



**Audit and Standards Advisory
Committee**
22 September 2021

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

Report on First Wave Housing Limited

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 Appendix 1 FWH Risk Register
Background Papers:	N/A
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1.0. Purpose of the Report

1.1. This report provides the Audit and Standards Advisory Committee with an update on First Wave Housing Limited's (FWH) recent performance, accounts outturn, risk register and audit arrangements.

2.0. Recommendation(s)

2.1. The ASAC is asked to note:

- Current FWH performance;
- The update on the FWH risk register;
- FWH's financial outturn for 2020/21; and
- The update on recent FWH audits.

3.0. Performance Update

3.1. FWH has 326 tenanted properties: 89 at social rent, 25 at intermediate rent, and 45 at PRS/market rent, as well as 167 Settled Homes. Settled Homes are a form of temporary accommodation. They are let on assured short hold

tenancies, with rent levels slightly below LHA rates. When business plan surpluses are sufficient, properties will be converted on an incremental basis to social rents, on assured tenancies.

- 3.2. FWH's primary purpose is to provide good quality, affordable, secure, and well managed homes to Brent residents and contribute to Brent's Housing Strategy. It does this by managing, maintaining and improving its stock of 326 properties.
- 3.3. The annual rent roll is £4.3 million. There are also two commercial properties within the portfolio. FWH has not purchased any new properties; therefore, performance is only based on housing management.

Table 1 – FWH Stock Breakdown

Product Type	No. Properties	Average Weekly Rent	Sum of Weekly Rent
General Needs	89	£119	£10,584
1 bed	24	£106	£2,541
2 bed	32	£116	£3,718
3 bed	23	£130	£2,985
4 bed	10	£134	£1,340
Intermediate Rent	25	£322	£8,058
1 bed	12	£304	£3,646
2 bed	13	£339	£4,412
Market Rented	45	£302	£13,606
1 bed	45	£302	£13,606
Settled Housing	167	£302	£50,453
1 bed	10	£275	£2,748
2 bed	135	£303	£40,856
3 bed	22	£311	£6,849
Grand Total	326	£254	£82,701

- 3.4. Table 2 below gives a summary of operational performance at July 2021.

Table 2 – Key Performance Indicators

Indicator	Target	Performance at November 2020	Performance at July 2021
Rent collection	98.50%	95.43%	99.41%
Minor voids	35 days	54.9 days	103 days
Major voids	72 days	107.8 days	215 days
Urgent and routine repairs	85%	85%	85%
Emergency repairs	100%	98%	100%
Landlord gas safety record	100%	100%	99%

- 3.5. *Rent Collection*

3.5.1. Year-to-date rent collection is 99.41%, above the target of 98.5%. At the time of the last report to ASAC in November 2020, rent collection had been negatively impacted by Covid-19. Collection rates improved throughout the remainder of 2020-21 for a FY total collection rate of 101.43%. One reason for this was the Resident Support Fund established by Brent to help those who were financially impacted by the pandemic, through which £10,941 was allocated to FWH tenants.

3.6. *Lettings*

3.6.1. Long void times remain an issue for FWH. Targets are 35 days for minor voids and 72 days for major voids. In 2020/21, minor Settled Homes voids were re-let in 73 days, against a target of 35 days. Major Settled Homes voids have been let in 116 days. The target is 72 days. There are currently 13 void properties.

3.6.2. Year-to-date void performance across all tenures is as follows:

- Minor Voids – 103 days
- Major Voids – 215 days

3.6.3. BHM have put in place a performance plan to address void performance. BHM have reassured the Board that plans are in place to improve the timeliness of voids.

3.7. *Repairs*

3.7.1. Year-to-date performance for emergency repairs is 100% which is on target.

3.7.2. Year-to-date performance for routine repairs is 91%, this is slightly below the target of 95%

3.8. *Gas Safety*

3.8.1. Gas safety performance is 99% against a target of 100%, with 318 of 320 properties having a valid LGSR. Legal action is ongoing for properties going without valid LGSRs.

3.9. *Tenancy Verification Visits*

3.9.1. Tenancy verification visits were suspended from April 2020 due to restrictions relating to Covid-19, and began again on 17 May 2021.

4.0. Fire Safety and Stock Condition

4.1. In its last report to the Audit Standards and Advisory Committee, FWH noted that external fabric combustibility and water penetration issues were a potential concern on eight of FWH's blocks in South Kilburn.

- 4.2. A London Fire Brigade enforcement notice was issued on FWH, and a waking-watch system was put in place until a communal fire alarm system could be installed. Wates are now in the process of installing the communal fire alarm system, which will be completed for August. The waking-watch service will be phased out once the alarm system has been installed.
- 4.3. Since the last report to the Committee, Ridge Consultants have been appointed to carry out an intrusive investigation into the water penetration, cladding and window issues at the blocks. Their report estimates the scope, costs and timelines of the necessary structural and fire safety remedial work. Ridge have recommended remediation works to address the issues at the blocks.
- 4.4. The estimated total cost of remediation works is circa £18.5m. This has resulted in FWH having to revalue the effected blocks from £12.457m down to nil in the FWH accounts. This is outlined in section 5.0.
- 4.5. FWH is making operational surpluses but these are insufficient to cover the £18.5m cost of the works required.
- 4.6. FWH has, in conjunction with the Council as Guarantor, undertaken an options analysis on how remediation works can be carried out and funded. The recommended option is that the distressed blocks will be disposed of to the Housing Revenue Account (HRA). This is the Council's preferred option. The option has been agreed with the Guarantor and Lead Member. The details of the transaction are currently being worked through, particularly with regard to FWH's 25 intermediate rented properties at the blocks.
- 4.7. The report will go through the Cabinet approval process and is due to go to the October 2021 Cabinet. The report at the October Cabinet will request authority to go out to consult with tenants on the potential disposal.

5.0. 2020-21 Financial Outturn

- 5.1. The financial outturn position is set out in the table below. Rental income exceeded running costs and loan interest by £0.8m. However, the company will need to incur £18.5m of costs if it retains the Granville blocks. No provision has been made in the accounts for these sums. The assets have been revalued at nil from £12.457m to reflect this obligation in part. After allowing for the revaluation and minor surpluses arising from asset revaluation and disposal, FWH incurred a deficit of £11.5m for the year.
- 5.2. The company income and expenditure position is set out in the table below:

Statement of comprehensive income for the year ended 31 March 2021

	<i>Note</i>	2020/21	2019/20
		£'000	£'000
Turnover	5	4,184	4,317
Operating costs	6,7,8	(2,305)	(2,503)
Revaluation loss on housing assets		(12,457)	0
Surplus on asset disposal	7	171	0
Surplus on revaluation of investment properties	11	192	30
Surplus on revaluation of commercial properties	11	1	1
Operating (loss) surplus	7	(10,214)	1,845
Interest payable and similar charges	15	(1,105)	(2,036)
Loss on ordinary activities before taxation		(11,319)	(191)
Tax on surplus on ordinary activities	9	(175)	(72)
Loss on ordinary activities after taxation		(11,494)	(264)
Loss for the financial year	<i>SOCIE</i>	(11,494)	(264)
Unrealised gain / (loss) on revaluation of social housing properties	<i>SOCIE</i>	1,499	1,640
Total comprehensive income for the year		(9,995)	1,376

5.3. The company assets and liabilities are set out below.

Statement of financial position as at 31 March 2021

	<i>Notes</i>	2020/21	2019/20
		£'000	£'000
Fixed assets			
Housing properties at valuation - investment properties	11	12,330	12,138
Housing properties at valuation - social housing properties	11	37,423	49,761
Social housing properties - furniture, fixtures & fittings	11	38	51
Commercial properties	11	274	273
Total fixed assets		50,065	62,223
Current assets			
Debtors	12	2,036	1,780
Cash at bank and in hand	13	2,500	1,119
Total current assets		4,536	2,899

Creditors: amounts falling due within one year	14	(1,869)	(1,549)
Net current assets		2,667	1,350
Total assets less current liabilities		52,732	63,573
Provision for deferred tax	15	(933)	(902)
Creditors: amounts falling due after more than one year	15	(35,106)	(35,982)
Net liability		(36,039)	(36,884)
Net assets		16,693	26,689
Capital and reserves			
Revaluation reserve	SOCIE	16,924	15,531
Revenue reserve	SOCIE	(231)	11,158
Total Capital and Reserves		16,693	26,689

5.4. The significant change in the balance sheet is the impact of the downward revaluation of the Granville blocks by £12.457m. The overall net shareholder value reduces from £26.7m to £16.7m as a result.

5.5. The impact of the revaluation in these accounts is an accounting one. However, when the works are carried out and expenditure is incurred this will be a real cash cost. The FWH Board is reviewing the implications of these works, and work is being carried out on refinancing proposals which would spread the cost of these works over the 60-year estimated life of the asset.

6.0. Risk Update

6.1. The FWH risk register is included in Appendix 1. The main risks the Company faces are:

- Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in FWH being non-compliant with its statutory obligations.
- Poor contractor performance and information control results in FWH properties being non-compliant with statutory H&S objectives.
- High Capital Programme costs undermine the viability of the business plan.
- The costs of remediation to the South Kilburn blocks threaten the financial viability of FWH.

7.0. Audit Update: Service Level Agreement Audit

7.1. The purpose of this audit was to review the design and effectiveness of key controls surrounding FWH's commissioning of services from the Council/third parties and management's oversight of this as per the SLA.

7.2. The audit identified three medium-risk and two low-risk issues. These were:

- SLA document (medium-risk);
- Timeliness of invoicing process (medium-risk);
- Performance reporting (medium-risk);
- Overarching process guidelines (low-risk); and
- Scheme of Delegation (low-risk).

7.3. The recommendations of the audit were presented to the FWH Board in January 2021, and a management action plan was agreed for each area of risk. This is summarised below:

Risk	Audit recommendation	Management action
SLA document	<p>1. The Company should consider having the SLA in the form of a written contract including the following as a minimum:</p> <p>Date and version history; Parties Involved and Lead Officers including defined roles and responsibilities; Overview of the agreement; Performance requirements including an appendix for the services commissioned including pricing; Length of agreement and review date including how this process will be undertaken; Service provision; Performance monitoring and reporting including reporting cycle and mechanism for assigning/determining KPIs for all services; Introduce a risk mechanism whereby each service is risk rated, and KPIs are aligned to services that may be categorised as medium or high-risk. Where KPIs are considered to not be appropriate for specific services the criteria for these should be defined; SLA amendments/Dispute resolution; Operational management of the relationship between all stakeholders including the frequency of meetings and review of performance; and Signed by all relevant stakeholders.</p> <p>2. The SLA should be drafted, reviewed including for</p>	<p>1. When agreeing and drafting the new SLA for 2021/22, FWH will ensure the SLA is in the form of a formal written contract. This contract will include the recommendations detailed.</p> <p>UPDATE: This action is completed.</p>

	<p>grammatical errors and approved by the Head of Transformation and the Board of Directors.</p>	<p>2. The SLA will be agreed by the FWH Board of Directors as well as senior representatives from the Council.</p> <p>UPDATE: This action is completed.</p>
Timeliness of invoicing process	<p>1. A process and timeline for the review and approval of payments should be defined in collaboration with both parties. This may be included in the SLA.</p> <p>2. Relevant roles and responsibilities in the process should also be defined.</p>	<p>FWH will work with the Council to develop a clear process timeline for reviewing and approving invoices. FWH will look to introduce monthly invoicing.</p> <p>UPDATE: This action is ongoing. The due date is Q2 2021/22</p>
Performance reporting	<p>1. Company officers should review or conduct spot checks in order to verify and sign off the source data and monthly performance reports prior to being presented to Board. This process should be documented with appropriate segregation of duties.</p> <p>2. The review and sign off process should be performed in collaboration with the Service Area Leads to ensure any discrepancies are addressed promptly for the timely reporting of the KPIs. Where delays occur, these should be documented and discussed in the SLA meetings with the Council's housing management and conveyancing teams.</p>	<p>1. FWH will ask service providers to document the internal controls around the performance information they produce and agree a programme of internal audit checks of data with the service providers</p> <p>UPDATE: This action is ongoing with a deadline of Q3 2021/22</p> <p>2. FWH officers will request that service area leads send KPI reporting to FWH officers for review prior to Board meetings.</p> <p>UPDATE: This action is completed.</p>
Overarching process guidelines	<p>1. The Company should produce an overarching guidance document outlining the key end-to-end processes and guidelines for processing various types of services commissioned including designated responsibilities for processes.</p> <p>2. This document should be aligned with an agreed SLA and reviewed periodically to reflect change in operations and practices.</p>	<p>An overarching guidance document on SLA processes will be produced. This will be reviewed on an annual basis alongside the SLA.</p> <p>UPDATE: This action is ongoing with a deadline of Q3 2021/22</p>

Scheme of Delegation	<ol style="list-style-type: none"><li data-bbox="432 197 882 331">1. The Scheme of Delegation should be updated, reviewed and approved and include job titles, rather than names of individuals.<li data-bbox="432 365 799 459">2. It should include a review period and responsibility for conducting this review	<p data-bbox="906 197 1474 291">In 2021/22 the Scheme of Delegation will be reviewed. It will then be reviewed on an annual basis.</p> <p data-bbox="906 331 1422 392">UPDATE: This action is ongoing with a deadline of Q3 2021/22</p>
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