

First Wave Housing Limited

Business Plan

2019/20

And

Forward Investment Proposals 2019-2024

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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.

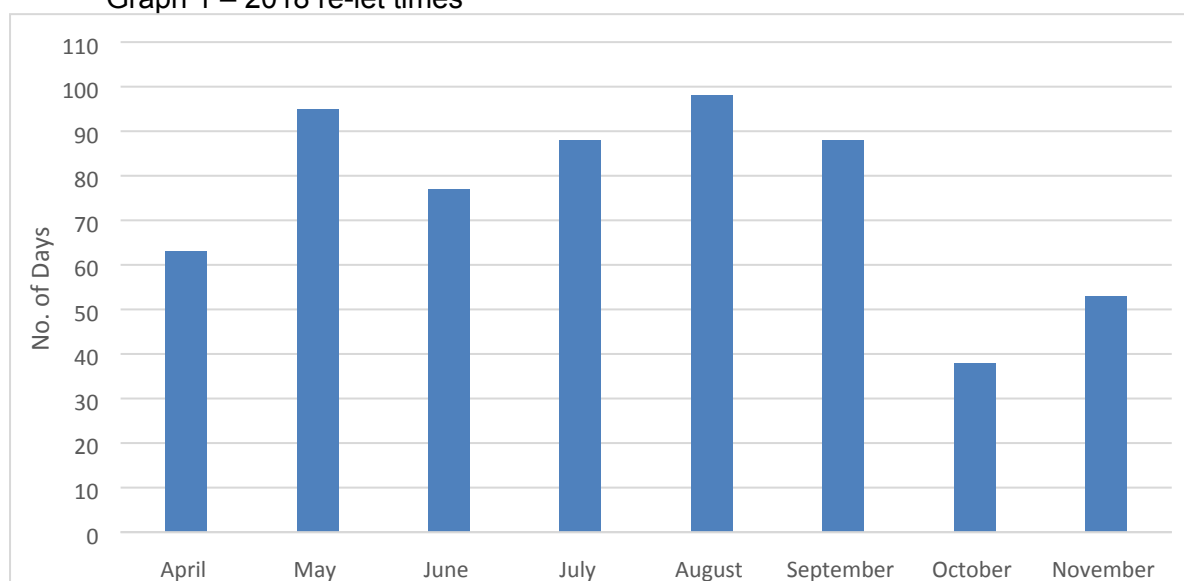
3.6 The Board has agreed with LBB to follow best practice, comply with all standards and ensure compliance with the Homes England regulatory framework. The Company has also adopted the National Housing Federation (NHF) Governance Code 2015 (the 'Code') and prepares its financial statements in accordance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

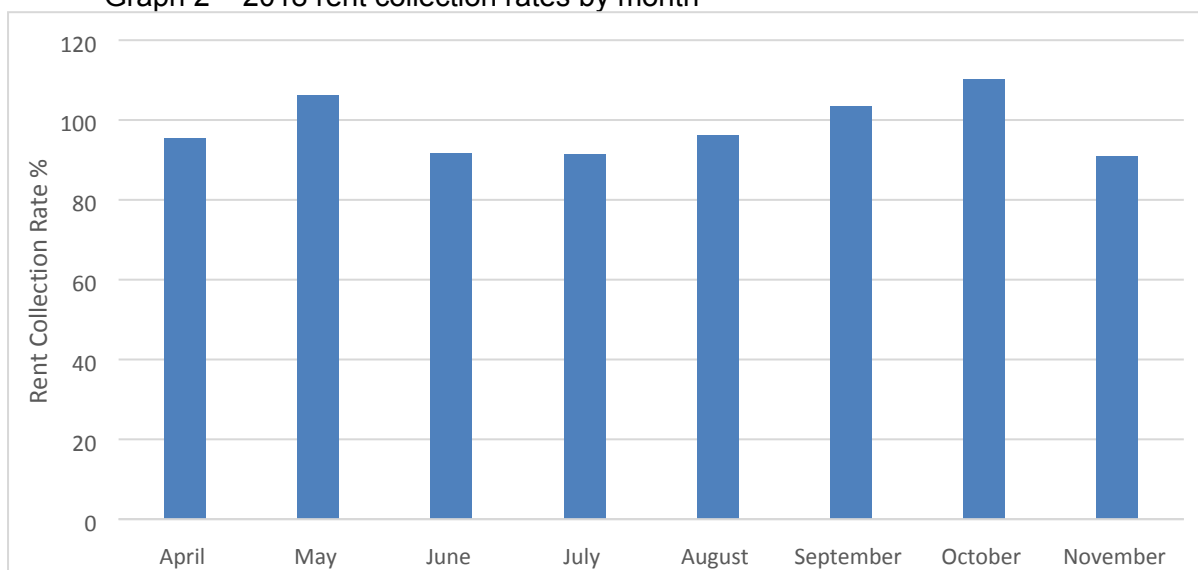
- 4.1 FWH has 329 tenanted properties. Of this 329, 170 are settled homes rates, 89 are at social rent rate, 25 are at intermediate rent, and 45 are at market rent. The annual rent roll is £4.2million. There are also two commercial properties within the portfolio.
- 4.2 FWH has aligned the majority of 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



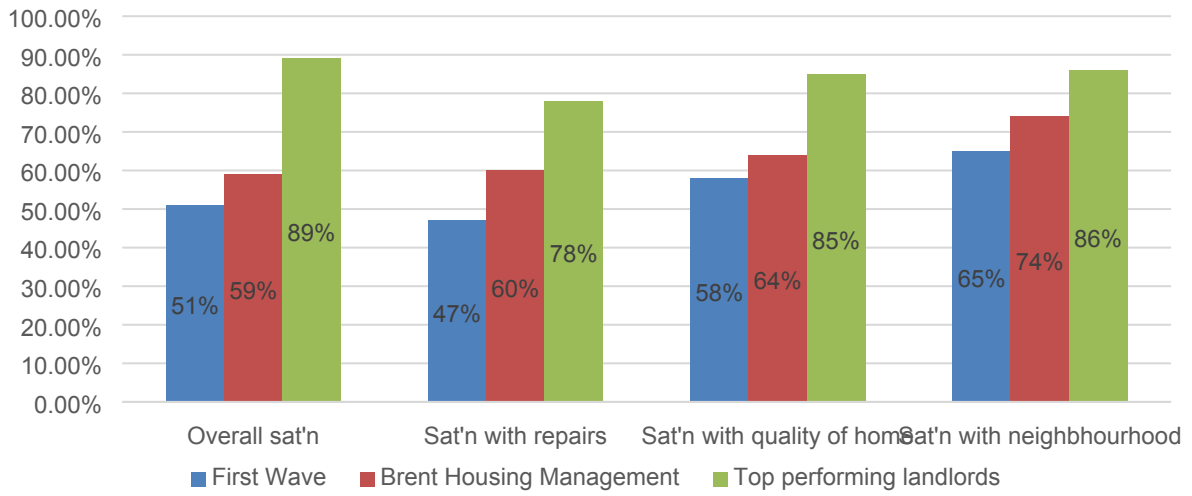
- 4.5 Rent collection rates for the financial year to date are 103%. This is above the business plan target of 98.5%. Rent collection will continue to be an area of focus over the coming year as there are a number of risks associated with income collection. A corporate plan has been established to mitigate 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 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 be 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 2 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	Monthly
18b	Void Management Major Void intermediate rent	Void period from recorded from tenancy end date to tenancy start date for intermediate rent tenancies	76	Monthly

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