Statement of Accounts has been calculated on the basis of the previous year's outturn position, amended for the inclusion of PFI projects as per the requirements of the International Financial Reporting Standards. In accordance with the current regulations for the calculation of MRP the following policy for non-HRA assets has been applied:

For supported borrowing, the Council will use the asset life method (Option 3) and an 'annuity' approach for calculating repayments. Based on the useful economic lives of the council's assets a single annuity has been calculated, which results in the outstanding principal being repaid over the course of one hundred years.

For prudential borrowing, the Council will adopt Option 3, 'the asset life method', and an 'annuity' approach for calculating repayments. This option allows provision for repayment of principal to be made over the estimated life of the asset. The use of the 'annuity' method is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset.

The proposed asset lives which will be applied to different classes of assets are as follows:

- *Vehicles and equipment – 5 to 15 years;*
- *Capital repairs to roads and buildings – 15 to 25 years;*
- *Purchase of buildings – 30 to 40 years;*
- *New construction – 40 to 60 years;*
- *Purchase of land – 50 to 100 years (unless there is a structure on the land with an asset life of more than 100 years, in which case the land would have the same asset life as the structure).*

The Council reserves the right to charge a nil MRP where it chooses to offset a previous year's overpayment.

These policies do not apply to HRA assets.

The statutory guidance in the Guidance on Minimum Revenue Provision (second edition) from the Department of Communities and Local Government directs local authorities to make an MRP charge equal to the writing down of the finance lease liability upon transition to IFRS, and a charge equal to the writing down of the finance lease liability in subsequent years for operating leases reclassified as finance leases. It states that this is equivalent to one of the other options provided by the guidance for MRP in other circumstances. In order to ensure consistent treatment of all finance

leases, an MRP charge equal to the writing down of the finance lease liability will be made for all finance leases.

In line with the statutory guidance on Minimum Revenue Provision (MRP), MRP has been charged for PFIs at a rate equal to the writing down of the finance lease liability. In addition, to ensure that all capital costs are captured by MRP, MRP includes a charge equal to any capital lifecycle additions within the scheme, and a charge equal to the release of any deferred income. Where finance lease liabilities increase in year, this is recognised by a credit to MRP equal to the increase in liability. The net effect of this policy is to maintain revenue balances at the same level under IFRS as under UK GAAP which is considered the prudent course of action within Guidance on Minimum Revenue Provision.

Minimum Revenue Provision is charged against the General Fund in the Movement in Reserves statement.

7.5 Income from the Sale of Fixed Assets

Income from the disposal of Property, Plant and Equipment is known as capital receipts. Such income that is not reserved and has not been used to finance capital expenditure in the period is included in the balance sheet as capital receipts unapplied.

The treatment of HRA capital receipts is determined by the Local Government Act 2003 as amended from 1 April 2012 in order to make new provision for the pooling of housing receipts by

- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012 (SI 2012/711); and
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012 (SI 2013/1424)

As a result of these amendments, local authorities are able to retain the receipts generated by Right to Buy sales for replacement housing provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes within a 3 year period from the point of receipt. The London Borough of Brent has elected to enter into agreement with the Government to retain the net receipts from Right-to-Buy sales.

The regulations provide that receipts from Right-to-Buy sales will in future be applied as follows:

- the council may deduct certain costs, namely: an amount to cover the housing debt supportable from the income on the additional Right to Buy sales; transaction and administration costs; and an amount which reflects the income the council might reasonably have expected from Right to Buy sales prior to the new scheme;
- The council must also pay the Government an amount which reflects the income which the Treasury expected from Right to Buy sales prior to the new scheme;

- Once these costs are deducted, the remaining net receipts are available to fund (and must be applied to) replacement affordable rented homes.


7.6 Borrowing Costs

The Council may borrow to meet capital costs that are attributable to the acquisition, construction or production of a qualifying asset that has a life of more than one year. It is the Council's policy to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Borrowing costs will be deemed as interest and other costs that the Council incurs in connection with the borrowing of funds, and a qualifying asset will be that which takes in excess of three years to get ready for intended use and has forecast expenditure in excess of £100m. Cessation of capitalisation will occur when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

8 Group Accounts

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions of the Council, its subsidiaries i4B Holdings Limited (i4B), First Wave Housing Limited (FWH) (formerly Brent Housing Partnership [BHP]), the Barham Park Trust and LGA Digital Services Limited. FWH was an Arm's Length Management Organisation (ALMO), but in 2017/18 the Council took back the management of its housing stock. FWH remains as a company which owns some housing independently of the Council. The Council remains the holder of the sole share in FWH. Barham Park Trust is a charity that is controlled by the council as a result of the council appointing all the trustees. LGA Digital Service Limited is 50% owned by the council and 50% owned by the Local Government Association (LGA), but is controlled by the Council, which provides the company with 100% of the services it sells. The financial statements in the Group Accounts are prepared in accordance with the policies set out above.

i4B Holdings Limited records the properties it purchases as investment properties in its Statement of Accounts which are reported under FRS 102 as i4B holds these properties principally to generate a commercial return. When these properties are consolidated into the council's accounts, they are consolidated as Plant, Property and Equipment as this reflects the fact that the Group accounts are under IFRS, which has a slightly different definition of Investment Properties, and these properties are used to provide services on behalf of the group.

	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
2019/20 Treasury Management Strategy	

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One : • Treasury Management Strategy 2019/20
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Daniel Omisore Head of Finance Email: Daniel.Omisore@brent.gov.uk Tel: 020 8937 3057

1.0 Purpose of the Report

- 1.1 This report presents the draft Treasury Management Strategy for 2019/20 for consideration by the Committee. The final version of the Strategy, incorporating the views of this Committee, will be included in the budget report to be approved by the Council on 25 February 2019.

2.0 Recommendation

- 2.1 The Audit and Standards Advisory Committee considers and comments on the draft Treasury Management Strategy 2019/20.

3.0 Detail

3.1 The Strategy will set the framework for Treasury Management activity in 2019/20 and includes:

- External Context
- Local Context
- Borrowing Strategy
- Investment Strategy
- Treasury Management Indicators
- Alternative Strategies

3.2 The draft strategy is set out in Appendix 1.

4.0 Financial Implications

4.1 The Council's external interest budget for 2019/20 is proposed to be £23.7m, with budgeted investment income of £1.1m. The minimum provision (set aside for the repayment of debt) is £8.5m. The setting of the capital financing budget for 2019/20 will form part of the overall budget decision to be taken by the Council on 25 February 2019.

5.0 Legal Implications

5.1 None directly arising from this report.

6.0 Equality Implications

6.1 None directly arising from this report.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources/Property Implications (if appropriate)

8.1 None directly arising from this report.

Report sign off:

CONRAD HALL
Chief Finance Officer

Treasury Management Strategy Statement 2019/20

Introduction

- 1.0 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 2.0 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

External Context

- 3.0 **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.
- 4.0 UK Consumer Price Inflation (CPI) for December was 2.0%, down from 2.2% in November 2018. The most recent labour market data shows that the number of people in work increased, the number of unemployed people was little changed but the number of people aged from 16 to 64 not working and not seeking or available to work decreased across the period.
- 5.0 The unemployment rate was 4.0%, it has not been lower since December 1974 to February 1975. The employment rate was 75.8%, higher for a year earlier (75.3%) and the highest estimate since comparable estimates began in 1971. Nominal wages including bonuses increased by 3.4% and wages excluding bonuses increased by 3.3%. Real wages excluding bonuses increased by 1.1% and including bonuses increased by 1.2% compared to a year earlier.
- 6.0 The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

- 7.0 Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.
- 8.0 While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2.5% in December. Expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.
- 9.0 **Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ring-fenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ring-fenced banks generally being better rated than their non-ring-fenced counterparts.
- 10.0 The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.
- 11.0 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.
- 12.0 **Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

- 13.0 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (*at the time of writing this commentary in mid-December*). As such, the risks to the interest rate forecast are considered firmly to the downside. **See Appendix A.**
- 14.0 As a budget assumption (and not necessarily a statement of policy) for the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1%, and that new long-term loans will be borrowed at an average rate of 3%.

Local Context

- 15.0 On 31st December 2018, the Council held £397m of borrowing and £114m of investments. This is set out in further detail at **Appendix B**. Future forecasted borrowing requirements are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

£m	31.3.18 Actual	31.3.19	31.3.20	31.3.21
General Fund CFR	522.3	533.1	593.9	642.0
HRA CFR	148.6	158.4	178.2	197.0
Total CFR	670.9	691.5	772.1	839.1
Existing Borrowing	408.0	397.0	355.0	331.0
Borrowing required to meet CFR	262.9	295.5	417.1	508.1
Projected Usable Reserves	303.4	244.6	254.7	251.5
Projected Working Capital	141.3	112.5	100.0	90.0
Available Cash Reserves	444.7	357.1	354.7	341.5
Investments (or New borrowing)	181.8	61.6	(62.4)	(166.6)

- 16.0 The Council's CFR is greater than its borrowing, as to minimise interest costs the Council utilises its internal resources over the short term instead of undertaking more expensive external borrowing. However, the increased focus on capital investment to transform the financial position as set out in the capital pipeline report may require some new external borrowing over the coming years.

- 17.0 As demonstrated in the September 2018 Cabinet report “Brent Council Borrowing Strategy 2018/19 – 2020/21” the Council will need to seriously consider borrowing at some point in 2019/20. In recent years the Council’s strategy has been to maintain borrowing at the lowest level possible unless interest rate prospects present a clear case for taking long term borrowing ahead of immediate requirements. However current interest rate forecasts along with the significant levels of planned capital investment over the next three years means that this approach may no longer be sustainable or optimal.
- 18.0 CIPFA’s *Prudential Code for Capital Finance in Local Authorities* recommends that the Council’s total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2019/20.

BORROWING STRATEGY

- 19.0 The Council currently holds £397 million of loans, a decrease of £14.6 million on the previous year, following the early redemption of some of the LOBO loans and repayments on EIP borrowing. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £166 million by 2020/21 however this is largely dependent on how the capital programme progresses. In accordance with the September 2018 strategy report the Council may also borrow additional sums to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £1.1 billion.
- 20.0 **Objectives:** The Council’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.
- 21.0 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

22.0 The Council will also be seriously considering the use of forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

23.0 In addition to above, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the local Brent Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

24.0 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

25.0 Although we do not anticipate entering into any new PFI arrangements, we would not rule this out should the terms become sufficiently favourable. However, the council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

26.0 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

- 27.0 **LOBOs:** The Council holds £70.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan. Although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.
- 28.0 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
- 29.0 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving and/or a reduction in risk.

INVESTMENT STRATEGY

- 30.0 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £190 and £89 million. These balances are forecast to decline as the Councils begins the implementation of its ambitious capital programme and pipeline.
- 31.0 The 2018/19 investment strategy allowed the Council flexibility to invest cash for periods of up to 370 days with the ability to lend any amount to any UK local government body for up to 5 years. The minimum long term rating for counterparties is A- (or equivalent) whilst the prudential indicators allowed up to £40m to be invested for longer than 364 days.
- 32.0 **Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 33.0 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into higher yielding asset classes during 2019/20. However it is worth noting that this approach might be limited to the extent that this the capital investment plans are

delivered in line with current expectations. Should this prove to be the case, surplus funds may not be available to invest over longer durations as set out below.

- 34.0 The average rate of interest received on investments during the year to December 18 was 0.71%. Comparison data for other local authorities from Arlingclose's benchmarking club (which uses the data of 136 Local Authorities) places Brent around average compared to our peers - **Appendix C**. However, this strategy now provides the opportunity improve this performance. During the first quarter of 19/20 council officers, in conjunction with our advisors will undertake a more detailed review to assess the potential for realistically doubling the current average rate of return by making use of the full range of options listed in paragraphs 42.0 – 49.0 and contained within this strategy.
- 35.0 The majority of the Council's surplus cash is currently invested short-term with other Local Authority's, money market funds and certificates of deposit. This diversification will therefore represent a change in strategy over the coming year.
- 36.0 In order to diversify a portfolio largely invested in cash, for 19/20 investments will be placed with a number of approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set by the Chief Finance Officer to ensure that prudent diversification is achieved.
- 37.0 The minimum credit rating for non-UK sovereigns will be set at AA+ (or equivalent) and the minimum long term rating for counterparties is A- (or equivalent). Within these criteria the Chief Finance Officer (CFO) will have discretion to accept or reject individual institutions as counterparties on the basis of any information which may become available.
- 38.0 The Council uses the lowest rating quoted by the main rating agencies, as recommended by CIPFA. Where instrument credit ratings are available, the instrument credit rating will be used if different from the counterparty rating. Credit ratings are monitored continually by the Council, using the advice of Arlingclose on ratings changes, and action taken as appropriate.
- 39.0 Any institution will be suspended or removed should any factors give rise to concern, and caution will be paramount in reaching any investment decision regardless of the counterparty or the circumstances. Should an entities credit rating be downgraded so that it does not meet the Council's approved criteria then:
- No new investments will be made;
 - Full consideration will be made to the recall or sale of existing investments with the affected counterparty.
- 40.0 Having an appropriate lending list of counterparties, remains critically important to protecting Brent's investments. A list of extremely secure counterparties would be very small, and the limits with each would be correspondingly high. This would

expose the Council to a risk of an unlikely but potentially large loss. This arises because the arrangements for dealing with banks in difficulty now require a loss to be imposed on various categories of liabilities of the banks to allow the bank to recapitalise itself and continue in business (sometimes referred to as bail in).

- 41.0 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 42.0 **Unsecured deposits:** unsecured deposits with banks could be exposed to credit loss by the 'bail-in' process. This is where depositors are expected to make a significant contribution to recapitalise a bank that is failing or likely to fail before government support is provided and public money is invested in the organisation. There is no upper limit to the maximum credit loss that the authority could suffer in the event of a bail-in scenario.
- 43.0 **Secured deposits:** secured deposits of various kinds are not included in bail in provisions where investments are secured on the bank's assets. It is likely that the Council's preferred instruments in lending to institutions without some kind of government guarantee will increasingly be in the form of secured or marketable instruments. The Council and its advisors remain alert for signs of credit or market distress that might adversely affect the Council.
- 44.0 **Money market funds (MMFs):** will be utilised but good treasury management practice prevails, and whilst MMFs provide good diversification, the Council will also seek to mitigate operational risk by using at least two MMFs where practical. They will not exceed 0.5% of the net asset value of the MMF. *In addition, each Fund will be limited to a maximum deposit of £20m.*
- 45.0 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. *Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.*

The investment strategy will provide flexibility to invest cash for longer periods in order to access higher investment returns. *The upper limit for lending beyond a year is £50m.* In practice, lending for more than one year will be only to institutions of the highest credit quality and at rates which justify the liquidity risk involved. Marketable instruments may have longer maturities, though the maturity will be considered in conjunction with the likely liquidity of the market and credit quality of the institution. *Other than UK Central Government the council may invest its surplus funds subject to a maximum duration of 20 years.*

Alternative investment options will include:

- 46.0 **Corporate bonds:** These can give significantly higher yields than our current deposits but give exposure to risks from economic, commercial and operational difficulties. Diversification would involve investing small amounts with a large number of companies or buying diversified Funds. Seeking additional security could involve exchanging our deposit for known high credit quality assets, or a claim on a pool of assets. Seeking capital strength would involve investing in companies with high levels of assets in relation to liabilities or a strong fixed asset base, or whose business is not subject to marked fluctuations in activity or profitability.
- 47.0 **Registered Providers (Housing Associations and Registered Social Landlords):** Loans and bonds issued by RP's have been included as an approved investment counterparty for 2019/20. Any investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose prior to investing. *Investments with registered providers will be limited to £20m in 2019/20.*
- 48.0 **Collective Investment Schemes (Pooled Funds):** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in pooled funds will be undertaken with advice from Arlingclose. Although considered as pooled funds, MMF's are discussed separately in paragraph 42. The Council currently has no investments in Pooled Funds (other than MMFs) at present, but may make prudent use of them in the future. *Investments in pooled funds will be limited to £20m in 2019/20.*
- 49.0 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. *Investments in REITs will be limited to £20m in 2019/20.*

- 50.0 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services. These are not classed as investments but are at risk of bank bail-in. The Council banks with National Westminster Bank (NatWest) who meet the Council's minimum credit criteria. Should Natwest's creditworthiness deteriorate below the Council's minimum credit criteria, then as far as is consistent with operational efficiency, no money will be placed with NatWest and credit balances in the various Council accounts will be kept to a minimum level.
- 51.0 **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £240 million on 31st March 2019. In order that no more than 10% of available reserves will be put at risk in the case of a single default, *the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million.* A group of banks under the same ownership will be treated as a single organisation for limit purposes.
- 52.0 **Liquidity management:** The Council uses internal purpose-built cash flow modelling tools to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

TREASURY MANAGEMENT INDICATORS

- 53.0 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 54.0 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 2

Credit risk indicator	Target
Portfolio average credit rating	A

- 55.0 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling [three] month period, without additional borrowing.

Table 3

Liquidity risk indicator	Target
Total cash available within 3 months	£50m

- 56.0 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Table 4

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£5m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

- 57.0 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 5

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	60%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and within 40 years	75%	0%
Over 40 years	75%	0%

Time periods start on the first day of each financial year. LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

- 58.0 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 6

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£50m	£50m	£50m

Related Matters

- 59.0 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 60.0 **Financial Derivatives:** The Authority does not currently use standalone financial derivatives (such as swaps, forwards, futures and options) and will only do so where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy. Where schemes contain an embedded derivative they will be subject to evaluation as part of the appraisal of the particular scheme.
- 61.0 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and any relevant foreign country limit.
- 62.0 The Authority will only use derivatives after seeking expertise, receiving a legal opinion and ensuring officers have the appropriate training for their use.
- 63.0 **Housing Revenue Account:** As of 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Individual loans or parts of loans have been allocated to the HRA, on the basis of achieving the same long term rate as that which applied to the General Fund at the self-financing date.
- 64.0 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow results in a notional element of internal borrowing. This balance will be assessed over the year and interest charged to the HRA at an appropriate rate for short term borrowing. The HRA will also hold reserves and balances which will be invested with the Council, and interest will be paid on identified balances at a rate which recognises that any investment risk is borne by the General Fund.
- 65.0 **Markets in Financial Instruments Directive:** The MiFID II regulations took effect from January 2018 which saw the council reclassified as a retail client with the

opportunity to opt up to professional client status. Retail clients have access increased protection however this would be balanced against potentially higher fees and access to a more limited range of products. The council has opted up to professional client status with its providers of financial services, including advisors, banks, brokers and fund managers. The CFO believes this to be the appropriate status for the Council's treasury management activities.

Other options considered

- 66.0 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The strategy below in Table 7 represents alternative approaches, along with the associated financial and risk management implications.

Table 7: Alternative Strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

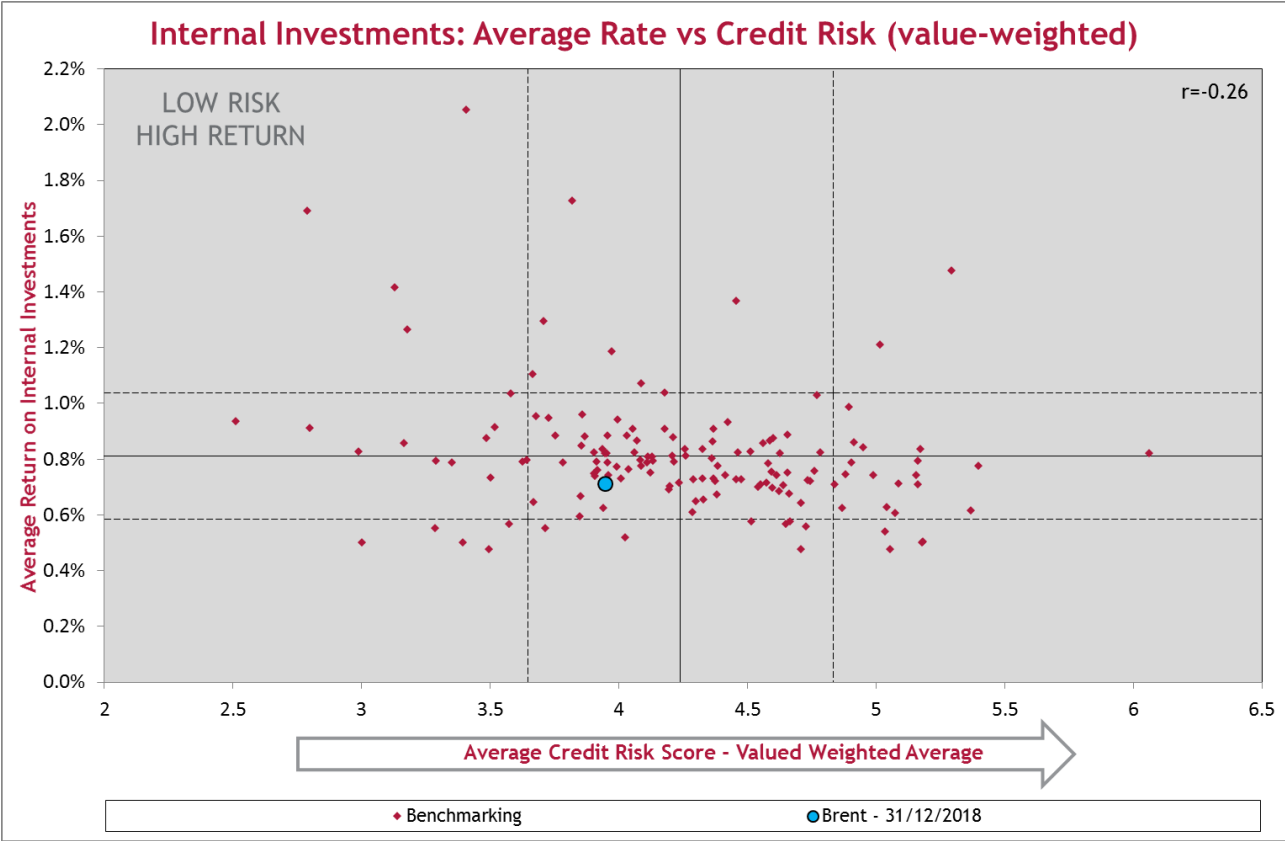
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%


Appendix B – Existing Investment & Debt Portfolio Position

	Dec-18 Actual Portfolio £m	Dec-18 Average Rate %
External borrowing:		
Public Works Loan Board	311.4	4.83%
LOBO loans from banks	70.5	4.64%
Fixed Rate Loans	15	4.27%
Total external borrowing	396.9	4.78%
Other long-term liabilities:		
Private Finance Initiative	26.5	
Finance Lease	2.6	
Total other long-term liabilities	29.1	
Total gross external debt	426.0	
Treasury investments:		
Banks & building societies (unsecured)	5.2	0.71%
Government (incl. local authorities)	70.8	
Money Market Funds	37.7	
Total treasury investments	113.7	0.71%
Net debt	312.3	

Appendix C – Internal Investments: Average Rate vs Credit Risk



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 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chair of i4B Holdings Ltd
Report on i4B Holdings Ltd	

Wards Affected:	All
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>	Part Exempt Appendix 1 of the i4B Holdings Ltd Business Plan is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
No. of Appendices:	Four: <ul style="list-style-type: none"> • i4B Business Plan 2019/20 • Company Risk Register • Internal Audit Report 2018-19 – PRS Model Review • Internal Audit Responses Action Plan
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Peter Gadsdon Director of Performance, Policy and Partnerships Email: peter.gadsdon@brent.gov.uk Tel: 020 8937 6095

1.0 Purpose of the Report

- 1.1 This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, proposed 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 Company's draft 2019/20 Business Plan.

2.1.2 The summary of the financial and non-financial benefits of i4B's operations.

2.1.3 The update to the i4B risk register.

2.1.4 The update on recent i4B audits, and progress towards implementing previous audit recommendations.

3.0 Background

3.1 This report provides the ASAC with an update on: the Company's draft 2019/20 Business Plan, the risks and benefits of i4B's operations to the Council and i4B, and recent i4B audits. Background information on the Company's performance can be found in section 4 of the 2019/20 Business Plan (appendix 1).

4.0 Business Plan

4.1 Appendix 1 contains the draft 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 30th 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.

4.2 The Board has considered its 2018/2019 Business Plan and five year forecast against its own performance and external market factors. The Board believes that the themes of growth and diversification identified within last year's Business Plan remain the correct priorities. Next year's i4B Business Plan (2019/2020) therefore refines the ambitions supported last year. These are:

- The PRS acquisition programme;
- The provision of Intermediate / Key worker accommodation;
- Develop a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
- Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market.

4.3 However, as a result of changes in market conditions, opportunities arising over the past twelve months, and scheme details emerging the Company is requesting that the shareholder supports a realignment of the £254.5m financial commitment provided in February 2018 by Cabinet.

4.4 Below is a summary of the key proposals of the 2019/20 Business Plan.

4.5 PRS Acquisition Programme

4.5.1 The Board seeks to complete phase one of 300 PRS street properties by April 2020. The Board proposes that the proportion of properties in Brent and Greater London increases.

4.5.2 In the 2018/2019 Business Plan, the Shareholder agreed to purchase 180 units in Brent and 120 units in the Home Counties. The Company now proposes to purchase 220 properties within Brent or Greater London and 80 properties within the Home Counties. This recommendation is due to the significant challenges the Council has faced in placing families outside of the Borough. The Company has also experienced greater difficulty in tenancy and income management for Home Counties' properties. However, Housing Needs have

advised there may be bespoke cases where Home Counties properties are required. Therefore, the Board would like flexibility to purchase bespoke Home Counties properties on behalf of the Council if there is sufficient demand.

4.5.3 The Company proposes to increase funding for phase one of the PRS acquisition programme to £109m this reflects the higher average property cost within Brent compared to the Home Counties.

4.5.4 The Company is proposing to reduce the phase two budget from £116m to £110.5m. Of the £110.5m the Company is proposing to use £24m to purchase 60 street properties by April 2021 and £86.5m to purchase 265 new build units from the Council between 2020 and 2024.

4.5.5 In the 2018/19 Business Plan it was agreed that £116m would be used for the purchase of an additional 300 street properties in phase 2 of the PRS acquisition programme. The number of units have been revised down to 60. The revision is primarily due to the lack of sufficient properties at the yield which i4B requires to make the financial model viable. The purchase of new build units from the Council is beneficial because:

- They have higher yields than market street properties;
- They are of better quality;
- They provide the Council with a significant capital receipt.

4.6 The provision of Intermediate/Key worker accommodation

4.6.1 In the 2018/19 Business Plan, Cabinet supported the need to develop an i4B intermediate rent offer. The 2019/20 Business Plan proposes that a portion of agreed funding for intermediate rented accommodation be used to support the purchase of one block of 153 units for the provision of key worker accommodation at 60%-80% market rent.

4.6.2 Throughout 2019/20, i4B will work with the Council's housing supply and partnerships team to develop this opportunity as a flagship for key worker accommodation.

4.7 Develop a portfolio of new build accommodation working with the Council to develop housing on Council owned land

4.7.1 The Company proposes that £86.5m of the February 2018 agreed PRS phase two funding to be made available for the purchase of new build homes from the Council from 2020. Six schemes have been identified to date consisting in total of 265 units. It is requested that i4B and First Wave Housing be named as partners within an agreement with developers to increase the capacity of the Council to deliver a large number of affordable units in borough within a short period.

4.7.2 Over the next five years i4B believes it has the financial capacity to purchase 20% to 25% of the circa 1000 new units which the Council aspire to deliver.

4.7.3 Throughout 2019/20 the Company will work with the Council to progress new build opportunities.

4.8 Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market

4.8.1 The Company proposes to create a delivery partnership with one or more registered providers or commercial developers. These partnerships will enable i4B to be more active and intelligent in the market, and increase the Company's ability to respond quickly to market opportunities. Ideally, the partnership would encourage small sites as well as major sites to be purchased and developed. Within its pipeline of development sites, the Council has identified a number of privately owned sites which are suitable for affordable development opportunities.

4.9 Working more closely with First Wave Housing

4.9.1 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 more closely 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.

4.9.2 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.

5.0 Social Benefits to the Council

5.1 i4B has increased the amount of affordable housing tenures in Brent and the Home Counties. The Company has been successful in purchasing private sector homes and switching the tenure to an affordable private rented sector product. 300 new affordable homes will be created by April 2020.

5.2 As of January 2019, 168 Brent families, including 411 children, have been housed in i4B properties.

Table 1 – Breakdown of families directed to i4B as of January 2019

Previous Accommodation	no. of families	no. of children
Direct to i4B	16	39
Women's Refuge	2	4
TA Stage 1 – B&B	130	302
TA Stage 2 – Leased	20	66
Total (under private rented offers scheme)	168	411

- 5.3 All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS accommodation which is generally of a lower standard.

6.0 Financial Benefits to the Council

- 6.1 i4B provides the Council with ongoing financial benefits.

Table 2 – Annual Financial Benefits the Council will receive due to i4B once 300 properties are purchased.

Annual Benefits	Annual financial benefit	Description
Loan interest benefit 0.3%	£248,000	The Council can borrow money at a lower rate than it charges i4B (currently 2.6% and 2.9% respectively).
Temporary Accommodation savings £1,960 p.a.	£588,000	Saving of £588,000 based on 300 households diverted from stage 2 temporary accommodation which costs the Council £1960 per annum per household.
SLA payment	£444,000	
Total ongoing financial benefits to the Council	£1,280,000	

- 6.2 However, there are also ongoing financial costs.

Table 3 – Ongoing Financial Costs

Annual Costs	Annual financial cost	Description
Interest on equity investment	£538,000	The Council can initially invest existing resources but will have to borrow the funds for the equity investment in the next few years. It will therefore incur ongoing interest charges relating to the equity investment.
Costs relating to SLA provision	£444,000	
Total ongoing financial benefits to the Council	£982,000	

Net ongoing annual financial benefits to the	£298,000
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- 6.3 In addition, the Council receives one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of property and property price increases. The one-off financial benefits from the loan for the first 300 properties are:
- Loan arrangement fee of 1% (~£830k)
 - Loan non-utilisation charge (~£620k)
 - The Council is initially funding the i4B loan through existing funds, but it plans to borrow the full amount in the next few years. Until the Council borrows the funds, the entire interest payment goes to the Council.

- 6.4 As the sole shareholder, the Council can benefit from property price growth of the portfolio.

7.0 Risk Register

- 7.1 The Company Risk Register can be seen in Appendix 2.

- 7.2 Since the last meeting with the Committee the following risks have been added:
- Ten fraud related risks which were identified in a fraud risk audit.

- 7.3 The following risks have increased:
- The pre-mitigation likelihood of Company cash flow (capital and revenue) being insufficient to manage expenditure has increased from two to three.

- 7.4 The following risks remain as live issues and are being monitored as such:
- The pipeline of properties is slower than the SLA target;
 - Average property price exceeds budget and portfolio of properties does not achieve the target net yield margin.

- 7.5 In July 2018, the following risks were transferred from the Company risk register to the Council risk register:
- The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord.
 - The proportion of equity held by LB Brent in relation to the total loan exceeds target.

8.0 Internal Audit Update

- 8.1 In November 2017, i4B agreed a programme of four internal audits for 2017/18:

Table 4 – i4B internal audits

Audit	Status
Governance, Risk & Financial Management	Complete Report provided to ASAC in March 2018
Benefits Realisation, Management Information and Reporting	Complete

Audit	Status
	Report provided to ASAC March 2018
Fraud Risk Assessment	Complete Report provided to ASAC July 2018
Financial Model Review	Complete Report Provided to ASAC February 2019

8.2 At the July 2018 meeting of the ASAC, i4B provided an update on the findings from the Fraud Risk Assessment audit. Section 8 outlines the activity that has been taken since the last report to the committee.

8.3 The Financial Model Review audit was completed in January 2019. The audit was originally meant to be completed in June 2018 but was deferred due to the departure and subsequent recruitment of a Head of Finance. i4B has now completed its audit schedule for 2017/18. i4B will be meeting with Internal Audit to produce an audit schedule for 2019/20.

8.4 Financial Model Review Audit Findings

8.4.1 The full audit report can be seen in appendix 3. The purpose of the review was to assess the design and build of the i4B PRS model and to check its calculations are consistent with the model intent. The following work was carried out:

- The model was reviewed to see if it was performing as designed and to identify any errors in the calculations.
- The model was assessed in comparison with the auditor's view of modelling best practice. This included assessing spreadsheet design and documentation.

8.4.2 The review found that the model sets out what it hopes to achieve, with a well-constructed future profit and loss account and balance sheet. There is a good level of flexibility within the model, allowing users to make a range of changes to assumptions, as well as capability to define ten scenarios, and whether indexation applies in each of those or not.

8.4.3 Most of audit's findings were around technical points of design and best practice, and also general understanding of areas of methodology.

8.4.4 There were two high level findings relating to methodology. The first is the way in which experience analysis is used to calculate average property prices and rental values. Essentially, the model understates average property prices and overstates rental income. A full explanation can be seen in appendix 3 pages 7-10.

8.4.5 The second is around the use of house price inflation (HPI) as well as the assumptions used for both HPI and rental growth. A full explanation can be seen in appendix 3 pages 12 to 16.

8.4.6 Officers will be working to implement recommendations at the start of the 2019/20 financial year. Full management responses can be seen in the audit action plan (appendix 4).

9.0 Update on Recommendations from Outstanding Audits

9.1 i4B has created an audit action plan to track the Company's progress against the agreed actions from the internal audits completed to date. i4B would like to draw the Audit and Standards Advisory Committee to the following actions that have been completed:

Action log Ref.	Action	Update
B3	Implementation of a Microsoft Dynamics System for i4B properties and processes	A Microsoft Dynamics case management system for i4B properties and processes has been created. This will improve Brent Council processes and introduce clearer measuring periods for the company's KPIs. The system went live in November 2018. Work is ongoing to improve the accuracy of KPI reporting.
C1	i4B should use the findings from the fraud risk workshop to perform a fraud risk assessment.	A fraud risk assessment was undertaken in October 2018. At the October Board the Board agreed to transfer the fraud risks identified to the Company Risk Register. These risks will then be reviewed on a quarterly basis.
C2	i4B should also ensure that they have in place a set of fraud and ethics policies	In October 2018, the i4B Board agreed to adopt Brent Council's Anti-Fraud and Bribery Policy, Gifts and Hospitality Policy, and Whistleblowing Policy. Board Members have also signed a code of conduct policy.

i4B Holdings Limited
Business Plan
2019/20
And
Forward Investment Proposals 2019-2024

Business Plan Structure

Contents

1	The Purpose of the Company
2	The Benefits of Operating as a Company
3	The Structure of the Company
4	Performance to Date
5	Benefits Analysis of the PRS Acquisition Programme to Date
6	Demand and Supply
7	New Opportunities
8	Proposed Routes for the Delivery of Business Products
9	Risk Analysis
10	Financial Analysis – Existing Business Model
11	Key Performance Indicators

Appendices

1	Financial Plan to Support the Business Case
2	i4B Risk Register

1 The Purpose of the Company

- 1.1 i4B Holdings Ltd (i4B; the Company) has been established to reduce 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 2018-19, the Council reported having 2,375 households living in TA, the seventh highest of all housing authorities in England.
- 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 can 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. The core business of the Company is as a Private Sector Landlord accepting homeless nominations from the Council. Properties are let with the intention that the tenancy will be the foundation on which customers can improve their quality of life. The aim is that customers enjoy secure, affordable, and well maintained accommodation.
- 1.5 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 shareholders representative.
- 1.6 The Company has carried out business development activities, researching new ways and opportunities by which it could support the achievement of the Council's wider objectives. These are detailed in Section 7 – New Opportunities and Section 8 – Proposed Routes for the Delivery of Business Products.

2 The Benefits of Operating as a Company

- 2.1 As a wholly owned, Local Authority Company, the Company 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 The Company is set up with the following requirements:
- The Company 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 is exploring commercial ventures, which 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 borough of culture, empathy and shared prosperity'.

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:

- Independent board member Akintoye Durowoju;
- Councillor George Crane;
- Gail Tolley, the Strategic Director of Children and Young People; and
- Peter Gadsdon, the Director of Performance, Policy and Partnerships.

3.6 The Company has a Service Level Agreement (SLA) 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 In addition, the Company purchases services from the Council to buy, refurbish and manage the properties being acquired. Other services as may be required to discharge this business plan or Council agreed supplementary business cases.

4 Performance to Date

- 4.1 The Company was incorporated in December 2016 and bought its first property in August 2017. As of December 2018, the Company owns 201 properties and has let 177 homes to Council nominees..
- 4.2 The Company is aware that whilst it is young and purchasing properties its business is not in a steady state. i4B has been letting over 10 homes per month and working with customers new to their accommodation and tenant responsibilities. As a result, i4B has experienced financial challenges. The Company is forecast to make a £1.6 million loss in 2018/19 excluding property depreciation, revaluation gains or impairment losses, the 2018/19 business plan forecasted a loss of £664k. The Company is working with the Shareholder to ensure it is able to operate effectively and meet its core objectives.
- 4.3 However, the Board has benefitted from the experience of managing properties for 18 months and has improved its service. The Company has introduced the following improvements to strengthen the business and mitigate negative factors:
 - 4.3.1 The average time from purchase to the first let has been reduced. The last 50 units to be let have averaged 89 days from purchase to let compared with the average from April 2018 which is in excess of 160 days. The business plan seeks an average of 90 days or less.
 - 4.3.2 The proportion of the portfolio let and generating income compared to those in refurbishment has improved from 44% in April 2018 to 88% in January 2019.
 - 4.3.3 The property acquisition strategy has changed to increase the proportion of properties purchased in Brent. This refinement will reduce sign up refusals and the number of appeals which the Council has to manage from customers housed outside the Borough. The average letting time within Brent is 19 days. Large four bedroom properties in the Home Counties have proved hard to let.
 - 4.3.4 The Company's financial model is highly sensitive to property price, service charges, works costs, and lease costs. Therefore, the Company has introduced a higher financial threshold when buying properties based on net yield. A net yield calculator has been adopted by the Board, this is now the metric that guides property purchases. A net yield target of 1.1% was set in order to support the 30 year financial plan. The average net yield of the current portfolio is 0.96% with a pipeline of 1.32%. The Company is anticipating an average net yield of 1.05% for the first 240 properties and an average portfolio net yield of 1.1% for the first 300 properties. The new net yield target has caused some disruption to the pipeline and the withdrawal from purchase of a number of properties.
- 4.4 Tables 1 and 2 are a snap shot of acquisition, refurbishment, and first lettings performance at January 2019.

Table 1 – Performance within the acquisition to first letting process

Acquisitions – 14th January 2019	No	Value (£m)
Properties purchased	201	£66.3m
Properties in final authority to buy stage	5	£1.6m
Properties in conveyancing (legal)	25	£9.5m
Properties in pipeline	31	£11.2m
Total value of the acquisitions and pipeline	262	£88.6m
Refurbishment costs	262	£4.6m
Net yield of purchased properties	201	0.96%
Net yield conveyancing & pipeline	69	1.32%
Total rent roll per annum	201	£3,574,300

Table 2 – Refurbishment and Lettings Performance

Refurbishment & Lettings – 14th January 2019	No
Properties let	177
Properties matched	1
Properties awaiting letting to be matched	3
Properties void (after 2nd let)	0 (6 voids to date)
Properties in refurbishment	20
Discharge of duty cases where the customer refused the property	35
Properties with wet room and stair lifts	3
Properties suitable for people with low level mobility needs	10%
Average rent per property	£294.26

Acquisitions

- 4.5 The PRS programme set out in 2016 to provide 300 units of good quality private sector accommodation for Council nominees by September 2018. In February 2018, the Shareholder supported a second phase of 300 units to be purchased by 2021. The pace of acquisitions has been slower than originally envisaged with 201 units purchased by 14th January 2019.
- 4.6 There are a number of factors as to why the Company has struggled to purchase properties at the rate agreed with the shareholder. These include:

- 4.6.1 The low volume of properties on the market at a price the Company can pay;
 - 4.6.2 The dominance of leasehold properties in the market which bring complexities such as lease terms, third party freehold ownership, and services charges;
 - 4.6.3 Difficulties in reducing the acquisition timeline from property identification through to the first let; and
 - 4.6.4 The challenges of matching nominees and properties in the Home Counties especially large family accommodation
- 4.7 The average price per unit is above target at £353k compared to the budget of £345k per unit. However, to date, i4B has purchased more properties within Brent (116) than initially anticipated and fewer in Greater London (15) and the Home Counties (70). The Council's purchasing team has been successful at acquiring properties at increasingly higher yields and within Brent. An in year adjustment in net yield guided the Company towards purchasing more expensive three and four bed freehold properties. The revised yield will allow a proportion of high demand two bed units to be purchased to complement three and four bedroom units.
- 4.8 The portfolio pipeline reflects a 60% to 40% leaseholder freeholder split. Although many leases are in blocks which are owned by independent freeholders, the Company has been successful at purchasing leases in Brent Council blocks and purchasing multiple leases within the same dwelling to become the freeholder as well as leaseholder.
- 4.9 The Board is confident that the purchase of street properties will continue to play a significant role within a greater portfolio. The Board set out in the Company's 2018/2019 Business Plan, and repeats in more detail in this plan, its ambition to purchase higher yielding new built homes from the Council and from the market to provide affordable homes in Brent. This will increase the average yield of the Company's portfolio. A blended net yield of 1.1% should be achievable by April 2024.

Performance Improvements

4.10 Table 3 sets out the significant improvements that have been made in 2018.

Table 3 – Key Performance Acquisition to first let

Indicator	Target	Performance at February 2018	Performance at January 2019
Number of units	300 by October 2018	102 units at February 2018	201 units at 14 th January 2019
Average cost per property	£345,000	£355,892	£352,900
Gross Yield	5%	4.91%	4.95%
Net Yield	1.1% New Jan 2019	0.88%	0.96%
Period from panel approval to purchase (October data)	91	131	142
Refurbishment (October data)	66	122	64
Letting in Brent (October data) (days)	14	29 (all locations)	19
Letting outside Brent (October data) (days)	35	As above	114
Rent collection	98.5%	60.89%	90.25% (04/12/2018)
Evictions	N/A	0	2
Landlord Gas safety Record	100%	100%	99%
Void Rate (relets)	3%	0%	3% (6 properties in total all outside Brent) Void rent loss 1.6% (04/12/2018)

- 4.11 The time taken to refurbish and let acquired homes has reduced. The last 50 units have been refurbished and let within 90 days of purchase. Performance is at its best in Brent. Letting in the Home Counties has been harder due to greater resistance from customers to be housed outside the Borough and the difficulty in placing larger families outside Brent due to the increased likelihood for family members needing to remain in borough for education, employment, or medical reasons.
- 4.12 Void rates are low at around 3%. In each case where a tenancy has ended the property has been outside Brent.
- 4.13 There remain a number of challenges in rent collection and arrears management. Performance in this area has led to the serving of contract breach notices on management agents. However, rent collection is now at 90.25% (04/12/2018) and collection rates have improved for seven consecutive months. The Company

continues to monitor agents closely on this matter. A procurement process is underway for housing management contracts as the current contracts will end in the autumn.

Performance Management and Audits

- 4.14 Performance continues to be monitored by the Board and through a monthly service level agreement with the Council.
- 4.15 The establishment of a comprehensive Service Level Agreement (SLA) between i4B and the Council has enshrined service standards, expectations of performance, and resources. Monthly client meetings have been established between i4B and the Council to monitor adherence to the business plan and the SLA.
- 4.16 Bi annual shareholder meetings provide an opportunity for senior Council officers to discuss the performance and benefits of i4B with the Company.
- 4.17 The Company has undergone three internal audits. These have covered Governance and Risk Management, Fraud Risk, and Benefit Realisation. All audits have been assessed as Reasonable. The definition of reasonable is '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'. The Board has since implemented measures to mitigate and eliminate the risks and weaknesses identified by the three audits.
- 4.18 The Company has appeared at the Council's Audit Advisory Committee on three occasions to discuss its audits since September 2017, and will continue to attend at the appropriate intervals.
- 4.19 The acquisition of homes has moved to the Microsoft Dynamics CRM process and i4B has commenced using Brent Dynamics from November 2018. The system will help communication between the many Council service areas involved in the purchasing and refurbishment of properties via the Company's Service Level Agreement with the Council. The transparency of the records to more service areas helps in key areas such as finance, council tax, and payments as documents are visible from a core archive. The Brent Dynamics system is now able to report live performance and financial information which contributes to better and timelier decision making.

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 borough of culture, empathy and shared prosperity. There are five areas which can be measured to support the Company's contribution:
- Helping the Council achieve its strategic objectives
 - Supporting the Council to retain and grow skills and invest in the expertise of those who deliver services
 - Income generated to the Council through 'on-lending' capital to the Company
 - Reducing the Council's revenue cost through i4B investing in new products and delivering services in new ways
 - Investing in assets that should appreciate in capital value over the medium and long-term.

Social Benefits

- 5.2 Although the PRS acquisition programme has not delivered new housing supply, i4B has increased the amount of affordable housing tenures in Brent and the Home Counties. The Company has been successful in purchasing private sector homes and switching the tenure to an affordable private rented sector product. 300 new affordable homes will be created by April 2020.
- 5.3 All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS accommodation which is generally of a lower standard. Also, with i4B as their landlord, tenants are safe from practices such as revenge evictions.
- 5.4 i4B also supports the diverse needs of the borough. i4B has agreed a mobility friendly standard with the Council. Homes will have level access, walk in showers will often 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 make a contribution to hospital discharges.
- 5.5 Brent Council's lettings team undertake a thorough matching process when considering tenants for i4B properties. Where possible families are matched with a property in-borough in the first instance. The Company's out of borough stock enables it to support people fleeing domestic violence.
- 5.6 Through the SLA contract with i4B, the Council has been able to sustain and in some service areas increase staffing budgets. For example, the Council's property team has been strengthened with additional capacity and new skills. An additional five posts have been created in legal services.
- 5.7 As of January 2019, 168 Brent families, including 411 children, have been housed in i4B properties.

Table 4 – Breakdown of families directed to i4B as of January 2019

Previous Accommodation	no. of families	no. of children
Direct to i4B	16	39
Women's Refuge	2	4
TA Stage 1 – B&B	130	302
TA Stage 2 – Leased	20	66
Total (under private rented offers scheme)	168	411

Financial Benefits

- 5.8 The Council receives financial benefits from i4B, mainly through reducing the use of temporary accommodation and supporting homeless families. The Council also bears some additional costs from i4B. i4B estimates that on an ongoing basis, the first 300 properties purchased by i4B will bring ongoing net financial benefits of £300k per annum to the Council.
- 5.9 In addition, the Council receives one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of property and property price increases. The one-off financial benefits from the loan for the first 300 properties are:
- Loan arrangement fee of 1% (~£830k)
 - Loan non-utilisation charge (~£620k)
 - The Council is initially funding the i4B loan through existing funds, but it plans to borrow the full amount in the next few years. Until the Council borrows the funds, the entire interest payment is a profit to the Council.
- 5.10 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. As the sole shareholder, the Council can benefit from property price growth of the portfolio.

6 Demand for i4B Properties

- 6.1 The below section contains information provided by the Council's Housing Needs Service which sets out their demand for PRS accommodation acquired by i4B to alleviate the demand for affordable housing from homeless household.

Demand by Household

- 6.2 Table 6 below shows the number of post Localism Act accepted cases broken down by bedroom need. This offers a broad assessment the current potential total demand for i4B properties.

Table 6 - Homeless Households in TA accepted post 09/11/2012 by bedroom category

Bedroom size required	Number of households
1	83
2	552
3	388
4	113
5	17
6	1
Total	1154

- 6.3 However, the practical demand for legacy households living in TA is approximately 1,000. This is because 71 households are affected by the overall benefit cap and approximately 50 households are in significant rent arrears.
- 6.4 Table 7 below shows a breakdown of homeless households for which the Council has accepted the main rehousing duty after 9/11/2012, who are living in nightly paid B&B. This illustrates the priority target households that i4B was set up to house.

Table 7 – Homeless Households accepted post 09/11/2012 by bedroom category and living in nightly paid B&B.

Bedroom size required	Number of households in B&B
1	15
2	35
3	22
4	8
5	0
Total	80

- 6.5 In addition to this demand, the Council's Housing Options team has historically accepted the main rehousing duty to approximately 30 households per month.
- 6.6 The above figures demonstrate that demand is greatest for households requiring two and three bedroom properties. Demand from households requiring two and three bed properties makes up 81% of total demand (households accepted post Localism Act)

and 71% of priority demand (households accepted post Localism Act living in nightly paid B&B).

Demand by Location

- 6.7 Since the implementation of the Government's welfare reforms, total amount of welfare benefits received by a lone parent or couple with children has been capped at £23,000 (£442 p/w) in London and £20,000 (£385 p/w) outside of London. Any household who are affected by the overall benefit cap will be unable afford to live in Brent, as the LHA levels are too high.
- 6.8 Profiling of the 65 accepted families currently living in B&B (as set out in table 8) has taken place, to identify which households are exempt from the Overall Benefit Cap, either because they are working, or because they are exempt due to medical issues.

Table 8 – Profiling of accepted households in B&B

	2 Bed	3 Bed	4 Bed
Not working	20	6	3
Working	10	14	5
Med/exempt	5	2	0
Total	35	22	8

- 6.9 Generally, the households who require a two bed and are not working and not exempt from the cap will find it difficult to afford accommodation in Brent/London. Those households who are a three bed need, who are not working and not exempt will not be able to afford accommodation in Brent/London and realistically could only afford accommodation in Luton/Bedfordshire and Milton Keynes. Households who require four bed accommodation could only afford to live in accommodation in Milton Keynes and beyond.
- 6.10 Of the new 30 homeless households per month, there is a higher proportion of households who are affected by the Overall benefit Cap. Therefore, the future supply of properties would need to cater for families who cannot afford to live in Brent, and whom have no social or educational needs to remain in the borough.
- 6.11 However, there may not be a demand for these properties from homeless households. The location of a property has a significant impact on the refusal rate. Only 6% of i4B properties in Brent have been refused since April 2018. Whereas 25% of i4B properties outside of Brent have been refused. Moreover, in every case where a tenancy has ended the property has been outside Brent

Implications for i4B

- 6.12 The above demand figures will assist i4B's purchasing strategy over the next year. Table 9 gives a summary of i4B's portfolio when 300 properties are purchased.
- 6.13 As of December 2018, 230 properties have been purchased or are in conveyancing. Due to yield restrictions, it is probable that the remaining 70 properties will be made up of three and four bed properties. It is likely that 10 three bed properties in the Home Counties will be purchased. The Company will aim to purchase all of the remaining 60 properties in Brent and Greater London, this is due to difficulties in

housing households outside of the Borough. However, the Board would like flexibility to purchase bespoke Home Counties properties on behalf of the Council where there is demand.

Table 9 – Summary of i4B PRS property purchases by location and size

Location	2 bed	3 bed	4+ bed	Total
Brent & Greater London	100	74	46	220
Home Counties	9	47	24	80
Total	109	121	70	300

- 6.14 76% of properties in the i4B portfolio are either two or three bedrooms. This reflects the demand figures outlined in paragraph 6.6. Moreover, the new build opportunities outlined in Section 8 will reflect demand. For example, at Site 1, the Company's priority project over the next year, 75% of units will be either one, two, or three bedrooms.

7 New Opportunities

- 7.1 The first i4B Business Plan in 2017/18 anticipated the purchase of 300 properties and a financial breakeven position over 30 years.
- 7.2 In the 2018/19 Business Plan, it was agreed with the Shareholder that the Company would seek to grow and diversify its business operations and products to strengthen the balance sheet, spread risk, and increase capacity to do more for Brent.
- 7.3 The Board has considered its 2018/2019 Business Plan and five year forecast against its own performance and external market factors. The Company recommends to the shareholder that the themes identified within the 2018/2019 Business Plan remain the correct priorities. The themes are:
- The PRS acquisition programme;
 - The provision of Intermediate / Key worker accommodation;
 - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
 - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market;
 - Strategic investment to strengthen the business and/or bring benefits to the Council benefit.
- 7.4 In addition, the Company will:
- Work with the Shareholder to look at the optimum structure for Council-owned housing companies, including i4B Holdings Ltd and First Wave Housing Ltd (FWH).
- 7.5 The 2019/2020 Business Plan refines the ambitions supported by the shareholder in February 2018 and provides more clarity on how these products will be delivered. Growth and diversification continues to be a theme to help mitigate risks associated with income. The Company is aiming to diversify the customer base through the provision of a wider range of affordable housing products. The Company will continue to focus on its commercial needs to ensure i4B accelerates and increases its contribution towards the Council's vision of 'making Brent a borough of culture, empathy and shared prosperity'.

8 Proposed Routes for the Delivery of Business Products

8.1 This section expands on how the Company plans to deliver the opportunities outlined in Section 7. The proposed profile considers the Council's need which is outlined in Section 6.

8.2 Table 10 shows the Company's proposed programme of opportunity. This programme is within the £254.5m approval agreed with the Cabinet in February 2018. However, as a result of experience over the past 12 months, the Company is proposing to change the distribution of the spend profile.

Table 10 – Summary of i4B growth opportunities (financial figures for the below are outlined in appendix 1, this will be restricted as contains commercially sensitive data)

No.	Name	Units	Delivery Years	Delivery Partners
1	Street Properties	300	2016-2020	LBB / i4B (FWH)
2	Street Properties	60	2020/2021	LBB / i4B (FWH)
3	Intermediate / key worker accommodation	153	2019/2020	LBB / development partner / i4B (FWH)
4	New Build Site 1	100	2019-2023	LBB / i4B (FWH), In house development or partnership
5	New Build Site 2	4	2019/2020	LBB / i4B (FWH)
6	New Build Site 3	26	2019-2022	LBB / i4B (FWH), In house development or partnership
7	New Build Site 4	31	2019-2022	LBB / i4B (FWH), In house development or partnership
8	New Build Site 5	92	TBC	LBB / i4B (FWH), In house development or partnership
9	New Build Site 6	12	2020-2021	LBB / i4B (FWH), In house development or partnership
	Sub-Total	778		
10	Align with FWH	329	TBC	
	Total	1107		

- 8.3 The Company anticipates to purchase 300 units by April 2020 with a budget of £109m. The Council is considering requesting i4B to purchase and sell four shared ownership units, this proposal will be submitted separately should it emerge.
- 8.4 Schemes will be completed between April 2020 and April 2024. Greater detail and permissions will be sought in i4B's 2020-2021 Business Plan and 2020-2025 forecast.
- 8.5 The Company's focus over the next year will be progressing both the intermediate / key worker opportunity and the Site 1 new build opportunity.
- 8.6 The Company suggests it is able to grow from 200 units in January 2019 to 778 units by April 2024. Chart 1 demonstrates this growth. The main increase in portfolio would arise from the purchase of a single block of 153 properties in 2020 and the development of two Council owned sites comprising of 112 units.
- 8.7 The Council is also considering aligning i4B Holdings Ltd and First Wave Housing Ltd. Should a decision be made to bring the two companies together, the portfolio of the receiving Company could total 1107 units. The main period for portfolio growth would be 2019-2021. Chart 2 shows the growth of the merged portfolios between 2017 and 2024.

Chart 1 – i4B portfolio growth opportunities

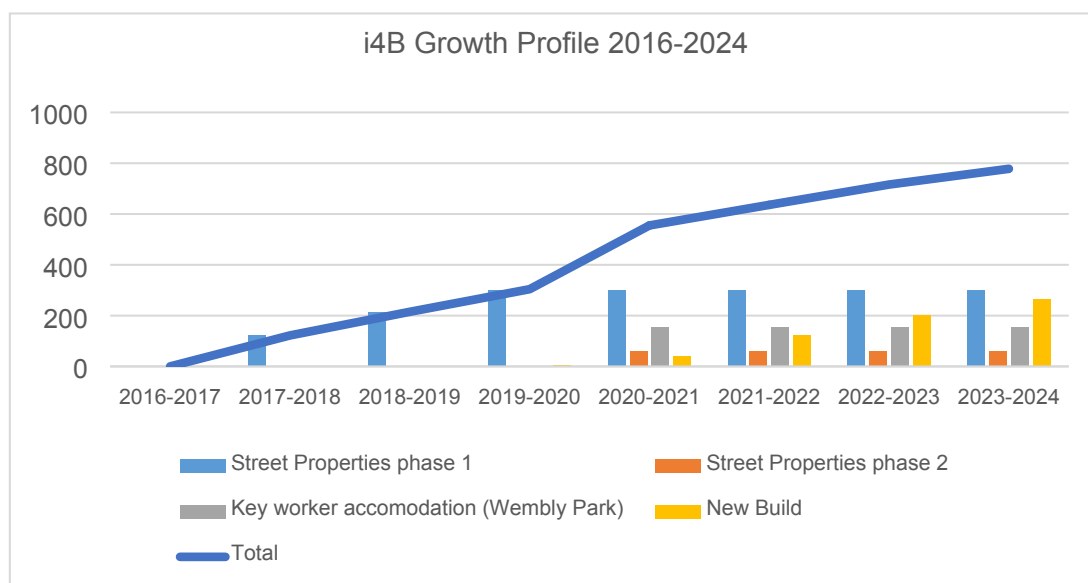
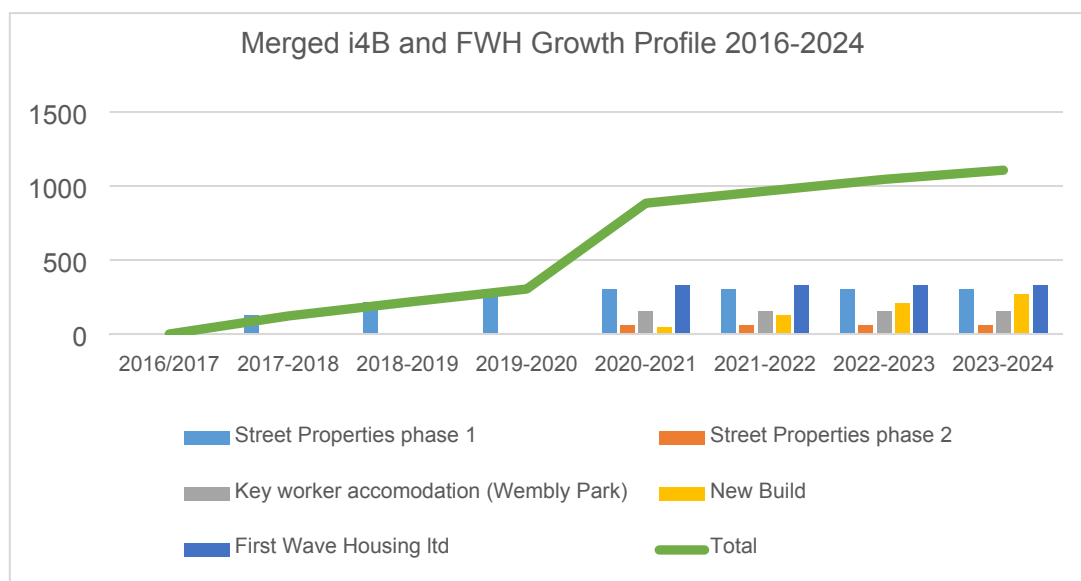


Chart 2 – A combined i4B and FWH portfolio growth opportunities



8.8 An ambitious PRS acquisition programme

8.8.1 Summary: £109m to deliver phase 1 of the PRS programme of 300 units by April 2020, £110.5m to deliver phase 2 of the PRS programme of 60 street properties and 265 new build homes purchased from the Council.

8.8.2 There are a number of changes in the profile of PRS street properties to be purchased. The Company request the shareholder support the following:

8.8.3 In the 2018/2019 Business Plan, the Shareholder agreed to the purchase of 180 units in Brent and 120 units in the Home Counties in phase 1 of the PRS acquisition programme. The Company now proposes to purchase 220 of the 300 units in phase 1 within Brent or Greater London. It is anticipated that 200 of these will be in Borough. The Company proposes to reduce the number of units to be purchased in the Home Counties to 80. This recommendation follows the experience gained in letting properties to the Council's nominees and from reviewing the financial performance of portfolio properties. Despite the good quality of accommodation in the Home Counties, the Council has experienced significant challenges in placing families outside of the Borough. Moreover, the Company has also experienced greater difficulty in tenancy and income management for Home Counties properties. However, the Board would like flexibility to purchase bespoke properties on behalf of the Council where there is demand.

8.8.4 The Company proposes to increase funding for phase one of the PRS acquisition programme to £109m. This reflects the higher average property cost within Brent compared to the Home Counties. It is proposed that the additional £5.5m is taken from the February 2018 agreed PRS phase two budget of £116m. i4B considers a revised budget of £110.5m for PRS phase two to be achievable due to its ambition to purchase more new build properties which will have a higher net yield.

8.8.5 In 2018, the Shareholder supported a second phase of 300 PRS properties. The Company has identified opportunities to provide the majority of phase two PRS though new build opportunities with the Council. Therefore, the Company seeks to

reduce the amount of street property purchases. In phase two, up to 60 street properties will be purchased through the market and circa 265 delivered through the acquisition of new build properties built on Council land. Purchasing new build schemes from the Council provides the below benefits:

- Retaining the land asset under the umbrella of the Council's ownership;
- Providing additional resources to complement the delivery of new build social rent housing funded by the housing revenue account;
- Providing the Council with a significant capital receipt;
- Providing a step change in the quality of i4B's PRS portfolio and an even higher standard of accommodation for Council nominees.

8.9 Develop a portfolio of new build accommodation working with the Council to develop housing on Council owned land

- 8.9.1 Summary: £86.5m of the agreed PRS phase 2 funding to be made available for the purchase of new build homes from the Council from 2020. Six schemes delivering 265 units have been identified to date. It is requested that i4B and FWH be named as partners within an agreement with developers to increase the capacity of the Council to deliver a large number of affordable units in Brent within a short period.
- 8.9.2 The Council aims to deliver 1,000 new units of affordable housing per year in Brent, through the various delivery routes. Alongside direct delivery by the Council funded by the Housing Revenue Account and the sale or granting of land for development to Registered Providers, i4B is one of several funding and delivery routes to achieve this target.
- 8.9.3 The Council has identified an internal development programme of approximately 1,300 new units. 817 of these units are for social rent and funded by grant from the Greater London Authority. To date, 265 units over six schemes are considered suitable for purchase by i4B.
- 8.9.4 To ensure these properties remain affordable housing, i4B will work with the Council to explore opportunities to utilise grant or subsidy. i4B will review its financial model, allowing a more diverse offer of tenures in-keeping with the Council's requirement of 65% of market rents maximum.

8.10 Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market

- 8.10.1 Summary: i4B and FWH to be named as partners within an agreement with developers to increase the capacity of the Council and its wholly owned subsidiaries to deliver a large number of affordable units in borough within a short period.
- 8.10.2 The Company wishes to create a delivery partnership with one or more registered providers or commercial developers. These partnerships will enable i4B to be more active and intelligent in the market, and increase the Company's ability to respond quickly to market opportunities. Ideally, the partnership would encourage small sites as well as major sites to be purchased and developed. Within its pipeline of

development sites, the Council has identified a number of privately owned sites which are suitable for affordable development opportunities.

8.10.3 i4B is also keen to use the skills of partner organisations to support regeneration initiatives. For example, the Company could work with a smaller Registered Provider or developer to capture opportunities to strengthen the Borough's high streets through selective housing interventions. i4B has contributed to a planning led paper on opportunities to strengthen high streets. A partnership with a larger Registered Provider or developer would also create new opportunities when considering the delivery of larger development schemes including regeneration in areas such as the Wembley Housing Zone. i4B has shared with the Council initial opportunities to support the Council's ambition for the Wembley Housing Zone.

8.11 The provision of Intermediate/Key worker accommodation.

8.11.1 Summary: Funding for intermediate rented accommodation will be used to support the purchase of one block of 153 units for the provision of key worker accommodation at 60%-80% market rent.

8.11.2 The Company's 2018/19 business plan set out the intention to develop an i4B intermediate rent offer. This links to the Council's wider commitment to support other public sector organisation to recruit and retain employees in Brent.

8.11.3 An opportunity to provide 153 units of key worker accommodation has been identified through a partnership between i4B, the Council and a developer.

8.11.4 The scheme will be 100% affordable and will honour the requirements of the s106 agreement. The purchase and first lettings will take place summer 2020 subject to agreement and contract. The Company would use the current shareholders approval to support this opportunity.

8.11.5 Throughout 2019/2020, i4B will work with the Council's housing supply and partnerships team to develop this opportunity as a flagship for key worker accommodation. This includes taking a key role in the commissioning of Cambridge University to undertake research into demand for key worker accommodation, how it should be targeted and rent levels that are proportionate to salaries of key workers in Brent.

8.12 Strategic investment to strengthen the business and/or bring benefits to the Council.

8.12.1 Summary – i4B will continue to carry out appraisals on regeneration opportunities within the Borough. The Company will seek to enter agreements to facilitate investment and the delivery of opportunities.

8.12.2 The Borough of Brent has seen a significant amount of regeneration investment over the past ten years including place changing initiatives at South Kilburn and Wembley. The Council and i4B are keen to ensure the benefits of regeneration are felt by local

residents as well as attracting people to Brent as a location of choice to live and work.

8.12.3 The Company has conducted initial appraisals on two regeneration opportunities and provided the Council with a view of how the Company could help. Opportunities explored include new homes in the Wembley Housing Zone and how Brent High Streets could be strengthened through the provision of new homes.

8.12.4 The Company will continue to work with the Council to explore regeneration opportunities, carry out feasibility studies to refine proposals and bring opportunities to the shareholder.

8.13 Working more closely with First Wave Housing Ltd

8.13.1 The Council has two wholly owned Companies which are currently focused on Housing. FWH owns 329 residential properties and two commercial properties.

8.13.2 If the two companies are compared the only material difference is that FWH is a registered provider (and therefore eligible for grant funding from Government) and i4B is not. Both can raise finance, the Council is the sole shareholder for both companies, and they both use the Council to deliver many of their services, and the Shareholder has appointed the same Directors to both boards.

8.13.3 The Shareholder has carried out some initial work which has identified potential benefits of aligning the two companies. The Company understands that three provisional options have been highlighted by the shareholder:

- The Shareholder, with the Boards, defines more closely 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.

8.13.4 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.

9 Risk Analysis

9.1 The below risks are the top five issues and risks the Company presently faces. The risks focus on the Company's current PRS acquisition programme.

9.2 Table 11 – Top six issues and key risks (See Appendix 2 for the full company risk register which provides descriptions of risks, risk scores, and mitigations)

*denotes when a risk has become a live issue.

Issue/Risk	Business Plan Assumption	Risk Type
Business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection	<p>The Business plan assumes 98.5% rent collection rates and 1.5% bad debt (Income written off by the i4B Board due to bad debt in particular arrears).</p> <p>The potential impact of this risk is on i4B's cash-flow. i4B would have less income to cover expenditure.</p>	Financial
*The pipeline of properties is slower than the SLA target.	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel. The programme assumes 300 properties purchased by April 2020 and 360 by April 2021.</p> <p>The potential impact of this risk is on i4B's cash-flow; the Company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is its only source of funding.</p>	Financial
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
The nominations process exceeds SLA targets	<p>The business plan assumes 90 days for the refurbishment and lettings process.</p> <p>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</p>	Financial and operational

	and expenditure such as council tax liabilities increase.	
*Average property price exceeds budget and portfolio of properties does not achieve the target Net Yield margin	<p>The average property price for PRS phase 1 is £345,000 this could increase to £363,000 if the PRS phase 1 budget is increased to £109m and the average purchase price for PRS phase 2 is £399,000 (£24m).</p> <p>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.</p>	Financial

10 Financial Analysis – Existing Business Model

- 10.1 During 2018/19, the Board increased the net yield target for new purchases. This had a positive long term impact but did temporarily slow the purchase of new properties.
- 10.2 The slower rate of property purchases was exacerbated by a slow-down on the property market. This has contributed to a reduction in gross rental income for 2018/19: £2.1m compared to last year's business plan forecast of £3.9m. This means that the Company is forecast to make a £1.6 million loss in 2018/19 excluding depreciation compared a £664k loss forecast in the 2018/19 business plan.
- 10.3 The Board has recently undertaken a business model review and has set a net yield target of 1.1% which is sufficiently low to allow properties to be purchased at an accelerated rate while maintaining i4B's ability to break even over 30 years.
- 10.4 The peak working capital requirement is also forecast to increase to £3.9m. It is therefore requested that the cash flow facility from the Council be increased from £3.5m to £4.0m.

Table 12 - Financial Analysis – existing business model

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Outlay	45,700	27,700	35,600	0	0	0	0
Long term loan	-45,700	-27,700	-13,800	0	0	0	0
Equity (cash injection)	0	0	-21,800	0	0	0	0
Net capital transactions	0	0	0	0	0	0	0
Revenue Income Cashflows							
Gross Rental Income	150	2,110	3,620	4,740	4,810	4,860	4,910
Revenue Expenditure Cashflows							
Loan Fees and Charges	-730	-340	-140	0	0	0	0
Management and Maintenance	-500	-1,180	-1,520	-1,700	-1,730	-2,190	-2,110
Company Operating Costs	-200	-200	-200	-200	-210	-110	-110
Net Operating Transactions	-1,280	390	1,760	2,840	2,870	2,560	2,690
Debt Financing	-270	-1,920	-2,460	-2,520	-2,520	-2,520	-2,520
Working Capital Financing	0	-40	-90	-110	-110	-100	-100
Net Profit/(Loss) excluding depreciation for PRS1	-1,550	-1,570	-790	210	240	-60	70

11 Key Performance Indicators

11.1 Table 12 lists all of i4B's key performance indicators (KPIs) and Targets for 2019/2020. The Board reviewed it's KPIs in July 2018. The shareholder are asked to approve the below KPIs.

11.2 Table 12 – KPIs

No	KPI	Measure	2019/20 Business Plan Targets in weeks or calendar days	Monitoring Period	KPI Owner
1	Net Property Yield	Takes into account purchase price and LHA rate plus one off purchase costs and ongoing annual costs	1.1%	Monthly	i4B
2	Gross Property Yield	The annual rental income shown as a % of the property purchase price.	5%	Monthly	i4B
3	Average portfolio purchase price	The average cost of a portfolio property including works, SDLT, fees and VAT.	£345,000 or £363,000 if the loan has increased from £100m to £103.5m and if agreed £109m	Monthly	i4B
4	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
5	Business modelling exercises undertaken	The number of business modelling exercises undertaken and reported to the Board.	6 per year (minimum)	Quarterly	LB Brent – Finance
6	Property Negotiation - PRS panel to instructing legal	The average number of days in the reporting period between PRS panel instruction to property instructing legal.	60	Monthly	LB Brent - Property

		Activity in this period includes the negotiation of property price and the vender's acceptance of offer.			
7	Instructing Legal - Legal reporting to property	The average number of days between property instructing legal to legal reporting to property. Activity included in this period includes legal due diligence and title reporting.	55	Monthly	LB - Legal
8	Legal reporting to property - DA approval agreed	The average number of days between legal reporting to property to delegated approval agreed. Activity during this period includes delegated authority approval.	18	Monthly	LB - Property
9	DA approval - Keys handed to refurbishment	Period in calendar days between delegated authority approval to the purchase of the property including the period taken to provide keys/handover pack to refurbishment.	18	Monthly	LB - Property
10	PRS acquisitions	Number of PRS street properties purchased by the property team	300	Monthly	LB Brent – Property

11	Acquisitions – achieving the agreed programme	Number of properties purchased against the Company's agreed business plan	304 by 1st April 2020	Monthly	i4B
12	Acquisitions – property tenure	Number of Leasehold units purchased in comparison to freehold units.	60%/40% (few leasehold units = better)	Monthly	LB Brent – Property
13	Acquisitions - location	The number of units in different locations as specified in the business plan.	220 Brent & Greater London 80 Home Counties	Monthly	LB Brent – Property
14	Acquisition to property first being let	Period from acquisition date to the property first being let. Activity in this period includes property refurbishment and letting.	90	Monthly	LB Brent - Property
15	Refurbishment	Period in calendar days from receiving keys/handover pack from property to i4B receiving an electronic copy of a refurbishment handover checklist which is compliant with i4B requirements. This period includes quotes, works & certification.	66	Monthly	LB Brent - BHM

16	Letting - in-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	14	Monthly	LB Brent – Housing Needs
17	Letting - out-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	35	Monthly	LB Brent – Housing Needs
18	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
19	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.	No Target	Monthly	LB Brent – Housing Needs
20	Number of Voids	Any property not occupied by a tenant. Snap shot as of last day in the month.	3% of portfolio void for 60 days in any year	Monthly	i4B
21	Void loss	% of property void days as a proportion of 100% portfolio occupation.	1.50%	Quarterly	i4B
22	Bad Debt	Income written off by the i4B Board due to bad debt in particular arrears.	2%	Quarterly	i4B

23	Rent collection	Rent collected as a % of rent due. This is measured on a 4 weekly cycle in line with BACs payments to i4B.	98.50%	Monthly	Housing Management Agents
24	Rent arrears action	Section 8, 10 or 11. 21 Notices served.	No Target	Monthly	Housing Management Agents
25	Rent arrears action	Evictions.	No Target	Monthly	Housing Management Agents
26	Customer Satisfaction	Annual Survey.	80% Satisfied with the condition of the property	Quarterly	i4B
27	Customer Satisfaction	Annual Survey.	80% Satisfied with the management of the property	Quarterly	i4B
28	Customer Satisfaction	Annual Survey.	80% Satisfied with the Repairs Service	Quarterly	i4B
29	Customer Satisfaction	Survey participation.	1/3 of customers surveyed annually (min)	Quarterly	i4B
30	Complaints	Complaints resolved through management agents agreed procedures.	100% resolved	Quarterly	Housing Management Agents
31	Ombudsman decisions upholding a complaint	A decision by a statutory body upholding a complaint made by a customer, contractor, employee or	None	Quarterly	i4B

		member of the public.			
32	% 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
33	% 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
34	% 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
35	% 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

36	% 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
37	Average repair cost per property per annum in common areas	The average cost of responsive repairs on the portfolio as charged by the housing management agent (excludes gas servicing).	£750per annum	Quarterly	Housing Management Agents
38	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
39	Average EPC	Average EPC Awarded to portfolio properties.	All properties	Annual	i4B
40	% of i4B portfolio let above LHA rate	Show as a % i4B properties let at a weekly rental income higher than the LHA in the property locality.	No Target / Max 25%	Quarterly	i4B

Appendix 1

Appendix 1 of the i4B Holdings Ltd Business Plan is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act1972.

Appendix 2 – Risk Register

Risk	Business plan assumption	Risk Type	Likelihood (/5)	Impact (/5)	Risk Score (/25)	Mitigation
The pipeline of properties is slower than the SLA target	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel.</p> <p>The programme assumes 300 properties purchased by 1st April 2020 and 360 by 1st April 2021.</p> <p>The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is it's only source of funding.</p>	Financial & operational	5	3	15	<p>It was agreed at the June Board meeting that this risk had materialised into a live issue. The following steps are being taken to manage this issue:</p> <p>i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.</p> <p>Revisions have been proposed to the SLA target for conveyancing.</p>

Company cash flow (capital and revenue) is insufficient to manage expenditure	<p>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.</p> <p>The potential consequences of this risk materialising is the company becomes insolvent.</p>	Financial	3	5	15	<p>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 modelling is being undertaken to assess if 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.</p> <p>The Company has requested to the Shareholder to increase cash flow facility to £4 million because Company losses have been forecasted to be higher than originally anticipated.</p>
The nominations process exceeds SLA target	<p>The business plan assumes 90 days for the refurbishment and lettings process.</p> <p>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.</p>	Financial & operational	4	3	12	<p>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. All hard to let four bedroom Home Counties properties have now been let. Therefore, lettings performance should improve.</p>

Average property price exceeds budget and portfolio of properties does not achieve the target Net Yield margin	<p>The average property price for PRS phase 1 is £345,00. If agreed, this will increase to £363,000 (£109m) and the average purchase price for PRS phase 2 is £400,000 (£24m) – this is based on purchasing a higher proportion of larger freehold properties than originally anticipated.</p> <p>1.1% average Net Yield (true)</p> <p>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.</p>	Financial	5	2	10	<p>At the i4B board meeting in June, it was agreed that this risk had materialised into a live issue. The following steps are being taken to manage this:</p> <p>The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters.</p>
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The cost to deliver i4B services exceeds business plan assumptions	<p>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.</p> <p>The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.</p>	Financial	3	3	9	<p>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.</p> <p>Company budget and spend is reported and monitored at monthly Board meetings to ensure the Company is operating within budget.</p>
The location of properties purchased varies from the business plan	<p>The business plan assumes that: phase 1 – 220 properties purchased in Brent & Greater London, 80 in the Home Counties; phase 2 – up to 300 properties purchased in Brent.</p> <p>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.</p>	Financial & operational	3	3	9	<p>The decision has been taken to purchase more properties in Brent to mitigate the risk of purchasing properties that cannot be let. The financial impact of this on the business plan is offset by the speed of letting.</p> <p>The Company will continue to consider the business model tool at the 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.</p>

The refurbishment period exceeds SLA target	<p>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.</p> <p>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.</p>	Financial & operational	2	4	8	<p>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.</p> <p>Early issues with the Refurbishment process have been addressed and now performance is within the KPI.</p>
LHA rates fall below business plan assumptions	<p>The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum.</p> <p>The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.</p>	Financial	2	4	8	<p>The 3% increase in LHA rates from 2018 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. The introduction of new products and some new build properties with higher yields may mitigate any future reductions in LHA rates. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.</p>
There is a risk that there is a permanent downward adjustment of house prices		Financial	2	4	8	<p>Difficult to mitigate as limited control of market conditions; continue to monitor closely.</p>

Void periods exceed business plan	<p>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.</p> <p>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.</p>	Financial & operational	2	3	6	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.
Property price inflation reduces average yield and increases average purchase prices	<p>The programme assumes 300 properties purchased by 1st April 2018 and 360 by 1st April 2021.</p> <p>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.</p>	Financial & operational	2	3	6	Difficult to mitigate as limited control of market conditions; continue to monitor closely, and diversify activity as required.
There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord	<p>The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.</p> <p>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.</p>	Financial & Reputational	1	5	5	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. BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.

There is a risk that i4B is deemed to have failed a statutory requirement in its corporate role	<p>The company must comply with regulatory and best practice requirements around its own management and governance such as annual accounts, returns to Companies House, and other regulatory bodies such as the Housing Ombudsman.</p> <p>The consequences of other statutory failures may be fines and/or reputational damage to i4B.</p>	Financial & Reputational	1	5	5	<p>The Board is putting in place suitable policies and procedures in place to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements.</p> <p>Support for company governance is included within the companies' core SLA with the Council.</p>
Interest rates increase impacting on new loans taken out by the Company	<p>30 year loan facility for up to £109m at a fixed interest rate of 2.87%.</p> <p>Short term working capital loan facility for up to £3.5m at a fixed interest rate of 3%.</p>	Financial	4	1	4	<p>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.</p>
There is a risk that the demand increases for the types of properties that are financially less viable for i4B (e.g. large family properties in expensive areas in Brent)	<p>The average property price for PRS phase 1 is £363,000 and the average purchase price for PRS phase 2 is £400,000 (£24m).</p> <p>5% average Gross Yield (true)</p> <p>Changes in demand could cause conflict between the companies' need to deliver on the Council's objectives, and the financial viability of it's business plan</p>	Financial	1	4	4	<p>Current demand is spread across lots of different property types, so it has been possible to tweak the mix of properties purchased to maintain average yield (e.g. purchasing increased numbers of 2 beds in Brent, which offer better yields than larger properties).</p> <p>Quarterly meetings have been initiated to monitor future demand and provide an early warning of this risk materialising.</p>

The business plan does not diversify its products	<p>The current business plan is primarily based on a Private Rented Sector (PRS) landlord model with permission to provide some market rent.</p> <p>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.</p>	Financial & operational	1	2	2	i4B continues to seek to diversify its product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates.
There is a risk of Fraud to the company	<p>Set up of invalid/fictitious suppliers by staff for personal gain.</p> <p>Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain.</p> <p>Payments to third parties for goods/services not received.</p>	Fraud	2	3	6	<p>Payments from i4B's account are made through the council's payment system and as such are subject to the Council's policies and procedures. i4B currently only makes payments to the council through the council's payment system.</p> <p>i4B's Scheme of Delegation states that any purchases or contracts of over £50,000 from the Company's funds requires the signatures of at least two of the Company's Directors.</p>
There is a risk of Fraud to the company	<p>Diversion of tenant rent payments by staff.</p> <p>Collusion between tenants and staff to write off rent arrears.</p> <p>Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.</p>	Fraud	2	3	6	<p>A 'Rent Collection and Arrears Management' policy is being drafted which will outline i4B's approval procedure for rent arrears right-off. This will include both board and shareholder approval.</p> <p>PRS programme manager receives weekly rent reports from housing management providers which detail if any refunds on rent overpayment have been given. To date, no refunds on rent overpayments have been given.</p>

There is a risk of Fraud to the company	Collusion between staff/ board members and buyers to dispose of properties at under market value.	Fraud	2	3	6	i4B will develop an Assets Disposal Policy to outline the process for the disposal of Company assets. This will consider the Council's checks and valuations, and will incorporate board and shareholder approval.
	Undeclared conflicts of interest between staff/board members and buyers.					The policy will be submitted to the shareholder for approval.
There is a risk of Fraud to the company	Falsification of financial position by i4B to secure additional Council funding.	Fraud	2	3	6	Regular Shareholder review meetings take place between i4B and the shareholder.
	Nepotism in procurement processes, including bribery. Invalid or overly ostentatious expenses, for example for entertainment purposes. Facilitation of income tax avoidance.					i4B is reviewed twice a year at the Council's Audit and Standards Advisory Committee. Board member expenses are governed by council policy and procedures. All board members are required to declare their interests at monthly board meetings and have signed a Board Code of Conduct.
There is a risk of Fraud to the company	Subletting of properties by tenants.	Fraud	2	3	6	Property void times will be reported to the board to work to keep void periods low.
	Letting of properties by Council or maintenance staff for personal gain during a void period.					BHM will prioritise regular visits to higher risk properties. High risk properties will be defined by intelligence from the Council's Audit and Investigation department. The board will be provided with detailed reporting on void checks undertaken by BHM.

There is a risk of Fraud to the company	<p>Collusion between staff/board members and estate agents in relation to finder fees and commissions.</p> <p>Collusion between staff/board members and vendors to inflate purchase prices and share the additional amount.</p> <p>Staff making payments for fictitious property purchases to themselves.</p>	Fraud	2	2	4	<p>All properties purchased by i4B receive Delegated Authority approval in accordance with the Company's Scheme of Delegation. This is documented on i4B's Microsoft Dynamics case management system.</p> <p>The criteria for property purchase is pre-set by the Company's net yield calculator.</p> <p>Brent Staff acting on behalf of i4B are governed by the Council's Code of Conduct and their work is regularly assessed through internal management checks and processes.</p>
There is a risk of Fraud to the company	Repairs/maintenance/major works – overcharging or charging for fictitious works.	Fraud	1	2	2	<p>BHM will implement a post inspection regime to ensure that the repair and major works completed comply with what is being paid for.</p> <p>A review will be undertaken into a property when it receives more than 7 repairs in a 12 month period.</p> <p>The average cost per repair per property will be reported regularly to the board.</p> <p>Single repairs over £199 and double repairs over £299 are approved by i4B's programme manager.</p>

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
21	Company cash flow (capital and revenue) is insufficient to manage expenditure	<p>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.</p> <p>The potential consequences of this risk materialising is the company becomes insolvent.</p>	i4B	Financial	3	5	15		<p>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 modelling is being undertaken to assess if 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.</p> <p>The Company has requested to the Shareholder to increase cash flow facility to £4 million because Company losses have been forecasted to be higher than originally anticipated.</p>	2	5	10		Open	11/01/2019: Mitigation amended
15	The pipeline of properties is slower than the SLA target	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel.</p> <p>The programme assumes 300 properties purchased by April 2020 and 360 by April 2021.</p> <p>The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is it's only source of funding.</p>	i4B	Financial & achieving operational objectives	5	3	15		<p>It was agreed at the June Board meeting that this risk had materialised into a live issue. The following steps are being taken to manage this issue:</p> <p>i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.</p> <p>Revisions have been proposed to the SLA target for conveyancing.</p>					Open - Live issue	11/06/18: Risk has materialised into a live issue
19	The nominations process exceeds SLA target	<p>The business plan assumes 90 days for the refurbishment and lettings process.</p> <p>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.</p>	i4B	Financial & achieving operational objectives	4	3	12		<p>The Board monitor nomination 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.</p>	2	3	6		Open	11/01/2019: Risk likelihood reduced. All hard to let four bedroom Home Counties Properties have now been let. Therefore, lettings performance should improve.
3	Average property price exceeds budget and portfolio of properties does not achieve the target net Yield margin	<p>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).</p> <p>5% average net Yield (true)</p> <p>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.</p>	i4B	Financial	5	2	10		<p>At the i4B board meeting in June, it was agreed that this risk had materialised into a live issue. The following steps are being taken to manage this:</p> <p>-The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters</p> <p>Please see company KPI report for updated performance</p>					Open - Live issue	11/06/18: Risk has materialised into a live issue
10	The cost to deliver i4B services exceeds business plan assumptions	<p>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.</p> <p>The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.</p>	i4B	Financial	3	3	9		<p>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.</p> <p>Company budget and spend is reported and monitored at monthly Board meetings to ensure the Company is operating within budget.</p>	2	3	6		Open	11/01/2019: Mitigation amended

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
17	The location of properties purchased varies from the business plan	<p>The business plan assumes that: phase 1 – 180 properties purchased in Brent & Greater London, 120 in the Home Counties; phase 2 – up to 300 properties purchased in Brent.</p> <p>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.</p>	i4B	Financial & achieving operational objectives	3	3	9		<p>The decision has been taken to purchase more properties in Brent to mitigate the risk of purchasing properties that cannot be let. The financial impact of this on the business plan is offset by the speed of letting.</p> <p>The Company will continue to consider the business model tool at the 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.</p>	3	2	6		Open	
18	The refurbishment period exceeds SLA target	<p>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.</p> <p>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.</p>	i4B	Financial & achieving operational objectives	2	4	8		<p>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.</p> <p>Early issues with the Refurbishment process have been addressed and now performance is within the KPI</p>	2	4	8		Open	11/01/2019: Risk likelihood increased from 1 to 2. Although current refurbishment performance is within business plan assumptions, performance is likely to deteriorate. This is due to the reduced pipeline of refurbishment work making it harder for the contractor to mobilise their supply chain.
24	There is a risk that there is a permanent downward adjustment of house prices		i4B	Financial	2	4	8		Difficult to mitigate as limited control of market conditions; continue to monitor closely.	2	4	8		Open	11/06/18: New risk added. Risk Approved
13	LHA rates fall below business plan assumptions	<p>The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum.</p> <p>The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.</p>	i4B	Financial	2	4	8		<p>The 3% increase in LHA rates from 2018 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years.</p> <p>The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. The introduction of new products and some new build properties with higher yields may mitigate any future reductions in LHA rates. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.</p>	1	4	4		Open	30/05/2018: Impact levels reduced as LHA rates set above business plan assumptions
16	Property price inflation reduces average yield and increases average purchase prices	<p>The programme assumes 200 properties purchased by 31st March 2018 and 300 by 30th Sept 2018.</p> <p>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.</p>	i4B	Financial & achieving operational objectives	2	3	6		Difficult to mitigate as limited control of market conditions; continue to monitor closely, and diversify activity as required.	2	3	6		Open	
5	Void periods exceed business plan	<p>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.</p> <p>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.</p>	i4B	Financial & achieving operational objectives	2	3	6		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.	1	3	3		Open	11/06/18: Likelihood reduced as very low churn - the two properties that have been abandoned have been relet well within timescales.

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
26,1	There is a risk of Fraud to the company	Set up of invalid/fictitious suppliers by staff for personal gain. Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not received.	i4B	Fraud	2	3	6		Payments from i4B's account are made through the council's payment system and as such are subject to the Council's policies and procedures. i4B currently only makes payments to the council through the council's payment system. i4B's Scheme of Delegation states that any purchases or contracts of over £50,000 from the Company's funds requires the signatures of at least two of the Company's Directors.	1	3	3		Open	11/01/19: Mitigation amended
26,2	There is a risk of Fraud to the company	Diversion of tenant rent payments by staff. Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.	i4B	Fraud	2	3	6		A 'Rent Collection and Arrears Management' policy is being drafted which will outline i4B's approval procedure for rent arrears right-off. This will include both board and shareholder approval. PRS programme manager receives weekly rent reports from housing management providers which detail if any refunds on rent overpayment have been given. To date, no refunds on rent overpayments have been given.	1	3	3		Open	11/01/19: Mitigation amended
26,4	There is a risk of Fraud to the company	Collusion between staff/ board members and buyers to dispose of properties at under market value. Undeclared conflicts of interest between staff/board members and buyers.	i4B	Fraud	2	3	6		i4B will develop an Assets Disposal Policy to outline the process for the disposal of Company assets. This will consider the Council's checks and valuations, and will incorporate board and shareholder approval. The policy will be submitted to the shareholder for approval.	1	3	3		Open	New risk added after Fraud Risk Assessment approved at October Board.
26,7	There is a risk of Fraud to the company	Falsification of financial position by i4B to secure additional Council funding. Nepotism in procurement processes, including bribery. Invalid or overly ostentatious expenses, for example for entertainment purposes. Facilitation of income tax avoidance.	i4B	Fraud	2	3	6		Regular Shareholder review meetings take place between i4B and the shareholder. i4B is reviewed twice a year at the Council's Audit and Standards Advisory Committee. Board member expenses are governed by council policy and procedures. All board members are required to declare their interests at monthly board meetings and have signed a Board Code of Conduct.	1	3	3		Open	New risk added after Fraud Risk Assessment approved at October Board.
26,3	There is a risk of Fraud to the company	Subletting of properties by tenants. Letting of properties by Council or maintenance staff for personal gain during a void period.	i4B	Fraud	2	3	6		Property void times will be reported to the board to work to keep void periods low. BHM will prioritise regular visits to higher risk properties. High risk properties will be defined by intelligence from the Council's Audit and Investigation department. The board will be provided with detailed reporting on void checks undertaken by BHM.	1	2	2		Open	New risk added after Fraud Risk Assessment approved at October Board.
8,1	There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord	The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc. 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.	i4B	Financial & Reputational	1	5	5		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. BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.	1	5	5		Open	30/05/18: Risk 8 has been split into 2 risks to highlight the separate risks associated with i4B's corporate role and role as a landlord
8,2	There is a risk that i4B is deemed to have failed a statutory requirement in it's corporate role	The company must comply with regulatory and best practice requirements around it's own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman. The consequences of other statutory failures may be fines and/or reputational damage to i4B.	i4B	Financial & Reputational	1	5	5		The Board is putting in place suitable policies and procedures in place to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements. Support for company governance is included within the companies' core SLA with the Council.	1	5	5		Open	30/05/18: Risk 8 has been split into 2 risks to highlight the separate risks associated with i4B's corporate role and role as a landlord

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
11	Interest rates increase impacting on new loans taken out by the Company	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%.	i4B	Financial	4	1	4		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.	4	1	4		Open	30/05/2018: Risk wording changed to clarify this risk relates to new loans
23	There is a risk that the demand increases for the types of properties that are financially less viable for i4B (e.g. large family properties in expensive areas in Brent)	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). 5% average Gross Yield (true) Changes in demand could cause conflict between the companies' need to deliver on the Council's objectives, and the financial viability of it's business plan	i4B	Financial	1	4	4		Current demand is spread across lots of different property types, so it has been possible to tweak the mix of properties purchased to maintain average yield (e.g. purchasing increased numbers of 2 beds in Brent, which offer better yields than larger properties). Quarterly meetings have been initiated to monitor future demand and provide an early warning of this risk materialising.	1	4	4		Open	11/06/18: New risk added
26,5	There is a risk of Fraud to the company	Collusion between staff/board members and estate agents in relation to finder fees and commissions. Collusion between staff/board members and vendors to inflate purchase prices and share the additional amount. Staff making payments for fictitious property purchases to themselves.	i4B	Fraud	2	2	4		All properties purchased by i4B receive Delegated Authority approval in accordance with the Company's Scheme of Delegation. This is documented on i4B's Microsoft Dynamics case management system. The criteria for property purchase is pre-set by the Company's net yield calculator. Brent Staff acting on behalf of i4B are governed by the Council's Code of Conduct and their work is regularly assessed through internal management checks and processes.	1	2	2		Open	New risk added after Fraud Risk Assessment approved at October Board.
9	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.	i4B	Financial & achieving operational objectives	1	2	2		i4B continues to seek to diversify it's product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates.	1	1	1		Open	11/06/18: Likelihood reduced because of external change in LHA rates (decreased pre-mitigation likelihood) impact reduced because i4B continues to actively seek opportunities to diversify it's asset and customer base (post-mitigation impact reduced)
26,6	There is a risk of Fraud to the company	Repairs/maintenance/major works – overcharging or charging for fictitious works.	i4B	Fraud	1	2	2		BHM will implement a post inspection regime to ensure that the repair and major works completed comply with what is being paid for. A review will be undertaken into a property when it receives more than 7 repairs in a 12 month period. The average cost per repair per property will be reported regularly to the board. Single repairs over £199 and double repairs over £299 are approved by i4B's programme manager.	1	1	1		Open	New risk added after Fraud Risk Assessment approved at October Board.

Internal Audit Report 2018/2019

PRS Model Review

I4B Holdings Ltd

Final

November 2018

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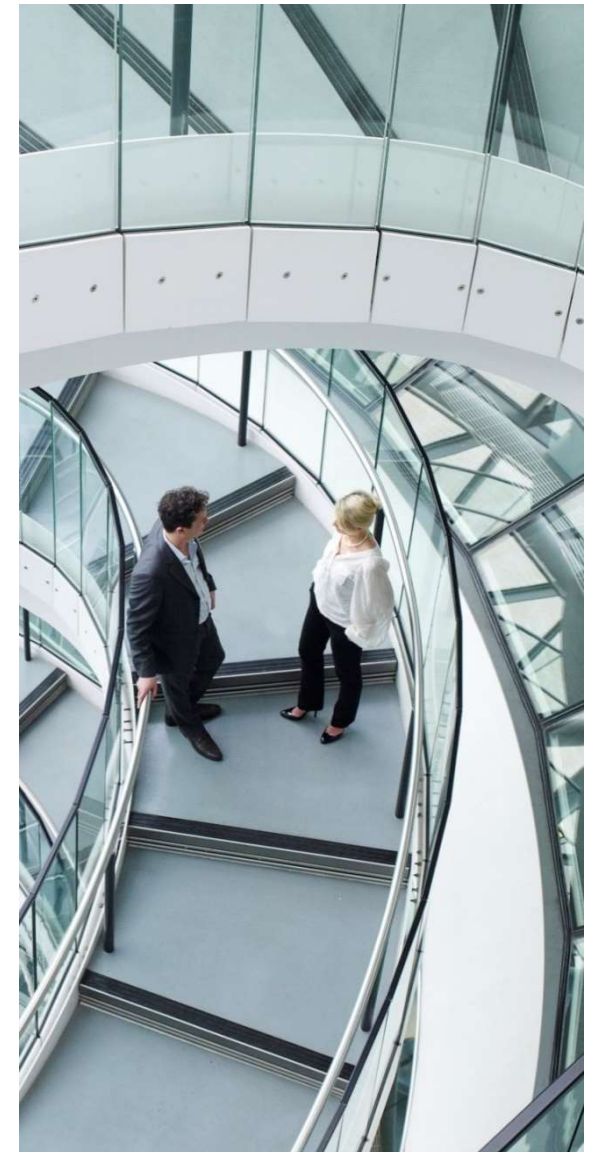
Appendices

- A. Basis of our classifications
- B. Limitations and responsibilities

Distribution list

For action:
Olga Bennet (Head of Finance)

For information:
I4B Board



Executive summary (1 of 2)

Headlines

I4B Holdings Ltd (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 review was to assess the design and build of the I4B PRS model (the Model) and to check its calculations are consistent with the model intent. This was targeted at the specific areas included within the scope, namely we agreed to perform the following work:

- We will review I4B's Model to understand if the Model is performing as designed, and to identify any errors in the calculations;
- We will assess the Model in comparison to our view of modelling best practice, including assessing the spreadsheet design and documentation

Summary of findings

The purpose of the Model is to forecast the future P&L and Balance Sheet (BS) as a result of the planned investments as part of the initial phase of the I4B Strategy, including the purchase, refurbishment and letting of 300 houses and flats across Brent and the Home Counties.

The Model considers the existing portfolio of purchased houses, and those which are presently let, to set assumptions in relation to purchase costs and rental income respectively, as well as additional costs such as refurbishment, legal fees, valuation fees and disbursements. The nature of the future portfolio is set within the assumptions, as are inflation figures, time taken to move from the purchase of a house to it being fit to rent, and various void rates and time to re-let.

Generally, the Model sets out what it hopes to achieve, with a well constructed P&L and BS. There is a good level of flexibility within the Model, allowing users to make a range of changes to assumptions, as well as capability to define ten scenarios, and whether indexation applies in each of those or not.

Most of our findings are around points of design and best practice, and also general understanding of areas of methodology. A key point is that the Model lacks detailed documentation, both in the form of a user guide and methodology document, which can make it difficult to follow in areas, hence the number of queries raised in relation to methodology. This is likely to make handover of the Model more difficult.

One area of functionality lacking is the ability to translate what has occurred in practice with the forecasts. Notably that the assumptions on property mix are fixed, rather than adaptive based on the actual portfolio. This is at present an immaterial point, but if the actual portfolio deviates away from the planned portfolio (i.e. there is a need and supply of properties which are different from that expected) then it may lead to significant differences between the returns achieved and those forecast.

In addition, we have raised two key challenges to the methodology currently used. The first is the way in which the experience analysis is used to calculate the base house costs and rental values. This is detailed on pages 7-10 of the report. The second is around the use of house price inflation (HPI) as well as the assumptions used for both HPI and rental growth. This is detailed on pages 11-16 of the report.

Executive summary (2 of 2)

RAG Definitions –
see appendix A

Methodology		Sensitivity (net assets)	Nature of Issues	RAG
A	Basis of assumptions	-£5.1m to -£7.3m	<i>Inconsistent cohorts of experience are used in the calculation, leading to an understatement in costs</i>	High
B	Property related inflation	High (see slides 12-15)	<i>HPI is not used within the model to forecast growth in the property portfolio. The impact of this is subjective</i>	High
Model Findings		Number of Issues	Nature of Issues	RAG
1	Potential Errors	4	<i>Incorrect formulae (logic or design), inconsistent use of assumptions, etc.</i>	Medium
2	Design Issues	3	<i>Areas of the model which are not consistent with documentation, or may lead to potential errors</i>	Low
3	Best Practice	9	<i>Model design which is not consistent with our interpretation of best practice</i>	Advisory
4	Cosmetic	13	<i>Typos and inconsistent references used within the model</i>	Advisory

Background and scope

Background

I4B are a wholly owned subsidiary of Brent Council which has been created to reduce homelessness in the area and reduce the number of individuals in short term temporary accommodation by providing properties through the private rented sector. As a wholly owned, Local Authority Company, I4B operates at 'arms-length' from Brent Council, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.

I4B is currently creating a model to produce balance sheet and cash flow forecasts to measure performance and delivery of the business. The purpose of this review is to assess the design and build of the I4B model and to check its calculations are consistent with the model intent. This will be targeted at the specific areas included within the scope below.

Limitations of scope

Our work was focussed on testing the design, build and documentation of investment appraisal model which are covered in the outlined scope above. Limitations of our review: were detailed in the agreed Terms of reference.

Methodology (1 of 11)

This section of the report focuses on two key aspects of methodology which we believe should, at a minimum, be reviewed and explained in depth why their current treatment is appropriate, or more likely will require changes, which could have a significant impact on the valuation.

For both of these, the slides set out:

- a description of the methodology taken;
- the finding of what impact this has on the model and why we disagree
- a recommendation around this; and,
- sensitivities relating to the changes which could be made, showing the financial impact on Rental Income, Net Income After Tax, the IRR, Cash and Net Assets.

Finding A – Setting of base rental value and property purchase price

This relates to the methodology used to derive the base values for both rental income in the various regions considered in the model, and the property purchase prices. This is covered on pages 7 to 10.

Finding B – Property related inflation

This relates to both the use of HPI in the model to be applied to property values, and the appropriateness of the actual rental inflation assumption used to project to rental income over the duration of the model. This is covered on pages 11 to 16.

Methodology (2 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

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Rating

High

Description

The Model uses experience to set both the base rental values (i.e. weekly rent by property type, by location) and property purchase prices (also by type and location). This is based on the tabs 'Current Weekly Rents' and 'Historic Acquisition List' respectively.

Finding and root cause – Purchase Prices

The current methodology is comprised of two separate calculations.

- 1) Average price per property type (i.e. 2 bed flat) – cells AL215:AL220 in tab 'Historic Acquisition List'
- 2) A scaling factor to move from the average property price in Brent, to Home Counties (Low) and Home Counties (Medium) – cells AP183:AP184 in tab 'Historic Acquisition List'

This approach at present leads to an **understatement** in the property prices in the model. To show this, below is a worked example.

Portfolio A comprises of one flat (Af) and one house (Ah). These are valued at £200k and £300k respectively.

Portfolio B also comprises of one flat and one house (Bf and Bh). These are value at £150k and £250k respectively.

The average flat value is therefore £175k and the average house property is £275k.

The total value of Portfolio A is £500k and the total value of Portfolio B is £400k, which gives a scaling factor of 0.8.

Using the average values, Af is now calculated to be £175k, Ah is £275k, and Bf is £140k and Bh is £220k.

Methodology (3 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

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Recommendation – Purchase Prices

The '*Historic Acquisition List*' tab contains within it an additional set of scaling factors, which are based on ~~off~~ of the full average price, rather than being pegged to the Brent price. These are in cells AN182:AN184. These should be used as the scaling factors which are brought through into the '*Key Operational Inputs*' tab, cells L99:L101, rather than the scaling factors used at present.

Methodology (4 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

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Finding and root cause – Rental Income

Similarly, the current methodology is comprised of two separate calculations.

- 1) Average price per property type (i.e. 2 bed flat) – cells L103:L116 in tab 'Current Weekly Rents'
- 2) A 20% uplift used to move from the average rent, to the rent obtained in Home Counties – Medium.

This approach at present leads to an **overstatement** in the rental income in the model, as the average price contains properties from Home Counties Medium. Therefore, if there is a differential between rental income in practice, then the price used for Brent and Home Counties – Low will be set too high (as it will factor in the contributions from Home Counties – Medium), and Home Counties medium will be based on the full average, so the scaling factor will be being applied upon an implicit allowance already.

Recommendation – Rental Income

There are two potential ways to remediate this issue:

- 1) The calculation for the average rent should exclude those properties from Home Counties – Medium and then the 20% uplift becomes a stated assumption.
- 2) A scaling factor should be calculated for all properties based off on the actual empirical experience, as per the proposed solution for the Purchase Price.

Methodology (5 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

Sensitivity

We have performed a sensitivity on the outputs by changing the assumptions in line with our recommendations.

N.B. These are based on Scenario 1 in the model provided, with inflation switch turned to On.

Financial Statement	Metric	Current Approach	Property Price (Only)	Rental Value (Only)	Property Price and Rental Value
P&L Yr 30	Rental Income	164.16	164.16	161.06	161.06
P&L Yr 30	Net Income After Tax	16.38	9.28	14.04	6.94
P&L Yr 30	IRR	29.5%	16.0%	25.7%	12.3%
BS Yr 30	Cash	22.07	15.08	19.71	12.73
BS Yr 30	Net Assets	34.52	29.42	32.19	27.09

When correcting the property price calculation, the IRR and cash positions take a significant hit. This is due to the increased cost of purchasing property over the first 2 years. The net assets reduces due to the cash component of this, although there is a slight offsetting impact as a result of the value of the property portfolio being higher.

The rental value correction is less material and the basis of calculation is more subjective. As such, a change may not be required, although we would recommend that i4B investigate this point further, alongside any remediation of the basis of the property prices.

Methodology (6 of 11)

Property Related Inflation

Rental growth and house price inflation

Page 149

B

Description

The Model makes allowances for inflation within the generic income tab and these are then fed into a 30 year projection within the 'Timelines Monthly' and 'Timelines Yearly' tabs.

The inflation allows for Rental Income, Materials, RPI, CPI, Other and No Inflation. There is though no explicit allowance for House Price Inflation (HPI).

From working through the methodology of the model, none of the inflation metrics used drive any inflation against house prices, which we deem to be incorrect.

Additionally, we don't believe that the current inflation assumption in relation to rental income is accurate. This is currently set within the model to be 1.5%, which we deem to be generally low.

Finding

The introduction of HPI would have a two-fold impact.

1. It would drive an increase in costs on the P&L, as the cost to purchase would increase in years 2 and 3 to reflect the increasing prices of houses. This is likely to be a minor impact.
2. Assets on the balance sheet would increase, as the value of the portfolio increases over time. This would be a highly material change, regardless of the level of inflation implied.

Rating

High

Methodology (7 of 11)

Property Related Inflation Rental growth and house price inflation

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B

Recommendation - Setting of HPI

From discussions, we note that Rental Inflation has been set in line with the LHA assumption at 1.5%. We also note that there is a view that HPI would be around 1%, although this hasn't been built into the model. Were this to have been built in though, it would lead to increasing yields over time, as rental growth exceed property growth.

This assumption of increasing yields is difficult to justify, as taken to ad infinitum it would lead to rental income exceeding the property value. Additionally, 1% HPI is low compared to market experience. Whilst it is true that there is uncertainty in the market at present, in particular as a result of Brexit, a 1%pa flat growth rate is unlikely to persist over the next 30 years.

This is demonstrated with reference to the Nationwide House Price Index, which sets annual house price growth a c2%, despite the current economic uncertainty. As the model forecasts out over 30 years, it is likely that HPI will fluctuate around this point noting that the average HPI over the past 5 years has been c8%pa in London, and c5%pa going back 10 years which includes the 2008 recession that led to significant falls in the housing market.

Given this, we have presented sensitivities under various scenario's of HPI and rental growth over the next set of slides.

These are done in two ways. The first table for each metric is based on Rental Growth being set to a specific percentage across the whole portfolio, i.e. rental growth equals 4% for all properties. The second table presents a blended rental growth, factoring in the LHA rates. LHA rates cover three quarters of the portfolio, so in this instance, where rental growth is stated as 4%, that is 4% on a quarter of portfolio and 1.5% on the remaining three quarters. This is therefore a blended assumption of 2.125%.

The HPI assumptions used in both tables are consistent, as the values of the house will be set by market conditions rather than being influenced by the LHA rates.

Methodology (8 of 11)

Property Related Inflation

Rental growth and house price inflation

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Sensitivity – Net Assets

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	9.12	37.26	54.53	74.33	186.81	270.09
	1.5%	34.53	62.66	79.93	99.74	212.21	295.49
	2%	44.74	72.87	90.14	109.94	222.42	305.70
	4%	97.04	125.17	142.44	162.25	274.72	358.00
	5%	131.94	160.07	177.34	197.15	309.62	392.90

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	27.48	55.62	72.89	92.69	205.17	288.45
	1.500%	34.53	62.66	79.93	99.74	212.21	295.49
	1.625%	36.99	65.12	82.39	102.20	214.67	297.95
	2.125%	47.44	75.58	92.85	112.65	225.13	308.41
	2.375%	53.06	81.20	98.46	118.27	230.75	314.03

Net Assets (Total Shareholder Funds) is currently £34.54m under scenario 1 in the model. Moving HPI to 1% (as suggested by i4B) would increase Net Assets to £62.66m, as the underlying value of the property portfolio by year 30 will have increase, although there is a small offsetting impact caused by increased purchase costs in years 1 and 2, which reduces the cash position.

Methodology (9 of 11)

Property Related Inflation

Rental growth and house price inflation

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Sensitivity – IRR

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.5%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	4%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	5%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.500%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.625%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2.125%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2.375%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%

IRR is only affected by HPI, as it is reported as an index neutral metric by i4B. HPI therefore has a small impact as it increases due to increased property purchase prices in years one and two. This has a two-fold impact of higher upfront costs, as well as a small, longer run, cost of interest.

Methodology (10 of 11)

Property Related Inflation

Rental growth and house price inflation

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B

Sensitivity – Rental Income

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	130.04	130.04	130.04	130.04	130.04	130.04
	1.5%	164.16	164.16	164.16	164.16	164.16	164.16
	2%	177.87	177.87	177.87	177.87	177.87	177.87
	4%	248.13	248.13	248.13	248.13	248.13	248.13
	5%	295.01	295.01	295.01	295.01	295.01	295.01

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	154.70	154.70	154.70	154.70	154.70	154.70
	1.500%	164.16	164.16	164.16	164.16	164.16	164.16
	1.625%	167.47	167.47	167.47	167.47	167.47	167.47
	2.125%	181.51	181.51	181.51	181.51	181.51	181.51
	2.375%	189.06	189.06	189.06	189.06	189.06	189.06

Rental income is only affected by the rental inflation. Under the current assumptions, the rental income is £164.16m over the 30 years. We believe that this is low, although note that 75% of the property portfolio is covered by the LHA rates. Under a blended assumption, where the rental inflation applied to the remaining 25% of portfolio is 2%, rental income increases to £167.47m. Using historic HPI as a proxy for rental income though, it is not unreasonable to believe that rental inflation could be 4%, pushing income up to £181.51m.

Methodology (11 of 11)

Property Related Inflation

Rental growth and house price inflation

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Sensitivity – Net Income After Tax

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	- 9.02	- 9.15	- 9.21	- 9.27	- 9.52	- 9.64
	1.5%	16.38	16.25	16.19	16.13	15.89	15.77
	2%	26.59	26.46	26.40	26.34	26.10	25.97
	4%	78.89	78.76	78.70	78.64	78.40	78.28
	5%	113.79	113.67	113.61	113.54	113.30	113.18

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	9.34	9.21	9.15	9.09	8.85	8.72
	1.500%	16.38	16.25	16.19	16.13	15.89	15.77
	1.625%	18.84	18.72	18.65	18.59	18.35	18.23
	2.125%	29.30	29.17	29.11	29.05	28.81	28.68
	2.375%	34.91	34.79	34.73	34.67	34.42	34.30

Net income after tax is positively affected by increasing rental inflation, due to higher rental income, but negatively affected by increasing HPI due to the increased costs of purchase of properties in years 1 and 2, as well as increased interest charges.

Model Findings (1 of 5)

Potential Errors

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1

The findings presented here are areas of the Model where we believe there is a risk that an error is present. These should be reviewed as a priority and changed accordingly, otherwise they may lead to financial impacts on the model, especially should assumption change going forwards.

Rating

High

No	Issue Description	Sheet	Reference
1	Procurement Services Costs do not feed into the Sub Total	SLA	G21:I21
2	Average disbursement is being calculated as a sum of the individual components, this is artificailly high as some of the components only apply to specific houses which means that the average component cost is high. As such the current assumption suggests that all houses will be subject to valuation costs, legal fees VAT and disbursements which doesn't seem accurate given the historic portfolio. Consider changing calculation to be the average total fees and disbursement costs.	Historic Acquisition List	U151
3	Void Related Costs are not Consistent with the Model Overview - Logic Test sheet (£2,500 v £1,500)	Key Operational Inputs	L31
4	The formulae in this section are constructed to step through assumptions. At present, the formula in this specific table is, $=(AR208*Key\ Operational\ Inputs!\$F\$75)*Generic\ Inputs!\$F\$27$ but it should be; $=(AR208*Key\ Operational\ Inputs!\$F\$76)*Generic\ Inputs!\$F\$27$ as this table relates to 'other'	Rental Income Yr 1-3	AR346:CA353

Model Findings (2 of 5)

Design Issues

Page 156

2

The findings presented here are areas of the Model where we believe that the design an aspect of the model is not in line with how it is intended.

Rating

Low

No	Issue Description	Sheet	Reference
1	The index makes reference to a tab called 'Logic Test'. Is this a tab which is still required to be built. If not, remove from index.	Index	D23
2	The model structure specifies a colour coding to be used throughout the workbook in order to identify where there are inputs, calculations, outputs, etc.	Throughout model	All Cells
<p>This colour coding is routinely not used within the model. Review needs to be performed to ensure consistency. This is an important point, as colour coding allows users to understand which cells can/should be changed, and which should be left.</p> <p>Also consider locking any calculation aspects of the spreadsheet in order to protect the formulae from user error (i.e. deleting, or making changes by accident)</p>			
3	The SLA sheet doesn't have any flexibility for assumptions regarding a changing VAT rate (i.e. if there were planned increases in 2020). This is something which could be built in.	SLA	D49

Model Findings (3 of 5)

Best Practice

Page 157

3

The findings presented here are areas of the Model where the current working do not align with those of “best practice”

Rating

Advisory

No	Issue Description	Sheet	Reference
1	Property costs are included as being both an input and a calculation. These should be split out into 2 tabs, one for the inputs, the other for the calculation, to maintain clarity	Model Structure	K16 and X22
2	Assumptions are repeated throughout the column. There is a risk that the user might only update the one, leading to inconsistencies. In addition, the 'void rate' in cell D45 (and D93) appears to be the difference between the churn and the re-let rates? Update to formula to reflect this?	Model Overview - Logic Test	Columns D and E
3	The COUNTIF functions currently use hardcoded references, i.e. "Ba". This reduces flexibility, so should instead be replaced by the cell reference. i.e. for cell J163, instead of using "Ba" could use E163	Historic Acquisition List	Summary sections
4	Should use sumifs and include flat/house as a criteria, rather than cutting off the array at the relevant location in the table above. The current approach has a risk of the formulae becoming wrong were additional house added in. As an example, suggest that the formula in cell J103 is changed from =SUMIF(P\$11:P\$58,I103,J\$11:J\$58), to =SUMIFS(\$J\$11:\$J\$58,\$P\$11:\$P\$58,\$I103,\$Q\$11:\$Q\$94,\$H103)	Current Weekly Rents	J103:K114

Model Findings (4 of 5)

Best Practice continued

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3

The findings presented here are areas of the Model where the current working do not align with those of “best practice”

Rating

Advisory

No	Issue Description	Sheet	Reference
5	Formulae contain hardcoded components. This is not best practice. The hardcoded component (80% reduction of market rents), should be stripped out of the formula and made a separate assumption.	Key Operational Inputs	L74:U74
6	Commercial property is set to be 4 bed house + 50. The 50 is currently contained within the formulae. This should be stripped out as an assumption.	Key Operational Inputs	Row 270
7	Formula is not consistent across the row. Note, this is not an error, but for consistency, the formula should be dragged across in order to avoid confusion	Property Acquisition Profile	AX408 vs AR:AW408
8	Model structure should relate to the tabs in the workbook. At present this does not seem to be the case. Property costs are both an input and a calculation, this should be split out for clarity. Tabs should be hyperlinked.	Model Structure	All Cells
9	Inputs used here seem to relate to those in the Model Overview - Logic Test tab.	Key Operational Inputs	L27, L31 etc
<p>We assume that the Logic Test is a simplified calculation to ensure relative accuracy of the model. In order to ensure that the check is relevant to the model, the assumptions in the Logic Test should link through to the 'Key Operational Inputs', to ensure consistency and to the model itself.</p>			

Model Findings (5 of 5)

Cosmetic

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4

The findings presented here are areas of the Model where there are minor issues in relation to formatting, consistency and spelling.

Rating

Advisory

No	Issue Description	Sheet	Reference
1	The index makes reference to a 'Timelines Yearly' tab, but in the model it is called, 'Timelines Annual'. Correct for consistency.	Index	D25
2	The index makes reference to an 'Income Statement' tab, but in the model it is called, 'P&L'. Correct for consistency.	Index	D29 & D30
3	Income Statement Yearly - Indexed is included in the index but there is no sheet for this? We think that this is called 'P&L 2Yearly'? Correct for consistency, suggest to include reference to indexation in tab name for clarity.	Index	D31
4	The index makes reference to a 'Historic Acquisition Costs' tab, but in the model it is called, 'Historic Acquisition List'. Correct for consistency.	Index	D17
5	Typo - Current weekly rents x Property 'type'	Index	D18
6	The model structure specifies a tab called, 'Historic Costs SLA', but the Index and the model refer to it simply as 'SLA'? Update for consistency and clarity.	Model Structure	F14
7	Reference to the index switch in the 'swtiches' tab is incorrect. Change F22 to F28	Model Overview	C37
8	Indexation and Inflation are used interchangeably. Use consistent terminology throughout model to avoid uncertainty.	Throughout model	All Cells
9	Typo: weeeeks --> weeks	Model Overview - Logic Test	C11
10	Typo: Occupatio --> Occupation	Model Overview - Logic Test	C71
11	Typo: Monh --> Month	Model Overview - Logic Test	E85
12	Remove the text 'Units' and 'Check', as it doesn't relate to anything	Switches	Row 15
13	Change OP to OC	Generic Inputs	F41

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.

Appendix B: Queries raised during investigation

No	Issue Description	Sheet	Reference	Response
1	Unfinished explanation around the number of properties acquired per month. Does this need to be finished?	Model Overview	C17	The model approach regarding this point will be revised at the next model refresh
2	What is the 'Model Overview - Tables' sheet aiming to achieve? If fixed input could it be locked down?	Model Overview - Tables	All Cells	This is a summary explaining what types of properties are purchased in which areas. This has been used in the construction of the model eg from row 111 on the Key Operational Inputs tab. Model usage is more flexible when cells are not locked down. Very few individuals physically interact with the model at the moment, so this flexibility is useful. Should the model be distributed more widely, we will lock down areas of the model.
3	Why is there no formula in month 1 for re-let within one month rates?	Model Overview - Logic Test	G71	A property becomes void (see G45) in month 1 and then is relet within a month - so that is month 2. The table from row 45 is shifted by 1 month in the table starting at row 58.
4	The outputs from the sheet do not seem to go anywhere - can you explain what this sheet is aiming to achieve?	Model Overview - Logic Test	All Cells	It does not feed into the model and so will be deleted.
5	Why do some of the Acquisitions and Refurbishments Costs only last for 2 years?	SLA	G27, G31	Yes, all properties relating to this phase will be purchased in the first two years, so there will not be any acquisition costs thereafter.
6	Why are the charges per property as per Fee Costs Year 4 appropriate to use and not the Fee Costs for Year 1?	SLA	I69	Year 4 excluded acquisition costs. Acquisition costs are accounted for separately eg Key Operational Inputs L25
7	What do pass through costs represent and how are they accounted for in the model?	SLA	Column E	These are costs that are initially paid for by the Council and are recharged to i4B e.g. the purchase price of properties E30, refurbishment costs from the Council's contractor
8	What are the Check % financing and Check % Capitalised Costs aiming to achieve?	Historic Acquisition List	Column AN & AP	Outliers can be used to sense check inputs

Appendix B: Queries raised during investigation

No	Issue Description	Sheet	Reference	Response
9	Why are some of the input columns totally blank? For Col AL, remove borders to row 148, as at the minute it looks like it's an empty cell, whereas it is actually only relevant to the summary.	Historic Acquisition List	Column AJ & AL	Agreed
10	What's the difference between a blank cell and a zero? Ensure consistency is there is no difference.	Historic Acquisition List	Column N, R, S, T, AC, AD, AF	Empty cell may be missing data eg cell N20. Zero is zero
11	Are the numbers in row 9 required? If not recommend they are removed.	Historic Acquisition List	Row 9	The sheet is taken from a separate model. In that model, these figures drive the calculations below. It may therefore be useful to have them as a reference to assumptions.
12	Are the Summary rows used for anything? i.e. could they not contribute to the Validation sheet?	Historic Acquisition List	Summary sections	It's not just validation, it's business information so it's useful to see.
13	Is it correct to remove the option to purchase 2 bedroom houses, given that there are currently 2 bed houses within the portfolio?	Key Operational Inputs	Row 125	There are no specific plans to buy 2 bed houses. The number is immaterial to the strategy.
14	What does other represent? Under what circumstances would this contain values?	P&L 1 Monthly	Row 52	Allows flexibility for further inputs.
15	What is SDLT and is it meant to flow through to any summary calculations?	Historic Acquisition List	P150	SDLT is Stamp Duty. This section is a paste special from another model. There, col V = sum of col O to T
16	Can you explain the difference between P&L 1 Yearly and P&L 2 Yearly? If it is the indexation point, should 2 yearly be renamed to make it clearer.	P&L 1 Yearly, P&L 2 Yearly	All Cells	Indexation. Agreed.

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		Recommendation	Draft Response	Owner	Status/Target Date	Update on Actions taken
A1	Policies – Completeness and maintenance Control design and Operating effectiveness	a. 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.	a)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.	Sadie East	Complete	03 July - Company policies have been reviewed and a number of minor alterations made. Policies will be resubmitted to a representative from the board for approval and then distributed to Service Areas Leads and i4B commissioned services
		b. Introduce a consistent approach to the review of policy documentation including the frequency of review, responsibility for review, and approach to ensuring version control.	b)Accepted - Policies will be reviewed annually by the board.	Sadie East	Complete	All company policies will be reviewed annually
		c. Undertake a review of all policies in order to ensure that the content remains applicable now that i4B is operational.	c)Accepted - All policies will be reviewed as part of the exercise above and then reviewed annually.	Sadie East	Complete	All company policies will be reviewed annually
A2	Ongoing review of the SLA - Control design	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	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.	Sadie East	Complete	The SLA is monitored at monthly meetings between service leads and i4B. A monthly report from these meetings is provided to the board. The board receive monthly performance updates on performance against the SLA.
A3	Risk Management - Control design	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.	a)Accepted - The board will consider a proposal to create a risk framework and will consider the relative scores of the new risk assessment.	Chris Brown	ноя.18	Ongoing
		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.	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.	Chris Brown	Complete	Risk register has been created as a stand alone register. Was reviewed by i4B management team in April-18 and an update will be submitted to May board meeting
		c. The risk register should be reviewed to ensure that operational risks are incorporated to the extent that they are applicable.	c)Accepted - the board agreed an updated risk register at its January 2018 meeting which includes additional operational risks.	Chris Brown	Complete	Company Risk Register has been created
		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.	d)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Risk register reviewed and approved at June Board meeting
		e. All risks should be given individual responsible owners who are responsible for monitoring and managing the risk.	e)Accepted - the board will consider who the holder of each risk in the register should be.	Chris Brown	Complete	Risk register reviewed and approved at June Board meeting
		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.	f)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Company risk register is reviewed quarterly
A4	Code of Conduct - Control design	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.	Accepted - a code of conduct will be produced to be considered by the Board and Shareholder.	Sadie East	Complete	The Director's Code of Conduct was considered at the June Board meeting and will be submitted to the Shareholder for approval and will be signed by all company directors. Code of Conduct was agreed and signed by all directors in July 2018.
A5	Escalation Policy - Control design	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.	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.	Sadie East	Complete	The escalation policy was considered at the June board meeting, minor alterations have been made and the policy has been resubmitted to the board for approval. Escalation Policy approved at June 2018 board meeting
A6	Scheme of delegation - Operating effectiveness	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.	Accepted - the scheme of delegation will be established as a stand alone document and reviewed by the board no less than annually.	Sadie East	Complete	The Scheme of Delegation was approved at the June Board meeting and will be reviewed annually
A7	Recognition of income and expenditure – Financial procedures - Operating effectiveness	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.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	июни.18	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A8	Financial standing orders - Control design	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.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	июни.18	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A9	Revenue monitoring - Control design	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.	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.	James Cook	Complete	A new financial model and timetable was agreed at the February board meeting.

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		Recommendation	Draft Response	Owner	Status/Target Date	Update on Action Taken
B1	Distinguishing objectives and implementing an approach for measuring the intended benefits - Control design	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.	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.	Sadie East	Completed	The Brent Finance Team has carried out work to quantify the financial benefits of i4B to the council. This will feed into the next Company business plan which will be approved by the shareholder in February 2019.
B2	Non-Financial KPIs - Control design	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.	a)Accepted - The Board has agreed the new KPIs and will receive reports on performance at every Board meeting.	Chris Brown	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
		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.	b)Accepted - Targets will be set for the KPIs and performance monitored by the board. Any issues will be highlighted and addressed.	Chris Brown/James Cook	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
B3	PRS project tracker - Control design	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.	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.	Chris Brown	Complete	A Microsoft Dynamics case management system for i4B properties and processes has been created. This will improve Brent Council processes and introduce clearer measuring periods for the company's KPIs. The system went live in November 2018. Work is ongoing to improve the accuracy of KPI reporting.
B4	Overall purpose of company - Control design	Management should ensure that purpose of the company is clearly defined with the priority of the company's goals 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.	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.	Sadie East	Complete	
B5	Monitoring the proportion of LHA rents - Control design	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.	Accepted - This has been added to the suite of KPI indicators as KPI 34	Chris Brown	Complete	
B6	Succession Planning - Control design	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.	Accepted - resources will be identified to provide this guidance	Chris Brown	Complete	The Microsoft Dynamics system gives board members and officers access to live KPI information and reports.


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	Recommendation	Draft Response	Owner	Status/Target Date	Update
C1	i4B should use the findings from the fraud risk workshop to perform a fraud risk assessment. This should capture the key fraud risks and include an assessment of mitigating controls so that residual risks are understood. Given that i4B's business activities are likely to expand in the future as per their business plan, the fraud risk assessment should be refreshed at least bi-annually.	The company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing (as agreed at the First Wave board meeting on 21 March 2018) in order that work can be aligned on fraud risk across both companies.	Sadie	cen.18	i4B Fraud Risk Assessment undertaken in October 2018. At the October Board the Board agreed to transfer the fraud risks identified to the Company Risk Register. These risks will then be reviewed on a quarterly basis.
C2	i4B should also ensure that they have in place a set of fraud and ethics policies to set the tone at the top, such as a counter fraud policy, a fraud response plan, code of conduct for board members, and a whistleblowing policy. Either the Council's policies could be adopted, or i4B could develop their own.	i4B will review Brent Council's fraud and ethic policies with the aim of adopting these for i4B and will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risks.	Sadie	Complete	Policies adopted in September board meeting

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		Recommendation	Draft Response	Owner	Status/Target Date
D1	Basis of Assumptions Setting of the base rental value and property purchase price	Purchase Prices - The 'Historic Acquisition List' tab contains within it an additional set of scaling factors, which are based on off of full average price, rather than being pegged to the Brent price. These are in cells AN182:AN184. These should be used as the scaling factors which are brought through into the 'Key Operational Inputs' tab, cells L99:L101, rather than the scaling factors used at present.	Agreed	Olga Bennet	This will be implemented early in 2019/20 financial year
D2	Basis of Assumptions Setting of the base rental value and property purchase price	At present the model overstates rental income. There are two potential ways to remediate this issue: 1). The calculation for the average rent should exclude those properties from Home Counties – Medium and then the 20% uplift becomes a stated assumption. 2). A scaling factor should be calculated for all properties based off on the actual empirical experience, as per the proposed solution for the Purchase Price.	Agreed	Olga Bennet	This will be implemented early in 2019/20 financial year
D3	Property Related Inflation Rental growth and house price inflation	From discussions, PwC note that Rental Inflation has been set in line with the LHA assumption at 1.5%. PwC also note that there is a view that HPI would be around 1%, although this hasn't been built into the model. Were this to have been built in though, it would lead to increasing yields over time, as rental growth exceed property growth. This assumption of increasing yields is difficult to justify, as taken to ad infinitum it would lead to rental income exceeding the property value. Additionally, 1% HPI is low compared to market experience. Whilst it is true that there is uncertainty in the market at present, in particular as a result of Brexit, a 1%pa flat growth rate is unlikely to persist over the next 30 years. This is demonstrated with reference to the Nationwide House Price Index, which sets annual house price growth a c2%, despite the current economic uncertainty. As the model forecasts out over 30 years, it is likely that HPI will fluctuate around this point noting that the average HPI over the past 5 years has been c8%pa in London, and c5%pa going back 10 years which includes the 2008 recession that led to significant falls in the housing market. Given this, we have presented sensitivities under various scenario's of HPI and rental growth over the next set of slides. These are done in two ways. The first table for each metric is based on Rental Growth being set to a specific percentage across the whole portfolio, i.e. rental growth equals 4% for all properties. The second table presents a blended rental growth, factoring in the LHA rates. LHA rates cover three quarters of the portfolio, so in this instance, where rental growth is stated as 4%, that is 4% on a quarter of portfolio and 1.5% on the remaining three quarters. This is therefore a blended assumption of 2.125%. The HPI assumptions used in both tables are consistent, as the values of the house will be set by market conditions rather than being influenced by the LHA rates.	House price inflation will be built into the model. Given the current economic climate, the i4B Board has agreed a prudent 1% house price inflation assumption and an average 1% LHA rate increase.	Olga Bennet	House price inflation will be implemented early in 2019/20 financial year.
D4	Potential Errors	Incorrect formulae (logic or design), inconsistent use of assumptions, etc. These should be reviewed as a priority and changed accordingly, otherwise they may lead to financial impacts on the model, especially should assumption change going forwards. These should be resolved.	Any comments in this category will be implemented in the next model refresh.	Olga Bennet	This will be implemented early in 2019/20 financial year

		Recommendation	Draft Response	Owner	Status/Target Date
D5	Design issues	Areas of the model which are not consistent with documentation, or may lead to potential errors. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year
D6	Best Practice	Best Practice. Model design which is not consistent with our interpretation of best practice. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year
D7	Cosmetic	Cosmetic. Typos and inconsistent references used within the model. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chair of First Wave Housing Ltd
Report on First Wave Housing Limited	

Wards Affected:	All
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>	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.
No. of Appendices:	Four: <ul style="list-style-type: none"> FWH Business Plan 2019/20 Fraud Risk Review Fraud Risk Assessment Company Risk Register
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Peter Gadsdon Director of Performance, Policy and Partnerships Email: peter.gadsdon@brent.gov.uk Tel: 020 8937 6095

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 30th 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.

First Wave Housing Limited
Business Plan
2019/20
And
Forward Investment Proposals 2019-2024

Contents

1	The Purpose of the Company
2	The Benefits of Operating as a Registered Provider
3	The Structure of the Company
4	Performance to Date
5	New Opportunities
6	Risk Analysis
7	Financial Options Analysis
8	Key Performance Indicators

Appendices

1	Financial Forecast
2	Company Risk Register

1 The Purpose of the Company

- 1.1 First Wave Housing Limited (the 'Company' or 'FWH'), formerly Brent Housing Partnership ('BHP') is a local authority owned company of the London Borough of Brent ('LBB', 'the Council'), and is limited by guarantee.
- 1.2 Prior to 30 September 2017, LBB had a management contract with BHP to provide housing management services.
- 1.3 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 (BHM) department.
- 1.4 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.
- 1.5 The Company's primary purposes are to manage, maintain, and improve 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 Homes England.
- 1.6 The Company has been investigating new opportunities that will enable it to further support the achievement of Council objectives. These are outlined in Section 5 – New Opportunities.

2 The Benefits of Operating as a Registered Provider

- 2.1 As a wholly owned Local Authority Company, FWH operates at 'arm's length' from Brent Council.
- 2.2 FWH is a registered social housing provider (RP). The Regulatory Framework for Social Housing in England governs registered social housing providers. The Framework includes a code of practice; guidelines for rent levels, accounting practices and disposals. There are a number of benefits associated with being a RP:
- As an RP, FWH has the potential to access Homes England and Greater London Authority grant funding for a wider range of affordable housing products than the Council would be able to.
 - In delivering new affordable housing, an RP can lower the cost of borrowing and is in a better position to access funding from banks or other private lenders.
 - There are tax incentives in areas such as corporation tax and stamp duty land tax.
- 2.3 The Company has been investigating new opportunities that will enable it to further support the achievement of Council objectives.

3 The Structure of the Company

3.1 The Company is limited by guarantee without share capital.

3.2 The Company is called First Wave Housing 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 and Articles of Association 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:

- Akintoye Durowaju, Independent board member;
- Councillor George Crane;
- Gail Tolley, The Strategic Director of Children and Young People; and
- Peter Gadsdon, The Director of Performance, Policy and Partnerships.

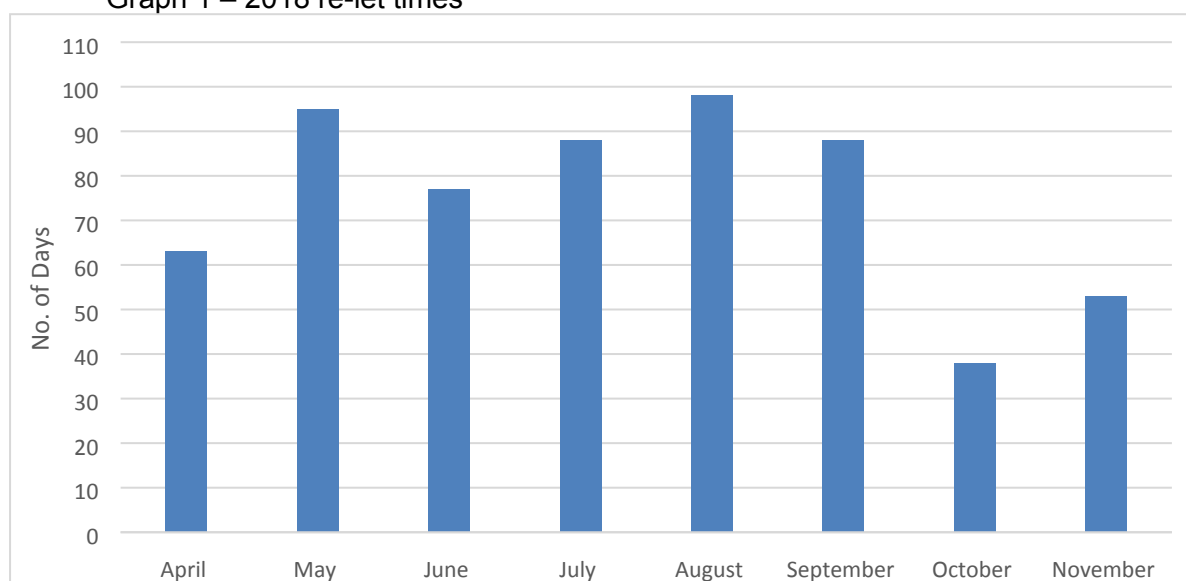
3.6 The Board has agreed with LBB to follow best practice, comply with all standards and ensure compliance with the Homes England regulatory framework. The Company has also adopted the National Housing Federation (NHF) Governance Code 2015 (the 'Code') and prepares its financial statements in accordance with the Statement of Recommended Practice for Registered Social Housing Providers (the 'Housing SORP 2014').

3.7 The Company has a Service Level Agreement (SLA) with the Council to support the Company's operations. Under the SLA, the Council provides corporate services such as: governance services, financial services, and legal services. The Council's housing management service Brent Housing Management (BHM) provides FWH with services to support the Company's landlord function such as: housing management, repairs, and void management.

4 Performance to Date (November 2018)

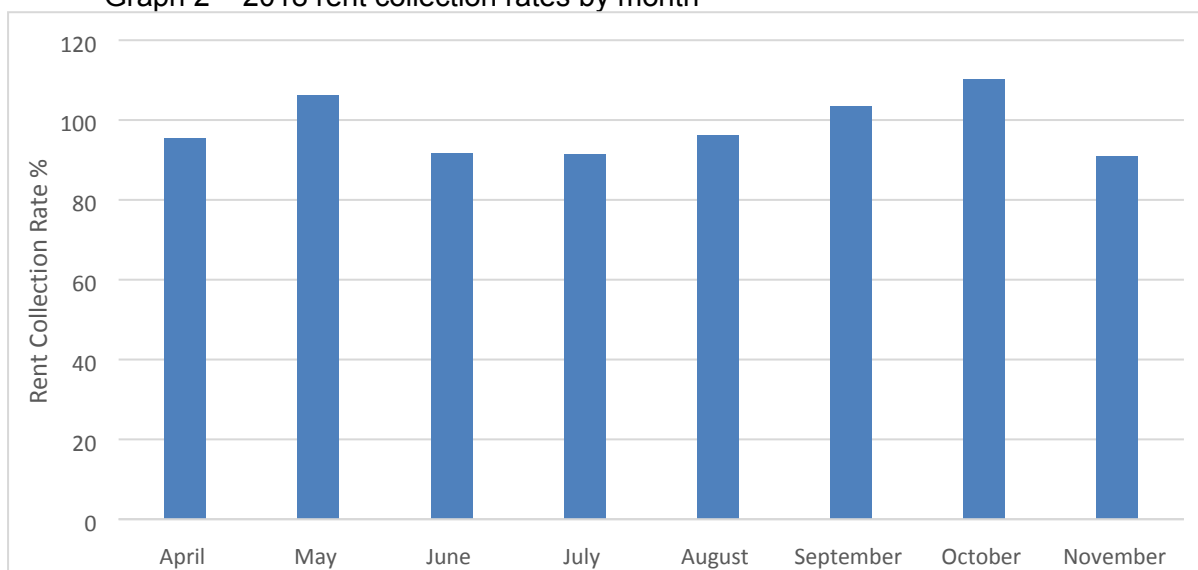
- 4.1 FWH has 329 tenanted properties. Of this 329, 170 are settled homes rates, 89 are at social rent rate, 25 are at intermediate rent, and 45 are at market rent. The annual rent roll is £4.2million. There are also two commercial properties within the portfolio.
- 4.2 FWH has aligned the majority of its KPIs and targets with those of i4B Holdings Ltd, the Council's wholly owned housing company, from November 2018.
- 4.3 FWH has not purchased any new properties, therefore, performance is only based on housing management.
- 4.4 For the current financial year, average time to re-let a property is 75 days. This is below performance standards. However, October and November performance was 38 and 53 days respectively. Underperformance can partly be explained by the fact that a high proportion of voids have required major works. In order to bring re-let times down, operating processes have been integrated within the Council's procedural framework and it is expected that this will improve re-let times. BHM plan to develop more proactive ways of identifying void works to enable better coordination of void works.

Graph 1 – 2018 re-let times



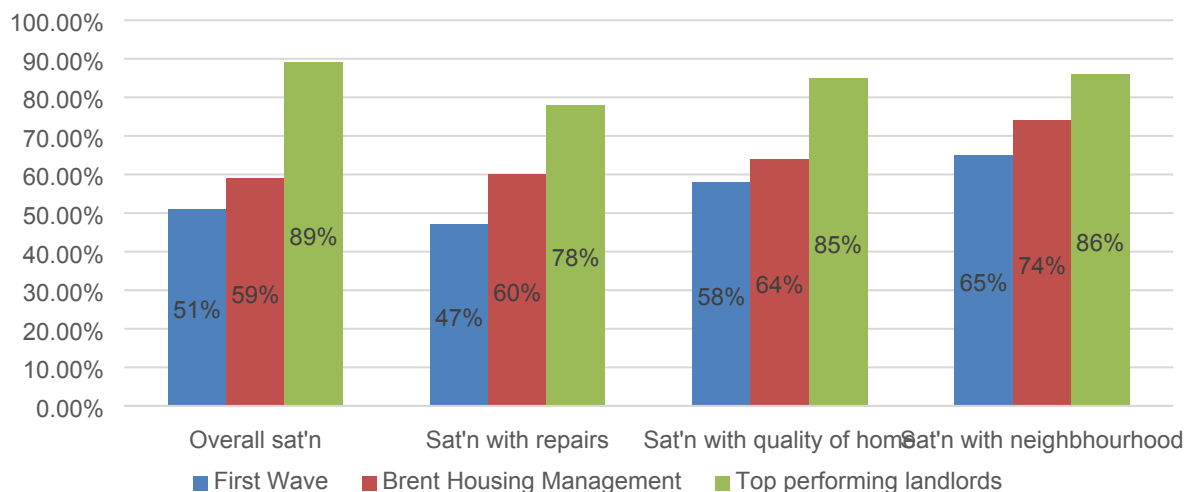
- 4.5 Rent collection rates for the financial year to date are 103%. This is above the business plan target of 98.5%. Rent collection will continue to be an area of focus over the coming year as there are a number of risks associated with income collection. A corporate plan has been established to mitigate the risks of Universal Credit rollout. The plan applies a more proactive approach to sign up, more robust affordability assessments, and a more responsive approach to arrears action. Graph 2 below shows rent collection rates throughout 2018.

Graph 2 – 2018 rent collection rates by month



- 4.6 The percentage of routine repairs completed on time was 92%. This has been stable throughout the year and has been within expected service standards. A joint improvement plan is underway between the FWH, the Council, and Wates. This is aims to deliver significant improvements to the responsive repairs and asset management service. This project will be informed by the outcomes from a series of insight workshops. In the meantime, the property services teams have been focusing on a number of local improvements.
- 4.7 100% of properties have valid CP12 certificates. FWH continues to deliver high compliance pertaining to gas safety. Operating processes are robust and focus on resident safety.
- 4.8 Two complaints were received. In the future, BHM's new Customer Relationship Management (CRM) platform will allow better analysis of the root cause of complaints.
- 4.9 A client satisfaction survey was recently carried out. Client satisfaction was 51%. As FWH transitioned from the previous management environment, service delivery was compromised in some areas. FWH has introduced a transformation programme based on delivering a more positive experience for customers. FWH plan to use its resident engagement programme to ensure customers are able to influence and the key improvements required. BHM's Housing Performance Insight and Improvement Unit have also been commissioned to support the Housing Management Team to develop an improvement plan to respond to the areas of dissatisfaction.

Graph 3 – Resident Satisfaction Rates



- 4.10 BHM has recently embarked on a transformation programme to improve services for residents living in homes owned and managed by the Council. The Transformation programme will be extended to FWH customers and will target all the key performance areas requiring improvement. Regular progress updates will continue to be presented to the FWH Board and will align with the key performance indicators.

5 New Opportunities

5.1 FWH manages 329 residential properties and two commercial properties. FWH is a settled business providing properties to rent at affordable and market rates. This section will begin by showing the diversity of products which FWH currently has and the benefits and challenges of each product. The section will progress to consider capital investment and the optimisation of assets and opportunities.

5.2 The FWH business plan contains four main proposals:

1. Tenure and rent rationalisation within its portfolio
2. Capital investment
3. The sale of four properties via mutual agreement which are within areas undergoing regeneration
4. Working more closely with i4B Holdings Limited

Tenure and rent rationalisation of FWH portfolio

5.3 FWH has a number of rental products ranging from social rent to intermediate rents and market rents. Table one shows the rent level and product by number of bedrooms.

Table 1 – Rent level and product by bedroom size

Product Type	No	Average Rent			
		1 bed	2 bed	3 bed	4 bed
Social Rent	84	£120 (23)	£128 (33)	£137 (33)	£137 (10)
New Build (assumed social rent)	5	N/A	N/A	£136 (5)	N/A
Settled Homes	170	£271 (7)	£308 (141)	£307 (22)	N/A
Intermediate rents	25	£291 (11)	£321 (14)	N/A	N/A
Market	45	£259 (45)	N/A	N/A	N/A
Total	329				

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

5.4.1 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.

5.4.2 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. The current rent levels are above the LHA rent for one

and two bed properties. However three bedroom rents are £307 pw which is below the LHA at £365.

- 5.4.3 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.
- 5.4.4 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. These properties are slightly higher to manage as a letting agent is employed to identify market renters for the properties.
- 5.4.5 FWH has two commercial properties. One is a community facility at Talbot Centre, Granville Road which is leased at a peppercorn rate. The other is at 395 Chapter Road, this has been let on a 25 year lease from March 2017 at a commercial rate of £25,050 per annum
- 5.5 FWH would like to utilise its portfolio to deliver more benefits to the Council. It recognises the value of having a wide range of products from social to market rents but seeks to ensure the tenure and property maximise benefits to the Council and complement the Company's financial strength. FWH recognises that the Borough has an increasingly strong market rent offer but it has a significant need for affordable housing and housing for homeless families. The Council has a number of initiatives which it is seeking to expand, all of which require access to housing for rent at levels at LHA or below. Initiatives include supporting tenants to downsize from larger family social rented accommodation due to life changes or succession rights, the Single Homeless Pathways Service (SHPS) which seeks to support non priority single homeless with settled accommodations.

Proposal to the shareholder:

- 5.6 FWH requests that the Council provides the Company 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

- 5.7 The Council has conducted a stock condition survey on its stock and the stock of i4B Holdings Ltd and First Wave Housing Ltd. The survey, completed in October 2018, visually surveyed 100% of the externals of properties and sampled 20% of the internals. The data requires full analysis which will be completed in the next few months. An assumption of 0.5% of stock reinstatement value has been built into the business plan of FWH over the 30 years.

- 5.8 In addition to the stock condition survey FWH have considered s20 notices and patterns of repair and complaints.
- 5.9 One third of FWH properties are leasehold properties with the London Borough of Brent are the freeholder. The capital investment in the structure, common area, and common parts of leasehold properties in Council or third party blocks are dictated by the freeholder who recoup the costs by major works charges to property owners after serving s20 notices. As a result, the timing and scope of a great deal of FWH capital investment is dictated by s20 notices. FWH therefore must top slice a significant amount of its capital investment budget to service s20 invoices at the intervals required by the freeholders.
- 5.10 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.
- 5.11 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.
- 5.12 Therefore, it is proposed that an investment plan is drawn up by the Council's asset management team to correct the three block' physical failings.

Proposal to the shareholder:

- 5.13 A comprehensive maintenance plan is produced by the Council's asset management team on the investment required to repair the three blocks..

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

- 5.14 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.
- 5.15 FWH would also require the purchasing authority to resolve the relocation of customers and any compensation.
- 5.16 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.

- 5.17 The properties will be valued prior to sale and it is thought the properties will be worth in excess of £1.3m. The capital receipt will be reduced by grant payback or diversion into grant element into affordable housing in the borough. FWH will work with the Shareholder to understand implications of the capital gains tax and loan repayment on the Company. The FWH stock will reduce to 325 units as a result of these sales.

Proposal to Shareholder

- 5.18 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.
- 5.19 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 closer with i4B Holdings Limited

- 5.20 The Council has two wholly owned Companies which are currently focused on housing, First Wave Housing Ltd and i4B Holdings Ltd.
- 5.21 i4B is not a registered provider and as such is not normally considered by the Government eligible to receive grant. If the two companies are compared the only material difference is that FWH is a registered provider and i4B is not. Both can raise finance, are wholly owned by the Council, use the Council to deliver many of their services, and the Council has appointed the same boards to both companies.
- 5.22 The Shareholder has carried out some initial work which has identified the potential benefits of aligning the two companies. The Company understands that three provisional options have been highlighted by the Shareholder:
- The Shareholder, with the Companies' Boards defines more closely 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.
- 5.23 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.

6 Risk Analysis

6.1 The Company presently faces a number of risks. The top five risks are detailed in table three below. Appendix 1 contains the full company risk register which provides descriptions of risks, risk scores, and mitigations.

6.2 Table 3 – Top five key risks

No.	Issue/Risk	Business Plan Assumption	Risk Type
1	There is a risk of unforeseen costs and loss of income as a result of poor quality housing stock.	The potential consequence of this risk materialising is that the Company's income is insufficient to cover the expenditure required to maintain good quality housing stock.	Operational and Financial
2	There is a risk of reduction in income in market rent because the properties cannot achieve market rent yield.	The business plan assumes that market rent achieves 20% uplift over LHA.	Financial
3	There is a risk that First Wave policies and procedures specific to the non-social housing tenures e.g. market rent and intermediated rent are not applied appropriately.	The failure to adhere to core policies and procedures could lead to a financial and reputational risk to the company.	Operational and Financial
4	There is a risk that business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection.	The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	Financial
5	Void periods exceed assumptions.	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 and Reputational

7 Financial Options Analysis

The financial business model contains the following assumptions:

- 7.1 Capital expenditure over the next four years has been estimated at £2.7 million as a benchmark figure from the Head of Service of Housing and PRS manager. The £2.6 million will be broken down into £80k for the feasibility study in 18/19, £62k for the major works expected, followed by the remaining amount of £1.3m and £1.22m to be spent over the next 2 years of 19/20 and 20/21.
- 7.2 The rental income forecast is based on five main categories: Social, Intermediate, Commercial, Market and Settled rental income. The model assumes that there will be a 1% reduction in social income rent category of housing but there will be an increase of 1% rental income in all of the other four types of rental categories.
- 7.3 The loss of rental income due to void is assumed to be at 0.5% of total rental income.
- 7.4 Leasehold service charges, insurance and responsive repairs are due to increase by 2% inflation per annum in the 30 year view model.
- 7.5 The SLA costs have been revised (schedule provided by the PRS Manager). The SLA costs have increased by 2% inflation per year in the model over the 30 years.
- 7.6 Depreciation is based on the annual cost to be incurred but does not take into account any revaluation gain/loss.
- 7.7 Loan interest has been calculated using the loan schedule assuming a loan interest rate of 6%.
- 7.8 The 5 year forecast can be found in Appendix 1.

The implications of raising rents to LHA:

- 7.9 The current stock of properties are split between social and market rented properties.
- 7.10 It has been confirmed that the Grant Agreement for the Settled Homes Initiative between Homes England and FWH allows market tenanted properties to raise their rents to LHA rates.
- 7.11 In order to raise rents, Housing will review the time frames when the properties will become void and re-let and thus rents can be raised from the new tenancy period.
- 7.12 By raising the LHA rents, it has been calculated that an increase of annual rents for the 45 properties starting from 2019/20 will be approximately £22,000 per annum.

Stock condition survey

- 7.13 Housing have provided preliminary costings from the stock condition survey, which is at its early stages.

- 7.14 Figures provided by Housing still require validating and further work is expected to be done over the coming months to get accurate costs of repairs.
- 7.15 However, the early indications show a stock condition cost of £9m to be incurred over a profile period of 45 years. Please note that the figures are based on a 20% sample. Further work is ongoing by PRS Manager and Housing to get more accurate costings in the new financial year 19/20.
- 7.16 Furthermore, there is a demand for various uplifts and maintenance to be conducted over the next two years. The major works will include leaky roofs, weatherproofing hallways and replacing lifts.
- 7.17 The Head of Service for Housing and the FWH PRS manager have estimated the costs of the works to be in the region of £2.7 million. However, further work is going to be undertaken by First Wave Housing Limited alongside the shareholder to produce an initial feasibility report on the maintenance needs of the building.
- 7.18 Once the nature of the works and the costings of the work has been confirmed, an asset management strategy will be put in place in 19/20 by the shareholder for the delivery of the works and the profile of the works will be confirmed.

8 Key Performance Indicators

8.1 Note that First Wave Housing has aligned the majority of its KPIs and targets with i4B from November 2018

Ref	KPI	Definition	Target	Monitoring Period
1	% of void rent loss	% of property void days as a proportion of 100% portfolio occupation	1.50%	Quarterly
2	% Bad Debt	Income written off by the FWH Board due to bad debt in particular arrears	2%	Quarterly
3	% Rent collection	Rent collected as a % of rent due.	98.50%	Monthly
4	No. of evictions per 1000 properties	Evictions	No Target	Monthly
5	% of customer satisfied with the condition of property	Annual Survey	80% Satisfied with the condition of the property	Quarterly
6	% of customers satisfied with housing management	Annual Survey	80% Satisfied with the management of the property	Quarterly
7	% of customer satisfied with the repairs service	Annual Survey	80% Satisfied with the Repairs Service	Quarterly
8	% of customer satisfied with the repairs service	Survey participation	1/3 of customers surveyed annually (min)	Quarterly
9	% of complaints responded to within timescale	Complaints resolved through management agents agreed procedures	100% resolved within 20 working days	Quarterly
10	No. of complaints escalated to housing ombudsman	A decision by a statutory body upholding a complaint made by a customer, contractor, employee or member of the public	None	Quarterly
11	% of verification visits / tenancy audit completed against plan	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
12	% of Portfolio with valid CP12	Properties let with a valid CP12 gas certificate (properties with a served legal warrant qualify as certified).	100%	Monthly

13	% 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%	Monthly
14	% of Urgent Repairs Completed Within 7 days	The % of all urgent repairs resolved within 7 days measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Monthly
15	% of Routine Repairs Completed Within 28 days	The % of all routine repairs resolved within 28 days measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Monthly
16	Average repair cost per property per annum ink common areas	The average cost of responsive repairs on the portfolio as charged by the housing management agent (excludes gas servicing)	£500 per annum	Quarterly
17a	Void Management Standard Void market rent	Void period from recorded from tenancy end date to tenancy start date for Market rent tenancies	21	Monthly
17b	Void Management Standard Void intermediate rent	Void period from recorded from tenancy end date to tenancy start date for intermediate rent tenancies	21	Monthly
17c	Void Management Standard Void settled homes	Void period from recorded from tenancy end date to tenancy start date for settled homes tenancies	24	Monthly
18a	Void Management Major Void market rent	Void period from recorded from tenancy end date to tenancy start date for Market rent tenancies	76	
18b	Void Management Major Void intermediate rent	Void period from recorded from tenancy end date to tenancy start date for intermediate rent tenancies	76	

18c	Void Management Major Void settled homes	Void period from recorded from tenancy end date to tenancy start date for settled homes tenancies	76	
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Appendix 1

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.

Appendix 2 – Company Risk Register

Risk	Business plan assumption	Risk Type	Likelihood (/5)	Impact (/5)	Risk Score (/25)	Mitigation
There is a risk of unforeseen costs and loss of income as a result of poor quality housing stock	The potential consequence of this risk materialising is that the Company's income is insufficient to cover the expenditure required to maintain good quality housing stock	Operational & Financial	3	4	12	A stock condition report has been produced and a subsequent repairs action plan developed and presented to the FWH board - the Board has approved expenditure in relation to this
*There is a risk of reduction in income in market rent because the properties cannot achieve market rent yield	The business plan assumes that market rent achieves 20% uplift over LHA	Financial	5	2	10	This is a live issue as it has already occurred with 4 of First Wave's properties. The Company is not currently purchasing properties - if the board takes a decision to grow the Company's portfolio this risk will increase. The board is able to consider different tenures for properties to mitigate this risk.
There is a risk that FWH policies and procedures specific to the non-social housing tenures e.g. market rent and intermediated rent are not applied appropriately	The failure to adhere to core policies and procedures could lead to a financial and reputational risk to the company	Operational & Financial	3	3	9	Brent Housing Management have advised they will undertake a policy and compliance audit and consider commissioning an internal audit programme through PwC

There is a risk that business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection	The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	Operational & Financial	2	3	6	<p>Rent collection rates are monitored at monthly First Wave board meetings and remain consistent at around 100%.</p> <p>Brent Housing Management, who deliver housing management services, for FWH have in place an action plan for Universal Credit implementation.</p>
There is a risk that void periods will exceed the business plan	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.	Operational & Financial	2	3	6	FWH has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors.
There is a risk that FWH is deemed to have failed a statutory health and safety obligation as a landlord	<p>The SLA places a requirement on Brent Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.</p> <p>Failure to comply with H&S requirements increases 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.</p>	Financial & Reputational	1	5	5	Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring include some key aspects including gas, complaints and customer satisfaction.

FWH is deemed to have failed a statutory requirement in its corporate role	<p>The company must comply with regulatory and best practice requirements around its own management and governance such as annual accounts, returns to Companies House, and other regulatory bodies such as the Housing Ombudsman and Homes England. There could be a residual risk in relation to the above occurring from the company previously being known as Brent Housing Partnership and relevant legal and statutory documents not being changed to reflect the Company's new name.</p> <p>The consequences of other statutory failures may be fines and/or reputational damage to FWH.</p>	Financial & Reputational	1	5	5	<p>The Board is putting in place suitable policies and procedures to ensure regulatory compliance, e.g. an escalation policy, scheme of delegation, risk management, and internal audit arrangements.</p> <p>A thorough transformation programme was undertaken when BHP became FWH to ensure that all legal and statutory documentation was changed.</p>
There is a risk of fraud to the Company	<p>Subletting of properties by tenants.</p> <p>Letting of properties by Council or maintenance staff for personal gain during a void period.</p>	Fraud	2	2	4	<p>BHM will prioritise regular visits to 'high risk' properties and will use intelligence from the Council's Audit and Investigation department to inform this.</p> <p>Property void times will be reported to the board and BHM will work to keep void periods low.</p> <p>The board will be provided with detailed reporting on void checks undertaken by BHM.</p>

There is a risk of fraud to the Company	<p>Tenants misrepresenting their circumstances during the eligibility assessment process.</p> <p>Proceeds of crime being used to purchase properties.</p>	Fraud	1	3	3	<p>FWH will review Brent Council's Right-to-Buy Policy with a view of adopting it.</p> <p>Board approval will be sought on any right-to-buy applications and these will be considered alongside the Council's current processes. The Council has a two stage approval process in place - if the property purchase price is above £500K it is approved at Operational Director level, and if it is below £500K it is approved at HoS level.</p> <p>Brent Housing Management staff can refer Right-to-Buy applications to the Council's Fraud and Investigation department if required.</p>
There is a risk of fraud to the Company	Repairs/maintenance/major works – overcharging or charging for fictitious works.	Fraud	1	3	3	<p>BHM will implement a post inspection regime to ensure that the repairs and major works completed comply with the cost incurred.</p> <p>A review will be undertaken into any property which has more than 7 repairs in a 12 month period.</p> <p>The average cost of repair per property will be regularly reported to the board.</p>
There is a risk of fraud to the Company	<p>Collusion between staff/ board members and buyers to dispose of properties at under market value.</p> <p>Undeclared conflicts of interest between staff/board members and buyers.</p>	Fraud	1	3	3	<p>FWH will develop an Assets Disposal Policy. This will consider the Council's checks, and board and shareholder approval for the disposal of any company assets.</p> <p>The policy will be submitted to the shareholder for approval.</p>

There is a risk of fraud to the Company	<p>Diversion of tenant rent payments by staff.</p> <p>Collusion between tenants and staff to write off rent arrears.</p> <p>Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.</p>	Fraud	1	3	3	Rent collection rates are monitored by the Board. Rent arrears write-offs are submitted to the board for approval, after going through the Council's internal procedures.
There is a risk of fraud to the Company	<p>Set up of invalid/fictitious suppliers by staff for personal gain.</p> <p>Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain.</p> <p>Payments to third parties for goods/services not being received.</p>	Fraud	1	3	3	Payments from FWH are made through the Council's payment system and as such, are subject to Council policies and procedures.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Internal Audit Report 2018/2019

Fraud Risk Review

First Wave Housing Ltd

August 2018

Final Report

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- B. Limitations and responsibilities

Distribution list

For action:

Chris Brown, i4B and First Wave Programme Manager
 Sadie East, Head of Transformation (Brent Council)
 Olga Bennet Head of Commercial Finance (Brent Council)

For information:

Martin Smith, First Wave Board Chair
 Councillor George Crane, First Wave Board Member
 Akintoye Durowoju, First Wave Board Member
 Peter Gadson, First Wave Board Member
 Gail Tolley, First Wave Board Member
 Michael Bradley, Head of Internal Audit (Brent Council)
 Colin Garland, Audit Manager (Brent Council)
 Michael Cassel - Investigations Manager (Brent Council)



Executive summary (1 of 2)

Introduction and purpose

First Wave Housing Limited (the 'Company' or 'FWH'), formerly Brent Housing Partnership ('BHP') is a local authority owned company of the London Borough of Brent ('LBB'), and is limited by guarantee. The Company's primary activities are to manage its stock of 332 properties (as at 31 March 2018) and to contribute to Brent's housing strategy. It is a registered housing provider with the Homes and Community Agency (HCA).

LBB decided to terminate the Management Agreement with BHP, in relation to the council housing stock, with effect from 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. The Council set up FWH to manage the remaining properties that were owned by BHP. The Council has since begun providing services to FWH under a Services Agreement with a value of £1.4million per year. These include services to support the Company structure / Governance functions, such as Board administration, business planning and business modelling, and procurement and administering of the FWH's Housing Management and Repairs functions

During the year all eleven of the remaining BHP Board Members resigned and were replaced by the FWH Board, which currently comprises of 5 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).

Like all social housing providers, FWH faces a number of inherent internal and external fraud risks, which could result in financial losses and reputational damage. These include rent collection, payments for repairs and maintenance, and unauthorised letting and sub-letting. It is therefore important for the FWH board to take a pro-active approach to understand the risks faced, and ensuring that it receives adequate assurance that these risks are mitigated.

The purpose of this review is therefore to confirm understanding through a workshop the key inherent fraud risks facing FWH from internal and external sources based on its current business activities. The workshop will also assess whether the FWH board has adequate oversight of how key inherent fraud risks are managed.

Fraud risk workshop

A fraud risk workshop was delivered on 10 August 2018 to FWH. This was attended by:

- Chris Brown - i4B and First Wave Programme Manager
- Sadie East – Head of Transformation (Brent Council)
- Peter Gadsdon – First Wave Housing Board Member
- Deep Shah – Senior Finance Analyst (Brent Council)
- Dawn Martin – Income and Sustainment Manager (Brent Council)
- Michael Cassel - Investigations Manager (Brent Council)
- Charlotte Moore - National Management Trainee (Brent Council)
- Joe Castagnetti – Counter Fraud Officer (Brent Council)

During the workshop, a facilitated discussion was held on the current and future fraud risks facing FWH, which all attendees contributed to. Board roles and responsibilities around counter fraud and the level of oversight was also discussed.

Executive summary (2 of 2)

Overview of key findings

Our key findings from the workshop are set out on the following pages, which are comprised of:

- A listing of the fraud risks identified and discussed during the workshop, which includes areas such as right to buy, rental income, voids and property maintenance.
- Board responsibilities around counter fraud and an assessment of how these are being met, which include:
 - Identification and oversight of fraud risk
 - Oversee implementation of anti-fraud measures
 - Creation of appropriate tone at the top
 - To investigate any alleged/suspected instances of fraud

Next steps

The identified fraud risks identified during the workshop are designed to help the FWH Board to understand the organisation's fraud risk profile. It is important that the FWH Board take this forward and adopt a pro-active approach in managing the fraud risks that they face in order to minimise the risk of financial and reputational losses. As set out in recommendation 1, this can be achieved by developing and embedding a fraud risk assessment process. This will allow the board to obtain an overall view of all the fraud risks that they face and assess, based on actual controls, whether residual risks are consistent with the organisation's risk appetite. As set out in recommendation 2, we have also identified some opportunities for the FWH Board to enhance their oversight of counter fraud activities, such as including a specific section on counter fraud measures and activities in board papers to contain details of fraud risk assessment activity, full details of anti-subletting initiatives, including outcomes, and details of the outcomes of any investigations into suspected fraud or other anomalies/error where there could be a suggestion of fraud. The Board should also assess whether any further counter fraud activities should be performed or existing initiatives strengthened, which may be determined by future company activities.

Inherent fraud risks arising from current business activities (1 of 2)

Area/process	Fraud risks	Initial assessment of likelihood based on workshop discussions
Right to buy (RTB)	<ul style="list-style-type: none"> Tenants misrepresenting their circumstances during the eligibility assessment process. Proceeds of crime being used to purchase properties 	A small number of FWH tenants are eligible for RTB, however no such transactions have occurred during the past year.
Accounts Payable	<ul style="list-style-type: none"> Set up of invalid/fictitious suppliers by staff for personal gain Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not received 	Currently FWH makes minimal payments to third party suppliers. FWH pays the Council a fixed amount for service provision, and any payments are made by the Council on its behalf.
Accounts Receivable	<ul style="list-style-type: none"> Diversion of tenant rent payments by staff Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund. 	Rent collection rates are monitored by the FWH board and are understood to be above target at present. Perception is also that areas such as refunds and write-offs are highly controlled.
Rental/voids	<ul style="list-style-type: none"> Subletting of properties by tenants Letting of properties by Council or maintenance staff for personal gain during a void period 	Perception that the risk is prevalent in properties that are rented out at social housing rent rates and less prevalent in properties that are rented out at full market rates.
Property maintenance	<ul style="list-style-type: none"> Repairs/maintenance/major works – overcharging or charging for fictitious works 	FWH pays the Council a fixed amount regardless of repairs volume, and so considers that the risk of fraud has been largely transferred to the Council.

Summary of Board responsibilities for counter fraud oversight (2 of 2)

Area	Current status
Identification and oversight of fraud risk	Whilst the Board demonstrated a good awareness of fraud risk profile and exposure, a formal fraud risk assessment exercise has not been performed. A fraud risk assessment allows organisations to obtain an overall view of all the fraud risks that they face and assess, based on actual controls, whether residual risks are within the organisation's risk appetite. The risks identified and discussed during the workshop are an initial starting point for a such an assessment. It is important that this is completed and documented by the board and that control assessments are performed.
Oversee implementation of anti-fraud measures	The key anti-fraud exercises being performed are tenancy verification visits, which is reported to the Board. The Board also monitors rent collections and repair volumes through KPIs, though these are not specific anti-fraud measures. The next page sets out some suggestions for enabling enhanced oversight of counter fraud activities by the board.
Creation of appropriate tone at the top	The Board has adopted a code of conduct, which includes policies on expected behaviours, conflicts of interest and gifts and hospitality. There is also a standing board meetings agenda item on declaring interests.
To investigate any alleged/suspected instances of fraud	There have been no suspected instances of fraud since the formation of the FWH for further investigation. The board were made aware of incident whereby a property remained void for 14 months, which was attributed to an administrative error. There does not appear to have been a formal investigation report that sets out the root cause and gives assurance that there are no further cases. The matter was also not reported to the counter fraud team.

Current year findings (1 of 2)

Fraud risk assessment

Control design

Page 211

1

Finding rating

Rating

Medium

Finding and root cause

As identified during the workshop, FWH face a number of inherent internal and external fraud risks. Fraudulent activity could result in financial losses and reputational damage. It is therefore important for FWH to take a proactive approach to identifying, assessing and responding to fraud risks and ensure that there are robustly designed controls in place to treat these risks in accordance with risk appetite.

A fraud risk assessment allows organisations to obtain an overall view of all the fraud risks that they face and assess, based on actual controls, whether residual risks are consistent with the organisation's risk appetite. Whilst the board demonstrated a good awareness of fraud risk profile and exposure, a formal fraud risk assessment exercise has not been performed and documented. The risks identified and discussed during the workshop are an initial starting point for a such an assessment. It is noted that that FWH relies on the controls executed by the Council to mitigate a number of risks, and so it is important that the reliability of these have been assessed by the board.

Risk

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.

Recommendations

FWH should use the findings from the fraud risk workshop to document a fraud risk assessment. This should capture the key fraud risks and include an assessment of mitigating controls so that residual risks are understood.

Current year findings (1 of 2)

Fraud risk assessment

Control design

Page 212

1

Finding rating

Rating

Medium

Management responses

Accepted.

First Wave will engage Board members and officers in documenting a fraud risk assessment using the findings from the fraud workshop. The assessment will capture the key fraud risks to the Company and an assessment of the mitigating controls.

Responsible person/title:

Chris Brown, i4B and First Wave Programme Manager

Sadie East, Head of Transformation (Brent Council)

Target date:

30 November 2018

Reference number:

1819FRA-1

Current year findings (2 of 2)

Board oversight of counter fraud activities

Control design

2

Page 213

Finding rating

Rating

Medium

Finding and root cause

A Board's responsibilities in relation to counter fraud typically include:

- Identification and oversight of fraud risk
- Oversee implementation of anti-fraud measures
- Creation of appropriate tone at the top
- To investigate any alleged/suspected instances of fraud

Our review of FWH Board meeting minutes and packs identified some examples of oversight of counter fraud activities by the Board. For example, updates on tenancy verification visits in order to target sub-letting, and KPI reporting targeting processes where there is an inherent fraud risk, such as rent collections, voids and repairs. However we also noted:

- Further to finding 1, there is no formal reporting on fraud risk assessment activity
- The tenancy visit programme does not appear to be risk-based to target properties with an increased likelihood of subletting due to location. Also the updates on tenancy verification visits do not set out the holistic position, i.e. the total number of FHW properties checked from the overall stock, along with outcomes.
- We noted a case where a property had remained empty for 14 months, which was attributed to an administrative error during a data migration process. It is unclear whether this was referred to the Council's counter fraud team to assess whether there was any fraudulent activity involved. Also there was no formal investigation report made to the Board that set out the root cause and any remedial actions required to prevent reoccurrence.

Risk

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

Current year findings (2 of 2)

Board oversight of counter fraud activities

Control design

Page 214

2

Finding rating

Rating

Medium

Recommendations

Board reports should contain a section on counter fraud measures and activities, including:

- Fraud risk assessment exercise, in order to demonstrate that key fraud risks have been identified and mitigated
- Full details of anti-subletting initiatives, including outcomes
- Details of the outcomes of any investigations into suspected fraud or other anomalies/error where there could be a suggestion of fraud. This includes follow up investigation into any anomalies identified through KPI reporting in relation to rental income, voids and repairs.

The Board should also assess whether any further counter fraud activities should be performed or existing initiatives strengthened, which may be determined by future company activities, for example:

- Adopting a targeted approach to tenancy verification visits based on risk factors, such as location and rent rates
- Screening of any future right to buy applications

Current year findings (5 of 5)

Board oversight of counter fraud activities

Control design

2

Management responses

Accepted.

First Wave will engage Board members and officers in a fraud risk assessment using the findings from this fraud workshop.

The outcome of this review will influence regular future fraud awareness items on Board agendas.

As part of the review, the tenant verification processes will be enhanced to prioritise verifications where risks of sub-letting may be greater.

Responsible person/title:

Chris Brown, i4B and First Wave Programme Manager

Sadie East, Head of Transformation (Brent Council)

Target date:

30 November 2018

Reference number:

1819FRA-2

Finding rating

Rating

Medium

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.

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.

ID	Area/ Process	Fraud Risk	Assessment of likelihood	Likelihood Score	Significance	Rating	Mitigation/Controls
1	Rental/voids	Subletting of properties by tenants. Letting of properties by Council or maintenance staff for personal gain during a void period.	Perception is that the risk is prevalent in properties that are rented out at social housing rates and less prevalent in properties that are rented out at full market rates.	2	2	4	BHM will prioritise regular visits to 'high risk' properties and will use intelligence from the Council's Audit and Investigation department to inform this. Property void times will be reported to the board and BHM will work to keep void periods low. The board will be provided with detailed reporting on void checks undertaken by BHM.
2	Asset disposals	Collusion between staff/ board members and buyers to dispose of properties at under market value. Undeclared conflicts of interest between staff/board members and buyers.	No properties have yet been disposed of by FWH so process and controls are unclear. The Council would be required to authorise any sale.	1	3	3	FWH will develop an Assets Disposal Policy. This will consider the Council's checks, and board and shareholder approval for the disposal of any company assets. The policy will be submitted to the shareholder for approval.
3	Accounts Receivable	Diversion of tenant rent payments by staff. Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.	Rent collection rates are monitored by the FWH board and are understood to be above target at present. Perception is also that areas such as refunds and write-offs are highly controlled.	1	3	3	Rent arrears write-offs are submitted to the board for approval, after going through the Council's internal procedures.
4	Accounts Payable	Set up of invalid/fictitious suppliers by staff for personal gain. Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not being received.	Currently FWH makes minimal payments to third party suppliers. FWH pays the Council a fixed amount for service provision, and any payments are made by the Council on its behalf.	1	3	3	Payments from FWH are made through the Council's payment system and as such, are subject to Council policies and procedures.
5	Right to Buy	Tenants misrepresenting their circumstances during the eligibility assessment process. Proceeds of crime being used to purchase properties.	A small number of FWH tenants are eligible for RTB, however no such transactions have occurred during the past year.	1	2	2	FWH will review Brent Council's Right-to-Buy Policy with a view of adopting it. Board approval will be sought on any right-to-buy applications and these will be considered alongside the Council's current processes. The Council has a two stage approval process in place - if the property purchase price is above £500K it is approved at Operational Director level, and if it is below £500K it is approved at HoS level. Brent Housing Management staff can refer Right-to-Buy applications to the Council's Fraud and Investigation department if required.
6	Property maintenance	Repairs/maintenance/major works – overcharging or charging for fictitious works.	FWH pays the Council a fixed amount regardless of repairs volume, and so considers that the risk of fraud is shared between the Council and FWH. FWH has a responsibility to ensure that a fair and reasonable service is provided relative to the cost incurred to the Company.	1	2	2	BHM will implement a post inspection regime to ensure that the repairs and major works completed comply with the cost incurred. A review will be undertaken into any property which has more than 7 repairs in a 12 month period. The average cost of repair per property will be regularly reported to the board.

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Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
4	There is a risk that First Wave policies and procedures specific to the non-social housing tenures e.g.. market rent and intermediated rent are not applied appropriately	The failure to adhere to core policies and procedures could lead to a financial and reputational risk to the company	First Wave	Operational & Financial	3	3	9		Brent Housing Management have advised they will undertake a policy and compliance audit and consider commissioning an internal audit programme through PwC	2	3	6		Open	
5	There is a risk that business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection	The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	First Wave	Financial	2	3	6		Rent collection rates are monitored at monthly First Wave board meetings and remain consistent at around 100%. Brent Housing Management who deliver housing management services for First Wave have in place an action plan for Universal Credit implementation	2	3	6		Open	
7	There is a risk that First Wave is deemed to have failed a statutory health and safety obligation as a landlord	The SLA places a requirement on Brent Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc. Failure to comply with H&S requirements increases 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.	First Wave	Financial & Reputational	1	5	5		Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring include some key aspects including gas, complaints and customer satisfaction.	1	5	5		Open	
8	First Wave is deemed to have failed a statutory requirement in it's corporate role	The company must comply with regulatory and best practice requirements around it's own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman and the Homes England. There could be a residual risk in relation to the above occurring from the company previously being known as Brent Housing Partnership and relevant legal and statutory documents not being changed to reflect the companies new name. The consequences of other statutory failures may be fines and/or reputational damage to First Wave.	First Wave	Financial & Reputational	1	5	5		The Board is putting in place suitable policies and procedures to ensure regulatory compliance, e.g. an escalation policy, scheme of delegation, risk management, and internal audit arrangements. A thorough transformation programme was undertaken when BHP became First Wave to ensure that all legal and statutory documentation was changed.	1	5	5		Open	
1	There is a risk of unforeseen costs and loss of income as a result of poor quality housing stock	The potential consequence of this risk materialising is that the Company's income is insufficient to cover the expenditure required to maintain good quality housing stock	First Wave	Operational & Financial	3	4	12		In the Company's 2019-20 Business Plan the Board has allocated extra resource for works in years 1, 2, and 3 for 110 properties. This mitigates the risk of potential unforeseen costs resulting from poor housing stock. A stock condition survey has also been carried out, figures still need to be analysed but this will further mitigate the risk.	1	4	4		Open	17/01/2019. New mitigation. Post mitigation impact reduced from 4 to 3.
2	There is a risk of reduction in income in market rent because the properties cannot achieve market rent yield	The business plan assumes that market rent achieves 20% uplift over LHA	First Wave	Financial	5	2	10		This has already occurred with 4 of First Wave's properties. Where market rented properties are not achieving LHA rent levels, the 2019/20 Business Plan proposes to amend the tenure of these properties once they become void in order to increase rental income.	4	1	4		Open	17/01/2019. New mitigation. Risk reduced.
6	There is a risk that void periods will exceed the business plan	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.	First Wave	Financial & achieving operational objectives	2	3	6		First Wave has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors.	1	3	3		Open	

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
9,5	There is a risk of fraud to the Company	Tenants misrepresenting their circumstances during the eligibility assessment process. Proceeds of crime being used to purchase properties.	First Wave	Fraud	1	3	3		FWH will review Brent Council's Right-to-Buy Policy with a view of adopting it. Board approval will be sought on any right-to-buy applications and these will be considered alongside the Council's current processes. The Council has a two stage approval process in place - if the property purchase price is above £500K it is approved at Operational Director level, and if it is below £500K it is approved at HoS level. Brent Housing Management staff can refer Right-to-Buy applications to the Council's Fraud and Investigation department if required.	1	3	3		Open	Added from Fraud Risk Assessment
9,6	There is a risk of fraud to the Company	Repairs/maintenance/major works – overcharging or charging for fictitious works.	First Wave	Fraud	1	3	3		BHM will implement a post inspection regime to ensure that the repairs and major works completed comply with the cost incurred. A review will be undertaken into any property which has more than 7 repairs in a 12 month period. The average cost of repair per property will be regularly reported to the board.	1	3	3		Open	Added from Fraud Risk Assessment
9,1	There is a risk of fraud to the Company	Subletting of properties by tenants. Letting of properties by Council or maintenance staff for personal gain during a void period.	First Wave	Fraud	2	2	4		BHM will prioritise regular visits to 'high risk' properties and will use intelligence from the Council's Audit and Investigation department to inform this. Property void times will be reported to the board and BHM will work to keep void periods low. The board will be provided with detailed reporting on void checks undertaken by BHM.	1	2	2		Open	Added from Fraud Risk Assessment
9,2	There is a risk of fraud to the Company	Collusion between staff/ board members and buyers to dispose of properties at under market value. Undeclared conflicts of interest between staff/board members and buyers.	First Wave	Fraud	1	3	3		FWH will develop an Assets Disposal Policy. This will consider the Council's checks, and board and shareholder approval for the disposal of any company assets. The policy will be submitted to the shareholder for approval.	1	2	2		Open	Added from Fraud Risk Assessment
9,3	There is a risk of fraud to the Company	Diversion of tenant rent payments by staff. Collusion between tenants and staff to write off rent arrears. Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.	First Wave	Fraud	1	3	3		Rent collection rates are monitored by the Board. Rent arrears write-offs are submitted to the board for approval, after going through the Council's internal procedures.	1	2	2		Open	Added from Fraud Risk Assessment
9,4	There is a risk of fraud to the Company	Set up of invalid/fictitious suppliers by staff for personal gain. Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain. Payments to third parties for goods/services not being received.	First Wave	Fraud	1	3	3		Payments from FWH are made through the Council's payment system and as such, are subject to Council policies and procedures.	1	2	2		Open	Added from Fraud Risk Assessment
3	There is a risk of fraud to the Company	First Wave 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 the Company as a result of risks not being appropriately treated.	First Wave	Financial and Reputational	3	3	9		The company undertook an anti-fraud risk workshop on 10 August 2018 in which a number of potential fraud risks to First Wave were explored. Following the workshop a fraud risk assessment was carried out to discuss mitigations to the fraud risks identified. These risks have been added to the risk log as risks 9-14. This risk is therefore closed.	0	0	0		Closed	17/01/2019. Closed. FWH now has a better understanding of the fraud risks it faces as seen in risks 9.1 to 9.6.

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Annual Review of the Internal Audit Charter	

Wards Affected:	All
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:	One: • Revised Internal Audit Charter
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 Summary

- 1.1 This report sets out the revised Internal Audit Charter which has been appended to the report for consideration and approval.
- 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".

2.0 Purpose of the Report

- 2.1 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 Committee is asked to review and approve the Council's Internal Audit Charter which has been revised.

3.0 Recommendation

- 3.1 The Audit Committee approves the Council's Internal Audit Charter in accordance with the requirements of the Public Sector Internal Audit Standards.

4.0 Internal Audit Charter

- 4.1 A new Internal Audit Charter has been produced in accordance with the Public Sector Internal Audit Standards. It provides a detailed outline of the role of Internal Audit and how the Strategy and Plan will be delivered whilst ensuring compliance with the standards. The Charter is contained in Appendix 1 of this report.

5.0 Financial Implications

- 5.1 There are no financial implications.

6.0 Legal Implications

- 6.1 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.

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

INTERNAL AUDIT CHARTER

Contents

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Appendix A – IIA Code of Ethics

Appendix B – Nolan Principles of Standards in Public Life

1. INTRODUCTION

The Relevant Internal Audit Standard Setters (The Chartered Institute of Public Finance and Accountancy (CIPFA) for Local Government Bodies) have adopted a common set of mandatory UK Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 (revised in April 2017).

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function in accordance with the PSIAS.

The Charter will be reviewed and presented to the Audit and Standards Advisory Committee for final approval every two years, or more frequently in response to changes in the Standards.

2. PURPOSE

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

CIPFA state that a professional, independent and objective internal audit service is one of the key elements of good governance in local government.

An effective internal audit service will:

- understand the whole organisation, its needs and objectives;
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
- be seen as a catalyst for improvement at the heart of the organization;
- add value and assist the organisation in achieving its objectives, and
- be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.

An important element of an effective internal audit service is compliance with standards and proper practices.

In a local authority, internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team and, in particular, to the Chief Financial Officer (CFO) to help them discharge their duties under section 151 (S151) of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides

independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should '*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. CIPFA has defined '*proper administration*' in that it should include '*compliance with the statutory requirements for accounting and internal audit*'.

The CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* states that the CFO must:

- ensure an effective internal audit function is resourced and maintained;
- ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- support the authority's internal audit arrangements, and
- ensure that the Audit and Standards Advisory Committee receives the necessary advice and information, so that both functions can operate effectively.

The relationship between the Head of Internal Audit (HIA) and the Chief Finance Officer (CFO) is therefore of particular importance in local government.

3. AUTHORITY

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Any officer obstructing the internal audit function may be subject to disciplinary action. Right of access to other bodies funded by the Council should be set out in the conditions of funding, and officers agreeing such conditions must ensure that such rights allow similarly unrestricted access.

The Internal Audit function will consider requests from the External Auditors for access to any information held by the service, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

The Internal Audit function is part of the resources Department. The HIA has a direct reporting line to the CFO with a 'dotted line' reporting line to the Chief Executive.

4. RESPONSIBILITY

The Council's HIA is required to provide an annual opinion to the Council and to the CFO, through the Audit and Standards Advisory Committee, on the overall adequacy and the effectiveness of the organisation's framework of governance, risk management and control. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
- To provide advice and support to management to enable an effective control environment to be maintained;
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud, and
- To investigate allegations of fraud, bribery and corruption, including whistle-blowing allegations.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to records for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in relation to third party operations (such as contractors and partners) where this has been included as part of the contract.

The HIA is responsible for ensuring that sufficient, appropriate resource is available to achieve the objectives set out above.

5. RISK MANAGEMENT

The Internal Audit function is responsible for maintaining the Council's Risk Management strategy and framework. This includes advice and guidance to services on best practice and collating and reporting risk information to key stakeholders.

6. FRAUD

The primary responsibility for the prevention and detection of fraud lies with management who are also responsible for the management of fraud risks. In support of this, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They will also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

The HIA should be notified of all suspected or detected fraud, corruption or impropriety, to ensure that all potential fraud is investigated consistently in line with

the Council's Anti-Fraud and corruption strategy and Prosecution Policy to inform the annual internal audit opinion and the risk-based plan.

The HIA will deploy resources to investigate fraud or undertake ad hoc reviews as required in line with their professional judgement.

7. REPORTING

The UK PSIAS require the HIA to report to senior management and members. This is achieved in the following ways:

- The Internal Audit Strategy and Charter, and any amendments to them, are reported to Audit and Standards Advisory Committee;
- The annual Internal Audit Plan is compiled by the HIA taking account of the Council's Risk Management framework and after input from senior officers. It is then presented to Audit and Standards Advisory Committee for approval;
- The Internal Audit Budget is reported annually as part of the overall Council budget;
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the HIA) and the independence of internal audit will be reported annually to Audit Committee. The approach to providing resource is set out in the Internal Audit Strategy;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to Audit and Standards Advisory Committee on a quarterly basis; and
- Results from Internal Audit's Quality Assurance Programme will be reported to the Audit and Standards Advisory Committee.

Any instances of non-conformance with the PSIAS will be reported to Audit and Standards Advisory Committee and will be included in the HIA's Annual Opinion.

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and at the follow up stage. Summary reports are also provided to the Audit and Standards Advisory Committee on a quarterly basis and high level reports provided on a quarterly basis. This includes the HIA's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

8. FOLLOW UP

Internal Audit will monitor progress in implementing audit recommendations against agreed targets for implementation. Progress will be reported to management and to the Audit and Standards Advisory Committee on a regular basis. Where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests, Internal Audit will report accordingly.

9. AUDIT AND STANDARDS ADVISORY COMMITTEE

PSIAS require that the term 'board' be defined as "The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation". The term 'Board' refers to the Audit and Standards Advisory Committee to which Full Council has delegated its authority. The term 'Senior Management' refers to the Council Management Team.

There are agreed protocols with audit clients regarding the planning, conduct and reporting of audit work. Internal Audit reports incorporate recommendations that are ranked together with associated risks and a level of assurance to the Council. Specific work to confirm that agreed recommendations, particular those of an assessed high risk, continues to form part of the Audit Plan which further helps to both provide necessary assurances and assess the effectiveness of audit work. In accordance with these agreed protocols, progress and outturn reports are submitted to Audit and Standards Advisory Committee, showing actual performance against the Audit Plan and any significant issues arising from audit findings.

10. INDEPENDENCE

The HIA has free and unfettered access to the following:

- CFO (S151);
- Chief Executive;
- Chair of Audit and Standards Advisory Committee;
- Monitoring Officer; and
- Any other member of the Senior Management Team.

There are periodic Governance Meetings diarised between the Chief Executive, HIA, CFO and Monitoring Officer to ensure governance remains high on the agenda in Brent.

The independence of the HIA is further safeguarded by ensuring that their annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chair of Audit and Standards Advisory Committee reviews the appraisal of the HIA.

All Council and contract staff within the Audit and Investigation Service are required to make an annual 'declaration of interest' to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

In addition, any internal audit staff will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties;
- not use information obtained during the course of duties for personal gain;
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements; and
- ensure compliance with the Bribery Act 2010.

Internal Audit may also provide consultancy services, such as providing advice on designing and implementing new systems and controls. However, any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

11. DUE PROFESSIONAL CARE

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics (Appendix A);
- Seven Principles of Public Life - Nolan Principles (Appendix B);
- UK Public Sector Internal Audit Standards (PSIAS);
- All Council Policies and Procedures, and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance (QA) Programme that covers all aspects of internal audit activity. This consists of

- A QA Questionnaire sent out at the completion of each audit and follow up of issues arising where required;
- Annual self-assessment of the service and its compliance with the UK PSIAS; and
- Ongoing internal performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The HIA is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

12. SERVICE DELIVERY

The Audit and Investigations Service will be delivered by the Council's in-house team and the Internal Audit contracted partner under the direction of the Council's HIA.

Internal Audit will work in partnership with the Council's management and staff; strategic partners; and other internal and external assurance providers, to ensure that benefits are maximised and best practice is shared.

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council Management Team, Operational Directors, Heads of Service and other relevant officers;
- The Council's risk registers;
- The Council's assurance map;
- Outputs from other assurance providers;
- Benchmarking with other local authorities; and
- Requirements as agreed in the joint working protocol with External Audit.

The HIA will review risk registers for all Departmental Management Teams and, where necessary, attend face to face meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan. The audit plan will be provided to management for comment prior to presentation to the Audit and Standards Advisory Committee for approval.

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to Audit Committee. This includes the HIA's Annual Opinion which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Appendix A – Chartered Institute of Internal Auditors – Code of Ethics

CODE OF ETHICS

The Code of Ethics states the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities.

INTRODUCTION TO THE CODE OF ETHICS

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

The Institute's Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing.
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

APPLICABILITY AND ENFORCEMENT OF THE CODE OF ETHICS

This Code of Ethics applies to both entities and individuals that perform internal audit services.

Breaches of the Code will be evaluated and administered according to The Council's disciplinary procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member can be liable for disciplinary action.

CODE OF ETHICS – PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

RULES OF CONDUCT

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix B – The Seven Nolan Principles of Public Life

The 'Seven Principles of Public Life' apply to all in the public service. These are:

Selflessness: Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.


Openness: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership: Holders of public office should promote and support these principles by leadership and example.

Author: Head of Internal Audit and Investigations

Date: January 2019

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Internal Audit Progress Report for the period September 2018 to January 2019	

Wards Affected:	All
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:	Two: • Completed Audits this quarter from 2018/19 Audit Plan • Follow Up Reviews
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 Summary

- 1.1 This report provides an update on progress against the Internal Audit Plan for the period 1 September 2018 to 31 January 2019.

2.0 Recommendations

- 2.1. The Audit and Standards Advisory Committee note the content of the report.
- 2.2 The Audit and Standards Advisory Committee to comment specifically on the design principles for next year's audit plan as set out in paragraphs 3.16-3.25.

3.0 Internal Audit Performance

- 3.1 During this period Internal Audit have:
- Completed 10 audit reviews and advisory pieces of work;
 - Completed 11 follow up reviews;

- Continued with the program of school audits, visiting a further seven schools; and
- Completed grant claim certifications for the Troubled Families Programme.

The team has also been able to react to urgent management requests when required. Further details are set out below.

- 3.2 The recruitment of new staff is continuing. Due to a resignation there are currently two principal auditor vacancies. The recruitment to these posts is hoped to be completed in quarter four. Two contractors have been recruited for three months to ensure the key parts of the 2018/19 Audit Plan are delivered. As planned, the team continues to be supplemented by a contracted resource from Pricewaterhouse Coopers (PWC).

Audit Work Undertaken

- 3.3 The Internal Audit Plan for 2018/19 initially comprised 63 audits excluding school reviews, follow ups and advisory work. Four audits have been cancelled or moved to 2019/20 following changes in circumstances, risk assessment and discussions with relevant management.
- 3.4 During this period, ten audits have been completed, bringing the completed total for the year to 19. For each audit where controls have been analysed and a report agreed with management, an assurance opinion is given. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below.
- 3.5 In respect of assurance opinion, one was given a 'substantial' rating, five 'reasonable' and four 'limited'. The remaining three were work which did not require an audit opinion. Details of the audits and the key findings are set out in Appendix A.

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/ systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/ systems open to error or abuse.

3.6 There are currently a further 11 audits in progress. Draft reports have been issued for management review for:

- Corporate Governance, Decision Making Process;
- Budget Monitoring
- Joint Front Door Approach to Assessment
- Mosaic System Review
- Northgate Housing Application
- Data Security

Fieldwork has been completed and the reports are being drafted for:

- Staff Performance Management;
- Health and Safety, and
- Responsive Repairs I4B.

Fieldwork in progress:

- Arboriculture
- Council Tax and Associated IT Transition Project

Follow up Reviews

3.7 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented.

3.8 During the period, 11 follow up reviews have been completed. Details of the completed follow-up reviews are set out in Appendix B. This brings the number completed so far this year to 30.

3.9 Of the 11 completed, five have had their assurance level raised following completion of the agreed recommendations from 'limited' to 'reasonable'.

A total of 136 management actions have been reviewed:

Implemented	Partly Implemented	Not Implemented	No Longer Relevant
81	20	16	19

3.10 Where actions remain partially or not implemented, revised completion dates have been agreed with management when Audit will revisit to confirm implementation where appropriate.

Schools

3.11 School audits focus on governance, financial processes and the accompanying back office resources. A further four reviews were completed during this quarter. These reviews produced one 'limited' and three 'reasonable' assurance outcomes. The 'limited' assurance report had four high risk findings and four medium risk finding. The high risk findings related to Financial Management, Purchasing and Expenditure, HR and Payroll, and Income.

- 3.12 Audits of Preston Park Primary, Brentfield Primary and Salusbury Primary have taken place and the reports are being drafted. The remaining six school reviews are scheduled to take place during February and March.
- 3.13 Internal Audit are also attending Teachers' Panel and School Information Exchange meetings to discuss the audit process, key risk areas and any other concerns raised by schools. A summary memo will be issued at year end setting out any common issues identified from the school audits including any lessons to be learnt or best practice to be circulated.

Customer Satisfaction

- 3.14 Management are asked to provide feedback on individual audits completed and the feedback is incorporated into the continuous improvement of the service. Questionnaires issued at the end of each audit ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made.
- 3.15 Disappointingly, only one questionnaire has been returned this quarter. The response was positive with a 'satisfied' opinion and there was some useful feedback that has been taken forward on future school audits. However, this is clearly a very low return rate and unless more questionnaires are returned in future only limited reliance can be placed on the result. Audit will continue to encourage clients to feedback on their experience of the service.

Quality Assurance and Improvement Programme

- 3.16 The Public Sector Internal Audit Standards state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This was due during 2018/19. The newly appointed Internal Audit Manager undertook the review and the result was reported separately to the Audit and Standards Advisory Committee in December.

Internal Audit Planning 2019/20

- 3.17 Development is underway on the Internal Audit Annual Plan for 2019/20. The plan is being assembled with due consideration of the key risks impacting the Council and will involve discussions with management from across the organisation. Members via the Audit and Standards Advisory Committee will also be consulted
- 3.18 There are some relatively fixed elements of the Annual Plan. These would be included each and every year, albeit with some minor variations and changes of emphasis. These elements are:
- compliance work to test the controls in key financial systems, such as payroll;
 - follow up work to test the extent to which recommendations made during 2018/19 have been implemented (usually one or two days' work per audit), and
 - certification of specified grant claims or other accounts, such as (at

Brent) the Barham Park Trust and the Troubled Families grant claim.

- 3.19 The remainder (and majority) of internal audit resources can then be deployed in order to meet management objectives, including ensuring that there is sufficient coverage to ensure that the Head of Internal Audit can provide them with overall assurance on controls.
- 3.20 Most organisations adopt a risk-based approach to designing their internal audit plans, with the majority of internal audit resources targeted at providing assurance on high-risk areas via a risk-based auditing approach. The main advantage of this approach is that audit resources are focused on areas where they are most likely to be able to add value, and the main disadvantage is that the results of audit work are unlikely to be representative of controls across the organisation as systems considered to be satisfactory will generally not be audited.
- 3.21 The more traditional approach, which is not now widely used, is to seek to define all of the elements of the organisation that are in theory capable of being audited and then design a plan to cover all of these over a period of (usually) around three to five years. The main advantages and disadvantages of this approach are broadly the converse of the above.
- 3.22 Other aspects to be considered in designing an audit plan are the balance of work between auditing systems (such as the processing of planning applications) and establishments (such as the extent to which the planning function complies with corporate requirements in respect of common processes, such as budget monitoring, recruitment and so on). It would be unusual to devote significant audit resources to establishment visits, but they can be an effective way to establish whether control failures in one system have wider implications. The principal risk that this approach addresses is the possibility that because (to use a hypothetical example) the controls around the processing of planning applications are weak this may be indicative that wider management controls in that service are also weak.
- 3.23 The plan also needs to set a balance between directly managed council services and delegated or devolved ones (schools being the most obvious example; separate companies such as i4B agree their own audit plans). It is also normal, and strongly advised, to allow a contingency so that the audit service can respond to events.
- 3.24 With this in mind the Audit and Standards Advisory Committee are invited to consider and comment upon the proposed mix of the audit plan, below. A detailed plan will then be drawn up in consultation with management and presented for approval.
- 3.25 Excluding the fixed elements of the audit plan described above it is proposed to allocate the audit resources as follows:
- Internal audit resource (60%) will be targeted at providing assurance on high risk areas via a risk-based auditing approach;
 - Internal audit resource (10%) will be targeted at providing overall assurance focused on areas that have not been audited for longest, regardless of

- inherent risk;
- Internal audit resource (10%) will be targeted at establishment audits; and
- Internal audit resource (20%) will initially be retained as a contingency and deployed as required throughout the year.

This approach will also include 10 school audits, in line with this year.

- 3.26 CMT are requested to consider this broad mix of allocation of Internal Audit resource for comment.

Internal Audit Charter

- 3.27 A new Internal Audit Charter has been produced in accordance with the Public Sector Internal Audit Standards. This follows a review of the Charter as part of the assessment of Internal Audit referred to above. There have been no material changes; just clarification of reporting lines and Internal Audit's role in risk management. This will be reported to the Audit and Standards Advisory Committee in more detail in a separate paper

4.0 Financial Implications

- 4.1 The report is for noting and so there are no direct financial implications

5.0 Legal Implications

- 5.1 The report is for noting and so there are no direct legal implications

6.0 Equality Implications

- 6.1 None

Report sign off:

CONRAD HALL
Chief Finance Officer

Completed Audits this quarter from 2018/19 Audit Plan

Audit Title	Scope	Assurance Rating and Key Findings
Unaccompanied Asylum Seeking Children	Policies and procedures; Training and Guidance; Assessments of UASC; Placements of UASC, and Management Information.	Reasonable One high risk finding: Recording statutory information and updates on Mosaic. One medium risk finding: Procedures.
Licensing (Regulatory Services)	Policies and Procedures; Licence applications and decisions; Fees; Inspections; Breach of licence conditions; Licence register; and Management Information.	Limited There were four high risk findings, four medium and three low. The four high risk findings: <ul style="list-style-type: none"> • Procedure documents; • Renewals and annual fees; • Licensing income, and • Issuing of licences.
Digital Strategy	Ownership and Leadership of the Digital Strategy; Communication of the Digital Strategy; Governance and Reporting; Capacity and Capability; Policies and Procedures; and Benefits Realisation	Reasonable There were five medium risk findings: <ul style="list-style-type: none"> • Benefits Realisation Plan; • Benefit traceability; • Reporting quality; • RPA governance, and • RPA business case.

Audit Title	Scope	Assurance Rating and Key Findings
Trading Standards	Policies and Procedures; Complaints; Investigations; Shared Service Agreement; Income; Proceeds of Crime, and Management Information.	Reasonable One medium and one low finding: <ul style="list-style-type: none"> • Recording of Investigations, and • Risk Matrix.
IT Device Provision Project	A review to provide assurance on the effectiveness and robustness of the project management arrangements for delivering this element of the mobile working project.	An assurance opinion was not given as this was a review, at management's request, focusing on project management arrangements. Issues raised included the following areas: <ul style="list-style-type: none"> • Business Case; • Programme Board; • Project Plan; • Budgeting; • Risk Log; • Pilot exercise; • Testing; • Roll out; • Asset Register, and • Training.
I4B Financial Model Review	I4B is currently creating a model to produce balance sheet and cash flow forecasts to measure performance and delivery of the business. The purpose of the review was to assess the design and build of the model and to check its calculations are consistent with the model intent.	There was no assurance rating assigned. Generally, the Model sets out what it hopes to achieve, with a well-constructed P&L and BS. A point was raised regarding detailed documentation, both in the form of a user guide and methodology document.

Audit Title	Scope	Assurance Rating and Key Findings
Community Safety	Assessment of Community Safety Resource Allocation Information Collection Community Engagement Governance Resources and Training	Substantial We raised three low risk findings: <ul style="list-style-type: none"> • Bid Tracker; • Policies and Procedures, and • Community Engagement.
Supplier Registration	Policies and Procedures; Roles and Responsibilities; Registration of suppliers; Amendment of suppliers details; Supplier cleansing, and Access to systems.	Limited We raised three high, two medium and one low risk finding. The three high rated findings were: <ul style="list-style-type: none"> • Procedure documents; • Supplier Checks, and • Supplier Cleansing.

Audit Title	Scope	Assurance Rating and Key Findings
Payroll	The review followed up on the findings in the review conducted in December 2017. As this had been awarded a Limited assurance this review included further testing of the controls in key areas.	<p>Of the twelve agreed management actions from the original audit three have been satisfactorily implemented, six not fully implemented and three not implemented.</p> <p>The risk areas where actions are not implemented are:</p> <ul style="list-style-type: none"> • Policy, procedures and responsibility (priority – Medium); • Amendments of data and segregation of duties (priority – Medium) and • Risk management (priority – Medium). <p>The risk areas where actions are not fully implemented are:</p> <ul style="list-style-type: none"> • Acting up honoraria payments (priority – High); • Overtime (priority – High); • Over payments (priority – High); • 'Off-cycle' payments (priority – Medium); • Authorised signatory list (priority – Medium), and • Leavers (priority – Low). <p>The original audit attracted a 'Limited' assurance rating. Based on our new work this rating will remain as a 'limited' assurance. Although the assurance level remains the same, there is clear evidence that progress is being made to improve the control environment. Elements of the majority of each risk area have been addressed and the service has fully engaged with the audit process.</p>
Income Management	Suspense accounts Income receipts Refunds Reconciliations Management Information Policies and Procedures	<p>Limited</p> <p>We raised one high priority finding:</p> <ul style="list-style-type: none"> • Completeness and oversight of income and refunds <p>Three medium findings:</p> <ul style="list-style-type: none"> • Policies and procedures • System access review • Key Performance Indicators <p>There were two low priority findings in relation to suspense accounts and bank reconciliations.</p>

Follow Up Reviews

Audit Title	Management Actions				Assurance Rating		Audit Closed or Re-Follow Up Due
	Implemented	Partly Implemented	Not implemented	No Longer relevant	Original	Revised	
Business Continuity Management (BCM)	20	0	5 (3)	0	Limited	Reasonable	Audit Closed
Pensions Administration	5	0	0	11	Limited	Reasonable	Audit Closed
BACS Payments	6	2	0	0	Reasonable	Reasonable	31/1/2019
Asset Management	9	3	0	0	Limited	Reasonable	Audit Closed
Direct Payments	8	0	7	3	Reasonable	Reasonable	Audit Closed
Troubled Families	2	2	0	0	Reasonable	Reasonable	Audit Closed
Voids Contract Management	4	1	0	0	Limited	Reasonable	Audit Closed
South Kilburn Regeneration	8	3 (1)	4	5	Limited	Reasonable	31/3/2019
IT Disaster Recovery	13	3 (1)	0	0	Limited	Reasonable	31/3/2019
Treasury Management	3	2	0	0	Limited	Reasonable	Audit Closed
Use of Temporary Workers	7	0	0	0	Reasonable	Reasonable	Audit Closed

*Numbers in brackets show where 'high' risk actions have not yet been fully implemented. Details of these are listed below:

Business Continuity Management

The high priority findings that were not fully implemented relate to IT resilience, procedures, training and assurance. No response was obtained from the IT Team despite a number of requests. This area will be included as part of IT Governance audit work planned for 2019/20.


IT Disaster Recovery

The high priority finding related to business alignment and documenting a formalised governance process between IT and the business.

Despite the original target date of December 2017, discussions are still in progress with the Civic Contingency Team. A revised implementation date has been agreed for February 2019.

South Kilburn Regeneration

The high priority finding related to updating Project Status Reports and programme/project plans. This is in development with completion scheduled for March 2019.

	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Counter Fraud Quarterly Progress Report 2018-19	

Wards Affected:	All
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:	None
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 counter fraud work undertaken for the period 1 April 2018 to 31 December September 2018 (Quarters 1-3).

2.0 Recommendation

- 2.1 That the Audit and Standards Advisory Committee notes the counter fraud work in the period of this report.

3.0 Internal Fraud

- 3.1 There have been six new referrals received during Q3, which is a decrease compared with the same period during the previous year (12 cases), however the total referrals to date for the year is consistent with the previous year. This includes whistleblowing referrals and a range of case types that includes various financial, staff conduct and procedural irregularities. Our proactive work and our review of the National Fraud Initiative (NFI) data-matching reports are covered in the 'proactive' section of this report. Internal fraud typically has the fewest referrals in any period but is generally more complex in nature.

The table overleaf sets out key figures in this area.

Table A – Internal Fraud

Internal Fraud	2018/19 Q3	2018/19 Q2	2018/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open Cases b/f	12	8	11	11	16	22
New Referrals	6	9	10	25	35	28
Closed Cases	9	5	13	27	40	34
Open Cases c/f	9	12	8	9	11	16
Fraud/Irregularity Identified*	3	1	5	9	10	12
Dismissal	1	1	0	2	1	1
Resignation	0	0	2	2	1	2
Warning	1	0	1	2	2	1
Other Outcome (see below)	1	0	2	3	7	8

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

- 3.2 There has been an increased presence on the Council's website that enables members of the public to report all fraud as well as fraud awareness sessions being delivered across the Council.
- 3.3 There were two cases in Q3 that resulted in disciplinary action. One related to recruitment irregularities where the employee presented irregular ID documentation which resulted in their dismissal prior to taking up a permanent post within Housing Management (BHM).
- 3.4 The second case resulted in a final warning being determined following a disciplinary investigation relating to a benefit fraud investigation conducted by the Department of Work and Pensions (DWP).
- 3.5 During Q2, a fraud investigation was initiated against an employee and their partner concerning financial irregularities which led to the employee's dismissal in August 2018. The criminal investigation has now concluded. The ex-employee pleaded guilty on 23rd October 2019 to four charges under Section 1 of the Fraud Act and one under Section 1(1) of the Criminal Attempts Act, with a financial value of £187,216. Charges were dropped against the partner during the court hearing because the ex-employee took full responsibility. Sentencing took place on the 29th November and is summarised below:
- Two years imprisonment per offence to run concurrently suspended for two years, and
 - 240 hours (unpaid work).
 - Compensation in the sum of £44,669.57.
 - Costs in the sum of £2,500 payable in 12 months.

In making this decision the Judge took into account:

- The fact that the money stolen was not spent;
- Mitigation - which included letters from people who said the defendants were

upstanding members of society;

- That the offending stems from their circumstances not from greed, and
- The defendant is the mother of three young children and that those children would suffer if she goes into custody.

3.6 The total value of the fraud was £288,111, which included fraudulent attempts, although prompt management action and investigative work meant there were no financial loss to the Council. Internal Audit work on the control issues relating to this event is set out in the internal audit quarterly report. This had led to improved controls within the relevant finance areas of the Council.

4.0 Tenancy and Social Housing Fraud

4.1 The recovery of social housing properties by fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk area for the Council. The Audit Commission has previously estimated that the average national value of each recovered tenancy is £18,000* per property. A more meaningful value for Brent is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). These are notional values and for consistency in reporting, we used the lesser value up to 2017/18. For 2018/19 we will apply the higher value to housing fraud cases. The counter-fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

Housing Fraud	18/19 Q3	18/19 Q2	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	43	45	28	28	82	121
New Referrals	43	41	43	127	130	332
Closed cases	41	43	26	110	184	371
Open cases c/f	45	43	45	45	28	82
Fraud Found	2	7	6	15	42	52
Recovered Properties	1	7	5	13	38	44
Applications Refused	1	0	1	2	1	0
Property Size Reduced	0	0	0	0	2	4
Right To Buy	0	1	1	2	1	4
Value of properties recovered*	186,000	651,000	558,000	£1,395,000	£738,000	£864,000
Value of Right to Buy Discount Prevented**	NIL	103,900	103,900	£207,800	£103,900	£311,700
Cases with Legal for Possession/Prosecution	12	12	N/A	12	11	26

* Notional value of recovered properties (including housing and Right To Buy applications stopped, property size reduction and prevention of split tenancy) used for reporting purposes is £93,000. (£18,000 used previously)

** Actual amount of Right to Buy discount stopped.

- 4.2 A total of 15 housing recoveries, with a notional value of £1,395,000, were recorded as a result of fraud / irregularity up to Q3. The recoveries are less than the same period as last year (although the notional value is higher due to the revised value placed upon each recovery).
- 4.3 The total referrals in 2017/18 have been lower compared with the previous two years and this has continued through to Q3. The overall fraud detection rate of closed cases has reduced but it is expected this will increase by the end of the year.

The fraud detection rate against closed cases since 2015/16 is as follows:

- 2015/16 = 23.25% (314 cases closed, detected fraud in 73 cases);
 - 2016/17 = 14.02% (371 cases closed, detected fraud in 52 cases);
 - 2017/18 = 22.83% (184 cases closed, detected fraud in 42 cases),
 - 2018/19 (to Q3) = 13.63% (110 cases closed, detected fraud in 15 cases).
- 4.4 There are a number of reasons for the down turn in referrals and the detection rate, which include an increase in criminal prosecution activity across all fraud types and a decline in referrals from usual sources such as Housing Management and external housing associations. Referrals from the public have remained constant, although the quality of these is generally lower. In order to mitigate this downturn, the team have provided fraud awareness training and assistance to key colleagues with enhanced verification for discretionary tenancies and succession applications. The team have also started two proactive exercises relating to Right to Buy applications and tenancies in known risk areas for unlawful sub-letting, the results of which are anticipated from March 2019. In addition, the Council is exploring whether to join the London Counter Fraud Hub which has ambitions to match data on this and other fraud types from all London Boroughs. (Developments on this will be reported to the Committee in due course.)
- 4.5 A notable case is the recent recovery of a Council property in April 2018, where the tenant had used fraudulent ID from the outset (January 2009) and was unlawfully subletting the tenancy whilst residing in their privately owned property under a different (presumed genuine) identity. This case was heard at court in September 2018 where the defendant pleaded guilty and gave an undertaking to pay £120,000 in compensation before sentencing, which is scheduled for March 2019.
- 4.6 A further notable case is a recent refusal of a homeless application, where the applicant had supplied fraudulent supporting documentation including medical evidence. A judicial review in December 2018 determined the housing application was not genuine and the Council's duty to house has been rescinded. The team are currently considering the evidence with a view of instigating criminal proceedings.

5.0 External Fraud

- 5.1 'External fraud' includes all 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 end of the year is summarised in the table below:

Table C – External Fraud

External Fraud	18/19 Q3	18/19 Q2	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	17	12	13	13	14	57
New Referrals	41	39	20	100	88	161
Closed Cases	51	34	21	106	89	204
Open cases c/f	7	17	12	7	13	14
Fraud / Irregularity *	7	7	5	12	12	22
Prosecution	0	0	1	1	1	2
Warning / Caution	1	1	0	1	2	6
Overpayment/Saving	6	7	5	12	11	7

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

- 5.2 Since Q1 of 2017/18, 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 appeared in court on 26 June 2018 relating to 21 counts of fraud, counterfeiting and forgery. The investigation was in collaboration with London Councils, Transport for London and the Police and is being led by Brent Council. The fraud has been present in our system since September 2016 and specifically targeted the 'partially sighted' entitlement category using false supporting documentation. This occurred due to inadequate controls on the verification of supporting documentation which was addressed by 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 – it costs Brent approximately £350 per pass to administer. The defendant has pleaded not guilty and the trial is scheduled for March 2019.
- 5.3 A notable case was a recent prosecution earlier this month resulting from a previous Blue Badge enforcement operation in June 2018. The defendant pleaded guilty and was fined £660. They were also ordered to pay costs of £572 and a Victim Surcharge of £66. This will be reflected in the end of year figures.
- 5.4 The team have explored other potential fraud types and an example of this is Parking Permit fraud. Investigations this year has resulted four permits being cancelled up to Q3 with a notional value of £2,300 and a further four cases concluded earlier this month.
- 5.5 A further notable case relates to Business Rates where the subject had falsely declared their premises to be empty but was operating an active mechanics business. The investigation findings resulted in an extra liability of £12,276.

6.0 Counter Fraud Savings Summary

- 6.1 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 are reported separately (below) and certain internal fraud cases where it can be difficult to accurately apportion 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 2018/19*	Q3 2018/19*	Q2 2018/19*	Q1 2018/19*	Yr 2017/18
Client Funds	0		290,611.28	0.00	0.00	63,000
Council Tax Benefit	0		51,900.08	0.00	0.00	2,000
Council Tax Support	0		0.00	0.00	801.03	5,000
Council Tax SPD	1,000		0.00	0.00	0.00	1,000
Direct Payments	0		0.00	0.00	0.00	35,000
Housing Application	93,000		93,000	0.00	93,000.00	18,000
Housing Tenancy	930,000		93,000	651,000.00	108,000.00	720,000
Insurance Claims	0		0.00	0.00	0.00	2,670
Rent Allowance (HB)	0		0.00	0.00	0.00	15,000
Rent Rebate (HB)	0		0.00	0.00	0.00	27,000
Pension Fraud/Irregularity	0		0.00	0.00	0.00	7,000
Right To Buy Fraud	104,000		0.00	103,900.00	103,900.00	104,000
Blue Badge	2,000		4,025.00	2,875.00	2,075.00	1,000
Freedom Pass	0.00		0.00	0.00	0.00	90,000
Parking Permits	2,300		0.00	2,300.00	0.00	0
NNDR / Business Rates	12,276.41		12,276.41	0.00	0.00	0
Caution – Voluntary Contrib.	0.00		0.00	0.00	0.00	250
Year to Date Total:	1,955,000		532,536.36	757,775.00	664,776.03	1,090,600

* Quarterly savings breakdown does not include live cases where values have been recorded e.g. prosecution case.
Figures are up to 20th September 2018.

7.0 Proactive Counter Fraud activity

- 7.1 Two **Council Tax** proactive counter fraud exercises have concluded in Q3, which involved a review of those receiving Single Persons Discount and Student Discount. The Single Persons Discount review was successful with over 800 cases reviewed and savings of £51,410 identified. A new more in depth review has already commenced based on data matching between Council Tax accounts and current Electoral Roll records. This will continue throughout the year with a provisional deadline of 30th September 2019. The Student Discount review proved to be less effective and was discontinued with no savings identified. This is a lower risk area and we have reviewed our approach based on this exercise.
- 7.2 There have been three **Blue Badge** enforcement operations led by the team and carried out across the borough at known risk areas. This has resulted in 147 badges being checked and 19 badges seized with appropriate cases investigated further for criminal offences. One of these cases relates to a member of staff and is an ongoing investigation. These operations are planned

confidentially and incorporate multiple Council teams and the Police. A further operation is planned during Q4.

- 7.3 The **National Fraud Initiative** (NFI) 2016/17 data matching exercise has been reviewed following data submission in October 2016 and matches generated since January 2017. There were a total of 20,463 data matches (8,036 were 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 been reviewed.

The overall summary of NFI work is as follows:

- Matches processed/reviewed = 1,134 (up to May 2018 was 1,099),
- Investigating = 26 (up to May 2018 was 24),
- Cleared = 782 (up to May 2018 was 747),
- Fraud/Error identified = 319/3 (no change since May 2018), and
- Overpayment/Savings identified = £168,177.44 (no change since May 2018).

Notable results from NFI reports reviewed are as follows:

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors were 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; and
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.

- 7.4 Additional work on the existing NFI exercise has ceased during Q3. The new data submissions for the NFI 2018/19 exercise was supplied in October and new data matches will be generated from February 2019.

- 7.5 **Government Counter Fraud Profession – Apprenticeship Programme** - Brent has been part of a multi-agency group across central and local government to develop a competency based counter fraud apprenticeship which has now progressed to the final stages with approval anticipated in April 2019. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard.

- 7.6 The team is aiming to trial a pilot with Cifas (Credit Industry Fraud Avoidance System) as part of its commitment to anti-fraud. It is anticipated that the pilot will start in April 2019 for six months and Brent will be one of 10 local authority fraud teams to take part. It will enable the team to have access to the Cifas anti-fraud database, which is used by the banking and insurance industry, to share appropriate investigation data and using data matching for the prevention and detection of crime.

DWP Pilot

- 7.7 The Investigations team will be trialling a joint working pilot with the DWP beginning on 28th January 2019 to investigate any suitable cases involving Housing Benefit and Council Tax Support.

Fraud Awareness Strategy 2018/19

7.8 A refresh of the main Anti-Fraud policies was approved by the Audit & Standards Advisory Committee on 5th December 2017. This has enabled the Investigations team to promote these policies (including the Whistleblowing policy) throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile. This is currently in progress.

7.9 Engagement across the Council has already commenced as set out in this report and also includes ongoing liaison with all service areas, using social media to report key messages and fraud awareness sessions. Recent sessions in Q3 were held at the School Business Managers' forum, School Governors' forum and with Housing Management staff. We aim to review and amend our strategy for March 2019.

8.0 Financial Implications

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

9.0 Legal Implications

9.1 There are no specific legal implications associated with noting this report.

10.0 Equality Implications


10.1 None.

11.0 Consultation with Ward Members and Stakeholders

11.1 None.

Report sign off:

CONRAD HALL
Chief Finance Officer

 Brent	Audit and Standards Advisory Committee 5 February 2019
	Report from the Chief Finance Officer
Audit and Standards Advisory Committee – Self Assessment options	

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:	None
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 options for the conduct of an assessment of the performance of the Audit and Standards Advisory Committee (ASAC).

2.0 Recommendation

- 2.1 That the Audit and Standards Advisory Committee considers the options and provides direction on a preferred route to assess the performance of the Committee.

3.0 Detail

- 3.1 At the ASAC meeting in December 2018, a request was made to consider options for how the Committee could best assess its own performance and the value that it is adding to the Council.

Options

3.2 We have proposed three options to take this forward:

- a) A questionnaire to be completed by key stakeholders (members of the ASAC, selection of senior officers);
- b) A facilitated workshop(s) to engage and challenge members (to be facilitated e.g. by CIPFA/ Institute of Internal Auditors), and
- c) An independent review by a third party; peer members group.

4.0 Option Appraisal

Option	Pros	Cons
1. Self-Assessment Questionnaire	A quick, cost-effective exercise to gauge members opinion on how well the purpose and objectives of the Committee are achieved.	A questionnaire approach may be perceived as superficial and lacking in independent assessment.
2. Workshop	Effective facilitation can encourage optimum input and engagement from all members. Appropriate planning can focus the session on key issues in a tight timescale.	Relatively time-consuming compared to a questionnaire approach. There are potential costs in the region of £5k. There is also a risk of low attendance.
3. Peer review	This approach can introduce elements of benchmarking and thereby access to best practice.	It may be difficult to identify a suitable/ willing peer

5.0 Scope

5.1. The scope for this exercise will need to cover all elements of the Committee's terms of reference to provide an assessment on how well it is fulfilling that specific remit. In addition, potential areas for review may include:

- Induction;
- Training;
- Skills audit (key skills requirements and current coverage by members);
- Independence;
- Impact on achievement of objectives;
- Access to, and use of, other sources of assurance;
- Delivery against Terms of reference, and
- Interaction with Full Council, Cabinet and Scrutiny Committee activity.

6.0 Reporting

6.1. The report will be written to cover all aspects of the scope and provide recommendations for development where necessary.

7.0 Financial Implications

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

8.0 Legal Implications

8.1 There are no specific legal implications associated with noting this report.

9.0 Equality Implications

9.1 None.

10.0 Consultation with Ward Members and Stakeholders

10.1 None.

Report sign off:

CONRAD HALL
Chief Finance Officer

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Topic / Date	11-Dec-18	05-Feb-19	20-Mar-19	24-Apr-19
Internal Audit & Investigations				
Internal Audit Annual Report, including Annual Head of Audit Opinion				
Review Internal Audit Charter		X		
Internal Audit and Counter Fraud Progress Reports		X		X
Draft Internal Audit and Investigations Annual Plan			X	
Internal Audit Peer Review Report	X			
External Audit				
External Audit progress report	X	X	X	X
External Audit plan		X		
External Audit - Certification of grants and returns (as and when)			X	
Statement of Accounts & External Auditor's Report				
External Auditor Annual Audit Letter				
Financial Reporting				
Treasury Management Mid-term Report				
Treasury Management Strategy & Annual Investment Strategy		X		
Draft Statement of Accounts				
Minimum Revenue Policy (MRP) 2018/19 Report (Including an introduction to the revised MHCLG guidance on Investments & MRP)*				
Treasury Management Outrun Report				
Governance				
To review the performance and management of I4B Holdings Ltd and First Wave Housing Ltd		X		
Review of the use of RIPA Powers			X	
To consider issues that had been raised under the Planning Code of Conduct	X			
Receive and agree the Annual Governance Statement			X	
Risk Management				
Strategic Risk Register Update			X	
Emergency Preparedness				
IT Resilience				
Audit Committee Effectiveness				
Review the Committee's Forward Plan	X	X	X	X
Review the performance of the Committee (self-assessment)		X		
Regular 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	
Standards Matters				
Quarterly update on gifts and hospitality	X		X	X
Annual Standards Report			X	
To consider the Council's response to the report on local government ethical standards issued by the Committee on Standards in Public Life				

* Tentative - to be confirmed

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