

	<b>Cabinet</b> 10 February 2020
	<b>Report from the Chair of the First Wave Housing Ltd Board</b>
<b>Appendix 1: First Wave Housing Ltd Business Plan 2020/21</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt – Appendix 1 of the Business Plan is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: “Information relating to the financial or business affairs of any particular person (including the authority holding that information)”
<b>No. of Appendices:</b>	One Appendix 1 (cont): First Wave Housing 2020/21 Business Plan
<b>Background Papers:</b>	N/A
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## 1.0 Purpose of the Report

- 1.1 This report presents the First Wave Housing Ltd (FWH) 2020/21 Business Plan to Cabinet for Guarantor approval.

## 2.0 Recommendations

- 2.1 Cabinet, on behalf of the Council as guarantor, approves the business plan as set out in Appendix 1.

## 3.0 Progress on Implementing 2019/20 Business Plan

- 3.1 First Wave Housing Ltd, formerly Brent Housing Partnership (BHP) is a local authority owned company of the London Borough of Brent, and is limited by guarantee. The Company is a registered provider of social housing.
- 3.2 Each year, FWH produces a business plan, to outline its proposals and ambitions for the upcoming financial year. In February 2019, the Guarantor approved FWH's 2019/21 business plan. In the plan, the Guarantor agreed to the following strategic priorities:

- Capital investment;
- Tenure and rent rationalisation within its portfolio;
- The sale of four properties within areas undergoing regeneration via mutual agreement; and
- Working more closely with i4B Holdings Limited.

3.3 The following reports on progress against these priorities.

### 3.4 Capital Investment update

3.4.1 The 2019/20 Business Plan outlined that the condition of FWH's stock was poor. In October 2018, the Council's Asset Management Team carried out a stock condition survey (SCS). The 2019/20 Business Plan proposed that FWH would work with the Council's Asset Management Team to use SCS results and areas of local knowledge to create an investment plan.

3.4.2 Throughout 2019/20, this work has been carried out. Results of the SCS have been analysed and combined with the below areas of local knowledge:

- The need for weather protective works at three FWH blocks;
- Underinvestment in market rented properties;
- Section 20 set aside; and
- the need to extend leases.

3.4.3 Using the SCS and areas of local knowledge, FWH has produced the stock investment programme. At present, this is unaffordable. Options for increasing affordability are outlined in paragraph 4.3.

Table one – FWH Investment Plan

	<b>Investment Stream</b>	<b>Start date</b>	<b>End date</b>	<b>Properties included</b>	<b>Assumed Value</b>
1a	Replacement and side weather protection shield works, cyclical works and complementary communal and heating works at a FWH block.	2019	2021	49	£2,600,000
1b	Weather protection shield works and complementary communal and heating works at two FWH blocks.	2020	2022	36+19	
2	One bed refurbishment programme	2019	2027	45	£720,000
3	Cyclical programme of works	2020	2049	139	£22,300,000
4	Internal works programme	2020	2049	325	£11,300,000
5	Section 20 set aside	2019	2049	190	£29,132,700
6a	Enfranchisement	2019	2020	10	£150,000
6b	Enfranchisement	2021	2031	43	£215,000
7	Disposal of 4 x FWH properties in regen areas	2019	2020	4	-£1,200,000
<b>Sub Total</b>		<b>2019</b>	<b>2049</b>	<b>325</b>	<b>£65,217,700</b>

### 3.5 Tenure and Rent rationalisation update

- 3.5.1 In the 2019/20 Business Plan, FWH proposed to utilise its portfolio to deliver more benefits to the Council. It requested that the Council provided the Company with the flexibility to consider the product and rent level for each portfolio property on its re-let. This meant that market rented accommodation would be considered for letting at local housing allowance levels (LHA) to households through a nomination agreement between the Council and FWH. This would help assist the Council's homelessness agenda. FWH proposed to continue to look for market rent opportunities where income is sufficient to make a significant benefit to the aims of the Company and the Council.
- 3.5.2 In 2019/20, five properties have been converted from a market rented product to a private rented sector property at LHA rates.

### 3.6 Property disposal update

- 3.6.1 In 2018/19, FWH was approached to sell four properties in regeneration areas by the London Borough of Brent (three properties), and the London Borough of Ealing (one property). In FWH's 2019/20 Business Plan, the Company asked the Council to delegate authority to the Chief Finance Officer to dispose of the four properties following consideration of terms negotiated by FWH. FWH stated that it would request the Greater London Authority (GLA) to permit the grant element of the capital receipt to be available to the Council for affordable housing in the borough.
- 3.6.2 FWH has received valuations for the properties and has agreed a price. It is anticipated that the properties will have been disposed of by March 2020. FWH has liaised with the GLA and it is not possible to directly gift the grant element of the capital receipt to the Council.
- 3.6.3 FWH is working with the Council to ensure tenants are suitably rehoused.

### 3.7 Working with i4B update

- 3.7.1 The 2019/20 Business Plan outlined that the Guarantor would look at the optimum structure for Council-owned housing companies, including i4B Holdings Ltd (i4B) and FWH. This would involve reviewing options for aligning the two companies.
- 3.7.2 In 2019/20, the Guarantor undertook this work. It was agreed that aligning the two companies was not viable due to the different structures of the companies.

## **4.0 2020/21 Business Plan**

- 4.1 Appendix 1 contains a final draft of the Company's 2020/21 Business Plan. The FWH Board met on 19 December 2019 to agree the business plan.
- 4.2 The Company has considered contextual factors, its performance, and its financial position. FWH recommends that the following be its strategic priorities for 2020/21:
- Increasing the affordability of the capital investment programme;

- The disposal of four properties in regeneration zones; and
- The purchase of new build developments from the Council and market.

#### 4.3 Increasing the affordability of the Capital Investment Programme

- 4.3.1 FWH's capital investment plan is outlined in Table one. At present, the investment plan shows that the FWH stock requires a significant level of investment. An initial analysis has found that this level of investment is not presently affordable. Throughout 2020/21, FWH will explore options for increasing the affordability of the capital investment programme. This will involve confirming the exact costs of the investment plan and reducing costs.
- 4.3.2 FWH will work with the Council's Asset Management team to confirm costs. The Council's Asset Management team will produce a detailed delivery plan for investment themes 1a and 1b (weather protective works to three FWH blocks), 3 (cyclical works) & 4 (internal works). They will also produce a community consultation plan to support the investment plan for 1a, 1b, 3 & 4. Once the detailed delivery plans are produced FWH will work closely with Brent's Asset Management Team to understand: final costs; where works are necessary; and where works are a priority.
- 4.3.3 FWH will also look to reduce costs. FWH is currently paying significant amounts on principal and interest loan repayments. In 2020/21, FWH will work with the Council to explore options to renegotiate its loan in order to increase the affordability of stock investment.
- 4.3.4 FWH will also undertake a benchmarking exercise so it has a better understanding of its costs in relation to other registered providers.
- 4.3.5 Furthermore, FWH will undertake a piece of work to understand the optimum structure of its portfolio.
- 4.3.6 All of this work will be carried out in quarter one of 2020/21. FWH will then work with the Council's Asset Management Team to produce a revised, affordable, investment plan.
- #### 4.4 The sale of four properties via mutual agreement which are within areas undergoing regeneration
- 4.4.1 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 properties will be purchased via mutual agreement.
- 4.4.2 In 2020/21, FWH will repay the grant element of the capital receipt back to the GLA. FWH will work with the Shareholder to understand implications of the capital gains tax. The FWH stock will reduce to 325 units as a result of these sales.
- #### 4.5 The purchase of new build accommodation working with the Council and the market

- 4.5.1 In October 2019, Cabinet agreed for loan facilities of up to £110.5m be made available to i4B Holdings and FWH. A large proportion of this will be made available for the purchase of new build homes from the Council and the market.
- 4.5.2 As registered provider, there will be scope for FWH to use grant funding when purchasing properties from the Council and the market.
- 4.5.3 The Council aims to deliver 1,000 new units of affordable housing per year in Brent, through 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, FWH is one of several funding and delivery routes to achieve this target.
- 4.5.4 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. 140 units over four schemes are considered initially suitable for purchase by FWH. As these opportunities develop, FWH will review its financial model and potential grant funding opportunities to ensure schemes remain affordable and in keeping with the Council's requirement of 65% of market rents.
- 4.5.5 FWH will also explore market opportunities. The Company will carry out appraisals on regeneration opportunities within the Borough. FWH aims to develop partnerships with registered providers and commercial developers. These partnerships will enable FWH to be more active and intelligent in the market, and increase the Company's ability to respond quickly to market opportunities.
- 4.5.6 This is a new way of working for the Company. However, new build purchases will bring social and economic benefits to the Council in the form of increased affordable accommodation and reduced TA spending

## **5.0 Financial Implications**

- 5.1 Current forecast show that FWH is expecting to make a loss of up to £32k before revaluations and tax in 2019/20. This is due to higher property maintenance costs.
- 5.2 In 2020/21 FWH is expected to make a loss of up to £10k before tax and revaluations.
- 5.3 A financial objective in quarter one of 2020/21 is to evaluate different options to restructure capital. A decision will be made on how to finance the business plan in the medium to long term to reflect the need for stock investment. This will include analysis of a number of options broadly falling into four areas: restructuring the existing loan, negotiating a new loan, increasing rents and looking at the optimum structure of the portfolio. The evaluation of these options will need to consider a trade-off to find the best possible outcome for both FWH and Brent Council as the Guarantor.

5.4 Council officers are seeking tax advice on the disposal of properties to investigate whether relief on capital gains tax is available to registered providers of social housing.

## **6.0 Legal Implications**

6.1 The adoption of the proposed Business Plan is a matter reserved to the Council as the sole Guarantor in First Wave Housing Ltd ("FWH") and the intention is to seek Cabinet approval in February 2020. In addition to being a local authority company, FWH is a registered provider subject to regulation by the Social Housing Regulator.

6.2 Local Housing Allowance rates (LHA) apply to private rented sector rather than to the social housing sector. But if, as proposed in para 3.5.1 and 3.5.2, the LHA is used as a benchmark for the level of rent to be charged for properties let under a nomination agreement with the Council, or for properties that were previously privately rented but which fall vacant and are re-let, then, FWH needs to ensure that the levels of "eligible rent" charged by FWH do not fall outside the scope of the statutory Rent Standard set by the Social Housing Regulator, for property let from April 2020. This is not necessary if the relevant property is exempt from the Rent Standard.

6.3 As regards paras 3 and 4, FWH has statutory repair duties in relation to the structure and exterior, and the repair and safety of the gas, electricity and plumbing services for the properties that it lets.

6.4 FWH tenants on Assured Tenancies or Assured Shorthold Tenancies affected by the Capital Investment Programme works referred to at para 4.3 ought to be informed and consulted as to the nature and timing of the works proposed to their homes though statutory consultation is not required.

6.5 FWH is a wholly-owned local authority company, controlled by the Council, established in order to support the Council's homelessness agenda, by owning and managing housing stock previously held by Brent Housing Partnership. The Council exercises a degree of control over disposal of these properties given the need for it to consent to such disposal. In exercising that control, the Council ought to ensure that, any voluntary sale by agreement of the four properties described at para 3.6 is for best consideration reasonably achievable by FWH in accordance with section 123 of the Local Government Act 1972.

6.6 Full market value for each property sold, will help enable FWH and the Council to ensure that the Council and FWH are not just section 123-compliant, but that, in the case of the property within Brent, such sale is also state-aid compliant. If the relevant property is worth more than 200,000 Euros, then sale at full market value will ensure Brent Council and FWH have acted in accordance with the Market Economy Investor Principle ("MEIP") because they will have acted like a private investor selling or leasing land or buildings in similar circumstances.

6.7 As regards paras 4.5.2 - 4.5.6 of the Report, wholly-owned local authority companies such as FWH, established and solely owned by a Council Parent, will be regarded as "contracting authorities" in their own right, for the purposes of the Procurement Regulations 2015 ("PCR"). This means that unless relevant

PCR exemptions apply any services or works that FWH commissions from another organisation, company, firm or trader, will have to be competitively tendered on the open market, if the total value of the relevant Contract amounts to more than the relevant EU financial threshold (currently £181,302 for services or £4,551,413 for works).

## **7.0 Equality Implications**

7.1 N/A

## **8.0 Any other implications**

8.1 N/A

## **9.0 Proposed Consultation with Ward Members and Stakeholders**

9.1 N/A