

	<b>Audit and Standards Advisory Committee</b>
	<b>Report from the Chair of First Wave Housing Limited</b>
<b>Report on First Wave Housing Limited</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	One Appendix 1 Risk Register
<b>Background Papers:</b>	N/A
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## 1.0. Purpose of the Report

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

## 2.0. Recommendation(s)

- 2.1. The ASAC is asked to note:

- FWH performance.
- The updates to the FWH risk register.
- The update on recent FWH audits.
- The impact of Covid-19 on FWH's operations and business objectives.

## 3.0. Performance Update

- 3.1. FWH has 329 tenanted properties: 89 at social rent, 25 at intermediate rent, and 45 at PRS/market rent. FWH also has 170 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 manage, maintain, and improve its stock of 329 properties and to contribute to Brent's Housing Strategy by providing good quality, affordable, secure, and well managed homes to Brent residents.
- 3.3. The annual rent roll is £4.2 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

<b>Product Type</b>	<b>No. properties</b>	<b>Average of 2020/21 Weekly Rent</b>	<b>Sum of 2020/21 Weekly Rent</b>
<b>Intermediate properties</b>	<b>25</b>	<b>£312.50</b>	<b>£7,812.44</b>
1 bed	11	£300.88	£3,309.72
2 bed	14	£321.62	£4,502.72
<b>Market rent</b>	<b>42</b>	<b>£290.60</b>	<b>£12,205.19</b>
1 bed	42	£290.60	£12,205.19
<b>Social rent</b>	<b>89</b>	<b>£131.02</b>	<b>£11,660.55</b>
1 bed	24	£122.11	£2,930.54
2 bed	32	£130.28	£4,168.94
3 bed	23	£138.66	£3,189.28
4 bed	10	£137.18	£1,371.78
<b>PRS</b>	<b>3</b>	<b>£320.74</b>	<b>£962.22</b>
1 bed	3	£320.74	£962.22
<b>Settled Homes</b>	<b>170</b>	<b>£301.68</b>	<b>£51,285.84</b>
1 bed	9	£273.80	£2,464.19
2 bed	139	£302.51	£42,048.71
3 bed	22	£307.86	£6,772.94
<b>Grand Total</b>	<b>329</b>	<b>£255.09</b>	<b>£83,926.23</b>

- 3.4. Performance is reported to the FWH Board on a monthly basis, and is measured against the Company's Key Performance Indicators. The below summarises current year to date performance. It also provides a comparison to the YTD figure from August 2019, as this was the data used when FWH last reported to the Committee.

### 3.5. Rent Income Collection

- 3.5.1. As of March 2020, the year to date cumulative performance outturn for rent collection is 98.96% against an annual target of 98.5%. YTD rent income collection for August 2019 was 97.29%, slightly under the monthly performance target of 98.5% and the year to date target of 99.5%.

### 3.6. Tenancy Verification Visits

3.6.1. The year to date position for tenancy verification visits as of March 2020 is 67%, against a target of 100%. In August 2019, the YTD position for tenancy verification visits was 65.63%.

### **3.7. Voids**

3.7.1. For minor voids, FWH's target is 21 days. For major voids, FWH's target is 76 days. The year to date performance as of March 2020 for voids is as follows:

- General Market Rent (Minor Void) – 35.9 days.
- Settled Homes (Minor Void) – 33.65 days.
- Settled Homes (Major Void) – 94.2 days.

The YTD performance for major voids has been notably increased by one Settled Homes major void of 148 days, reported in March 2020. This was as a result of works being delayed due to a roof leak. The block is managed by a registered provider who took just under 4 months to complete the roof works. Once remedied, the void works commenced and the property was let in 34 days.

3.7.2. At the time of FWH's last report to the Committee, YTD void performance was as follows:

- General Market Rent (Minor Void) – 35.9 days.
- Settled Homes (Minor Void) – 33.42 days.
- Settled Homes (Major Void) – 143.5 days.

### **3.8. Urgent and Routine Repairs**

3.8.1. The year to date performance as of March 2020 for urgent and routine repairs completed within 14 days is 89%, against a target of 85%. At FWH's last report to the Committee, the year to date repairs performance was 88%.

### **3.9. Emergency Repairs**

3.9.1. As of March 2020, the year to date performance for emergency repairs completed within 24 hours is 94%, against a target of 100%. In August 2019, YTD performance for emergency repairs stood at 98%.

## **4.0. Financial performance update – summary of 2019/20**

4.1. Table 2: Full Year Actual vs Budget FY 2019/20

	<b>Business Plan Budget 2019/20</b>	<b>2019/20 Actual</b>	<b>Variance</b>
	£'000	£'000	£'000
<b>Net turnover</b>	<b>4,180</b>	<b>4,317</b>	<b>137</b>
<b><u>Operating costs</u></b>			
Depreciation	(560)	(557)	3
Audit fees	(30)	(30)	0
SLA Costs and other costs	(920)	(1,814)	(894)
<b>Total Operating Costs</b>	<b>(1,510)</b>	<b>(2,401)</b>	<b>(891)</b>
<b>Operating Profit</b>	<b>2,670</b>	<b>1,916</b>	<b>(754)</b>
Less: Loan Interest payable	(2,036)	(2,036)	-
<b>Profit (loss) before tax</b>	<b>634</b>	<b>(120)</b>	<b>(754)</b>

- 4.2. Total loss for the year has come in as £120k. Previous in-year projections were in line with this loss for the year.
- 4.3. This is a variance of circa £750k to the original budget. This is driven mainly by repair costs. However, it should be noted that the main reason for the large variance is that the original budget was inaccurate and underestimated costs. 2019/20 costs are in line with 2018/19 costs.
- 4.4. A benchmarking exercise undertaken in February 2020 demonstrated that FWH's operating costs are in line with other providers of similar size. This exercise found that FWH has a strong performance in operating margin (46%), with the Company placing within the upper quartile in all peer groups. Essentially, operating margin is a measure of profitability, indicating how much revenue is left over after operating expenses. In this case, FWH generates high income in proportion to cost. The benchmarking also identified that FWH's financing costs were high compared to other providers.
- 4.5. Total operating costs can be broken down into the following categories. It should be noted that pass through costs can be defined as costs the Council incurs on behalf of FWH and recharges back to FWH, such as service charges, section 20 notices, and legal fees.

Category	£000
Administration and other costs	57
Depreciation	557
Pass through costs	492
Repairs	802
SLA fixed costs	493
<b>TOTAL</b>	<b>2,401</b>

## 5.0. Summary of 2020/21 Business Plan

5.1. In the 2020/21 Business Plan, the following were identified as the Company's 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.

5.2. 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. Throughout 2019/20 this work has been carried out. Using the SCS and areas of local knowledge, FWH has produced the stock investment programme. At present, this is unaffordable. The 2020/21 Business plan outlines options for increasing affordability.

	Investment Stream	Start date	End date	Properties included	Assumed Value
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	<b>-£1,200,000</b>
<b>Sub Total</b>		<b>2019</b>	<b>2049</b>	<b>325</b>	<b>£65,217,700</b>

- 5.3. Throughout 2020/21, FWH will explore options for increasing the affordability of the stock investment programme. This will involve working with the Council's Asset Management team to confirm costs; reducing costs for FWH; undertaking a benchmarking exercise; and working to understand the optimum structure of its portfolio including the potential to sell a small number of properties that are least suited to FWH's operating model. FWH will then work with the Council's Asset Management Team to produce a revised, affordable, investment plan.
- 5.4. Another priority in the 2020/21 FWH Business Plan is the sale of four properties via mutual agreement within regeneration areas. 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). 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.
- 5.5. The final priority for FWH is the purchase of new build accommodation, through working with the Council and the market. 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. As a registered provider, there will be scope for FWH to use grant funding when purchasing properties from the Council and the market.
- 5.6. 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. 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.

## **6.0. Risk Update**

- 6.1. The Company's Risk Register can be found in Appendix 1.
- 6.2. Since the last meeting with the Committee, the impact of Covid-19 on the Company's operations has been added to the risk register. It is expected that Covid-19 and the resulting UK lockdown will have an impact on the following risks:
- Risk 5: There is a risk that business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions.
  - Risk 6: There is a risk that void periods will exceed the business plan.

6.3. The Company is taking a safety-first approach to ensure the wellbeing of all parties. FWH has written to tenants to outline some of the measures that the Company will be taking as a result of Covid-19. These measures include:

- Postponing all scheduled deep cleans and window cleaning programmes.
- Ensuring that all employees and contractors follow government advice in relation to hygiene and social distancing.
- Prioritisation of emergency and urgent repairs.
- Encouraging households to remain vigilant to fire risks whilst spending more time at home.
- Encouraging tenants to contact FWH if they are facing financial difficulties.

6.4. The following risks remain as live issues and are being monitored as such:

- There is a risk of loss of income as a result of poor quality housing stock.

## **7.0. Audit Update: Rent Collection Audit**

7.1. The aim of this audit was to review FWH's rental charges to ensure that rental charges and rates are reviewed on a regular basis, tenants are charged the correct rates and that the rent collection service that FWH receives from BHM is robust.

7.2. Good practice was identified in a number of areas. This includes the following:

- A clear and well-defined Rent Strategy in the form of the FWH Business Plan 2019-20. The Business Plan outlines key risks and new opportunities relating to rent collection, which is monitored and analysed on a regular basis through management meetings.
- Clearly articulated roles, responsibilities and accountabilities between FWH and BHM.

7.3. The audit identified one high and three medium risk issues. These were:

- The Rent Collection KPI (high risk).
- Lack of guidance around arrears rental agreements (medium risk).
- Formal evidence of monitoring rental agreements (medium risk).
- Non-compliance with the arrears recovery process (medium risk).

7.4. The recommendations of the audit were presented to the FWH Board in January 2020 and agreed. The recommendations and responses have been summarised below.

Risk	Recommendation	Management Response
Rent Collection KPIs	Develop a reporting method that segregates actual rent collections and the collection of historic arrears.	<p>Management will explore available options with the Performance Improvement Team. A Power BI report will be in development in January – March 2020 to provide detailed arrears analysis. More clarity will be given to the FWH Board on what the KPI figures represent.</p> <p>FWH officers will work with housing teams to ensure accurate reporting of rent collection and arrears.</p>
Guidance around arrears rental agreements	<p>The FWH Board should develop and issue formalised guidance to BHM around maximum and minimum rental agreement thresholds.</p> <p>FWH should request management information on the number, value and adherence to tenant rental agreements on a regular basis to assess the effectiveness of rent recovery procedures.</p>	<p>There is currently a consistent approach to the development and issuance of rental agreements, as there is a single member of staff managing FWH properties. However, there is a need to formally define and implement guidance to ensure that in the event of rent officer absence, rental agreements are made and monitored in line with requirements.</p> <p>Management will explore available options to collate and report to FWH on the number, value and adherence to tenant rental agreements.</p> <p>FWH officers will work with the Income team to agree a set of parameters when agreeing rental agreements. FWH will monitor information on rental agreements and adherence at monthly board meetings.</p>
Formal evidence of monitoring rental agreements	FWH should request management information based on the number, value and adherence of tenant rental agreements on a regular basis to assess the effectiveness of rent recovery procedures.	<p>Options will be explored as to how BHM can collate and present information on the number, value and adherence of tenant rental agreements. Management plan to integrate this information as part of monthly reporting to the FWH Board.</p> <p>The FWH Board will request KPI reporting on the number, value and adherence of tenant rental agreements.</p>



<p>Arrears recovery process</p>	<p>FWH should work with BHM to understand the effectiveness of the arrears recovery process and consider whether process timeframes should be revised. FWH should also discuss and consider the manual nature of controls currently implemented by BHM to assess whether risks are being mitigated.</p> <p>FWH should develop and enforce KPIs covering each stage of the arrears recovery process.</p>	<p>Plans are in motion to bring the FWH process in line with the wider Council's process. Management plan to discuss and spot check case notes on a regular basis. Process maps will be reviewed and potentially revised.</p> <p>Management disagree with the second recommendation as they feel that this would set the team up for failure.</p> <p>FWH will request BHM to look into the most effective arrears collection processes, and revise their processes based on this.</p> <p>Rather than create bespoke KPIs on each stage of arrears collection, FWH will ask for quarterly/bi-annual reviews into arrears collection.</p>
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- 7.5. Officers will carry out the recommendations agreed above. This audit will be followed up when appropriate, to ensure the actions have been implemented and are operating effectively.