

	Cabinet 12 February 2018
	Report from the Chief Executive
i4B Business Plan 2018/19	

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt:	Open
No. of Appendices:	2
Background Papers:	None
Contact Officers:	Sadie East Head of Transformation Tel: 0208 937 1507 Sadie.east@brent.gov.uk

1.0 Purpose of the Report

- 1.1 This paper presents the i4B Holdings Ltd Business Plan for 2018/19 to Cabinet for Shareholder approval in February 2018. It also includes a number of other matters which require Shareholder approval.

2.0 Recommendations

- 2.1 Cabinet approves the Business Plan for i4B Holdings Ltd as set out in Appendix 2.
- 2.2 Cabinet agrees that the remaining properties of the initial PRS acquisition programme (PRS 1) be purchased within Brent, for an additional investment of £3.5m.
- 2.3 Cabinet agrees to increase the loan to fund the PRS 1 working capital requirement from £1m to £2.5 million with the facility draw down an additional £1m if required.
- 2.4 Cabinet agrees to make available up to £116m needed to fund the acquisition of 300 additional private rented sector properties (PRS 2) by i4B Holdings Ltd (subject to approval of the 2018/19 i4B Business Plan).

- 2.5 Cabinet agrees to make available £35m needed to fund the acquisition of 100 intermediate rent sector properties by i4B Holdings Ltd (subject to approval of the 2018/19 i4B Business Plan).
- 2.6 Cabinet agrees to lend i4B a further £4m to fund the working capital requirements for PRS 2 (£3.2m) and the intermediate rent acquisitions programme (£0.8m).
- 2.7 Cabinet agrees to appoint the Strategic Director for Children and Young People (Gail Tolley) as a Director of i4B Holdings Ltd in place of the Strategic Director of Community Wellbeing (Phil Porter).
- 2.8 Cabinet agrees the list of Shareholder Consent Matters which will be delegated to the Chief Executive as detailed at Appendix 1.
- 2.9 Cabinet agrees the remuneration package for the fifth 5th Company Director.

3.0 Background Information

- 3.1 In November 2016, Cabinet agreed a paper presented by the Chief Finance Officer entitled 'Establishing a Wholly Owned Investment Company'. Cabinet supported the setting up of the wholly owned company and the Company's PRS business plan reflecting the ownership and management of 300 properties to support the Council's homelessness agenda.
- 3.2 The Company is overseen by a Board of Directors, chaired by an independent voting Director. This role is fulfilled by Martin Smith, who is the former Chief Executive of Ealing Council.
- 3.3 The other Company Directors are Cllr George Crane, the Strategic Director of Community Wellbeing (Phil Porter) and the Director of Performance, Policy and Partnerships (Peter Gadsdon).
- 3.4 The Board of Directors meets on a monthly basis and has overseen the mobilisation of the Company and the execution of its Business Plan. The Board is supported by a team of Council officers who are able to provide expert legal and financial advice.
- 3.5 The Company has a fixed-term, four-year overarching Services Agreement with the Council which covers all of its day-to-day operational activity, including the purchasing and conveyancing process, nominations, lettings and refurbishments, the provision of housing management services and all such other activities as may reasonably be expected to be undertaken.
- 3.6 In turn, the Council has contracted three housing management agents to manage Private Rented Sector (PRS) properties. Brent Housing Management, Pinnacle Housing Group and Mears Group have been appointed to provide housing management. Contracts have been signed with BHP (Brent & Greater London) which has now been handed to Brent Housing Management, Pinnacle (Home Counties) and Mears (Home Counties).

- 3.7 In addition, three external buyers' agents have been procured to complement the Council's own property buyers in the acquisition of PRS properties.
- 3.8 The first Business Plan of the Company was agreed by Cabinet in November 2016. It included an initial property acquisition plan (to purchase 300 properties) which ran up until the end of the 2017-18 financial year. The Shareholder Agreement states that the Company should produce an annual Business Plan for Shareholder agreement and that this plan should be substantially in the format of the first Business Plan and shall be for at least a one-year period.

4.0 The new Business Plan

- 4.1 The Company has developed a second Business Plan (Appendix 2) which includes a number of options which are under consideration by the Board as potential opportunities for the Company. These are:
- *Private Rented Sector (PRS)* - Continuation and expansion of the PRS landlord business, purchasing a further 300 units between September 2018 and April 2021 (creating a total of 600 PRS properties by April 2021).
 - *Properties for Intermediate Rent* – Creating an Intermediate rent portfolio of 100 properties by April 2020 through the purchase of specific blocks or street properties and through flexible tenure management of PRS stock.
 - *Strategic Investments* – The Company is exploring opportunities to benefit from the Quintain intermediary housing market investment opportunity, as well as empty homes projects and land purchases able to provide a meanwhile site use.
 - *New build Partnership with the Council (on Council owned sites)* – The Company is exploring the opportunity of a partnership with the Council to maximise the opportunity to invest in Council land and assets to deliver housing and investment return. Immediate opportunities exist to deliver new Housing Revenue Account (HRA) and PRS homes.
 - *New Build Partnership with the Council and Registered Providers (RPs) on commercial sites* – the Company may create Joint Venture partnerships with the Council and RPs to purchase commercial sites within Brent for affordable and PRS housing. Immediate opportunities exist with a number of RPs and on a number of sites.
- 4.2 A draft of the business plan was also presented to CMT on 11 January and comments fed back to the i4B Board. The i4B Board oversaw the development of the business plan and agreed the business plan at its meeting on 24 January 2018.

5.0 Additional investment for the initial PRS acquisition programme (PRS 1)

- 5.1 In the initial Business Plan (November 2016), £100m funding was requested and agreed by Cabinet to fund the purchase of 300 PRS properties. This programme assumed 150 (50%) of properties would be purchased in Greater London or the Home Counties, and 150 (50%) of properties would be purchased in Brent.
- 5.2 The Council purchasing team has been successful at purchasing properties at increasingly higher yields and within Brent. Currently, 133 (53.2%) of the 250

properties in the pipeline are located in Brent. The Company has analysed the real data gathered through 18 months of purchasing activity in Brent and the Home Counties. The Company has also become more informed about the customer base which the Council is seeking to nominate for PRS housing. The analysis shows that net and gross yield margins, on average, are very close regardless of location. The primary reason for purchasing outside Brent is the budget ceiling and lower cost of properties. Given the similarity in yield margins, the Company recognises an opportunity to buy a higher proportion of properties within Brent during the initial business plan period than originally proposed.

- 5.3 To amend the weighting of properties to 180 units in Brent or Greater London and 120 units in the Home Counties an additional £3.5m is required in 2018/2019. The difference between a three-bed Home Counties property and a three-bed Brent property is c. £153,000 (including on-costs). The difference between a two-bed Brent property and a three-bed Home Counties property is £87k. The proposed figure of £3.5m should therefore allow a switch of 30 of the remaining 50 properties from the Home Counties to Brent. 30 two-beds in the Home Counties will be replaced by 30 two/three-beds in Brent or Greater London.

6.0 The new PRS Programme (PRS 2)

- 6.1 The Company hopes to deliver a second purchasing programme weighted with permission to purchase (1) up to 100% Brent or (2) 60% Brent / 40% Home Counties.
- 6.2 The practical implementation of the PRS scheme differs from that initially suggested by the theoretical modelling. The Council, in nominating customers to i4B, must always consider the most appropriate offer of accommodation available to that household on that day. This is often based on a concentric circle model where a suitable offer in or closer to Brent will always be given first. Properties within the Home Counties are therefore at risk of longer void periods. The Council's Housing Needs service, with whom the blend of properties has been discussed, suggest a programme with more Brent units will better support the discharge of homelessness duty. Option (1) would cost circa £116m, creating a gross yield of circa 4.96%. Option (2) would cost circa £103m, creating a gross yield of circa 4.86%.
- 6.3 More detail on this proposal can be found in the business plan (Appendix 2).

7.0 Intermediate Rent Properties

- 7.1 To strengthen and diversify the business, the Company hopes to purchase 100 properties to be rented at intermediate rents. These properties generally gain a slightly higher rent than LHA rent, and tend to attract young working professionals with low housing management needs. This means that intermediate rent households are also likely to have lower rent debt levels. Intermediate rent is beneficial to the Shareholder as it diversifies i4B's customer base, thus increasing the stability of the Company's income stream. i4B's ability to be more financially self-sustaining reduces the call on Council equity to support the business.

7.2 The intermediate rental properties will contribute towards the housing strategy target of 5,000 new affordable units in the borough over five years. Furthermore, intermediate rent units satisfy the demand for properties priced between LHA and market rent. Recent research carried out by the Cambridge Centre for Housing and Planning research has reaffirmed the need for this type of product. The experience of First Wave Housing Ltd also shows there is demand for properties at intermediate rent.

7.3 More detail on this proposal can be found in the business plan (Appendix 2).

8.0 Investment for 2018/19

8.1 As set out above and in 2018/19 Business Plan at Appendix 2 are details of i4B's aims to purchase, which can be summarised as:

- An additional 300 properties over a three-year period (100 by April 2019, 300 in total by April 2021). This second phase of Private Rented Sector acquisitions (PRS 2) would bring the overall number of PRS properties purchased to 600 by April 2021.
- 100 Intermediate Rented (IR) properties to be acquired by March 2020.

8.2 The location of these additional PRS 300 units could be weighted 100% in Brent at a cost of £116m (plus £3.5m extra funding for PRS 1 – see section 5) or weighted 60% Brent and 40% Home Counties at a cost of circa £103m (plus £3.5m extra funding for PRS 1 – see section 5).

8.3 The Company is therefore requesting that for PRS 2, Cabinet approve additional finance of up to £116m, in addition to the £100m already agreed for PRS 1 in the 2017 i4B Business Plan (plus £3.5m extra funding for PRS 1 – see section 5).

8.4 The company additionally requests £35m for intermediate rent acquisitions.

9.0 Increasing the loan to fund working capital requirements

9.1 The need for a revenue loan facility to fund day-to-day spend (while i4B remains in the property acquisition phase of its business plan and so is not operating at full capacity) was identified in the 2017 Business Plan. The (working capital) loan requirement was set at £1m.

9.2 The speed at which acquired properties are readied for letting has (for reasons identified in the 2018 Business Plan) not been as rapid as had been anticipated in the 2017 Business Plan. This has resulted in a delay in the receipt of significant rent receipts designated to fund operational activities and capital loan interest payments.

9.3 As a result, the working capital loan requirement has increased. The Company is aiming to keep the requirement below £2.5m but will need the facility to draw down up to £3.5m in total if required.

9.4 As with PRS 1, both the PRS 2 and intermediate rent programmes will require separate working capital facilities to remain solvent during their respective property acquisition phases.

9.5 The estimated facilities for PRS 2 and IR are £3.2m and £0.8m respectively.

10.0 Change in personnel of Company Directors

10.1 Cabinet, as shareholder, is required to agree the removal and appointment of company directors. Owing to conflicts, it is recommended that Gail Tolley (Strategic Director for Children and Young People) replaces Phil Porter (Strategic Director for Community Wellbeing) as Company Director. Cabinet is asked to agree this change.

11.0 Shareholder Consent Matters

11.1 In the current document outlining Shareholder Consent Matters, 46 corporate and operational matters are reserved, meaning that the Company cannot undertake them without first requesting and being granted Shareholder consent.

11.2 Based on experience of the Company's first year of operation, it is now recommended that a number of matters be delegated to the Council's Chief Executive. The Shareholder still retains key decisions including the agreement of the Company's work under its annual business plan. Delegation of some decisions will enable to Company to operate flexibly and responsively to meet the objectives which have been set by the Council.

11.3 For a full list of Shareholder Consent matters, including matters which it is recommended are delegated to the Chief Executive, see Appendix 1.

12.0 Remuneration package for the Fifth Company Director

12.1 Recruitment is underway for a fifth Company Director. The role will cover both the i4B Board and the First Wave Housing Board. A maximum payment of £13,000 per annum has been suggested. This would be paid monthly and subject to attendance and performance requirements. This figure has been arrived at following four considerations:

- 1 That the individual will be undertaking work for both i4B and First Wave Housing.
- 2 That the role requires previous commercial property experience.
- 3 That the figure has been benchmarked against advertised remuneration for similar roles.
- 4 That the figure has been benchmarked against the remuneration paid to the i4B Board's independent Chair.

13.0 Financial Implications

13.1 This report seeks approval from Cabinet for the release of up to £151m for the acquisition (and renovation to a lettable standard) of:

- An additional 300 residential units (PRS 2) at a cost of up to £116m

- 100 Intermediate Rented units at a cost of £35m
- 13.2 The cost range of the extra PRS properties is between £103m and £116m at current prices, dependent on size and/or location, option for which are outlined in this paper.
- 13.3 The cost of the intermediate rented (IR) units is more certain than for PRS as there is less variation in the size of these properties and all units would be located in Brent.
- 13.4 The acquisition and renovation of all PRS and IR properties would be financed in a similar fashion to those acquired under PRS 1, i.e.:
- An interest-bearing loan (to the extent supportable by rent, net of costs)
 - Equity (Council cash injection) limited to 25% of total purchase and renovation costs
- 13.5 It is anticipated that intermediate rented properties will qualify for a favourable interest rate its loan (as is the case for PRS acquisitions) but will generate more income per comparable property than the PRS programme.
- 13.6 This paper also requests a change in the location profile of i4B acquisitions approved in the 2017 Business Plan (PRS 1) as follows:

Table 1		
	Acquisitions	
	Original	Proposed
Brent/Greater London	150	180
Home Counties (Low LHA Rates)	80	56
Home Counties (Medium LHA Rates)	70	64

- 13.7 The driving force for this change is to ensure delivery of additional units in Brent and would require further capital outlay estimated at between £3m and £3.5m.
- 13.8 Additional Brent properties (above the original allocation) could be delivered for less than £3m, by implementing a larger reduction (than is proposed) for the number of units in the Home Counties (Medium) category, although this may be impractical for operational reasons not addressed in this report.
- 13.9 The revenue cashflow facility requirement under the proposals is estimated at £2.7m, so further management action may be required to ensure this is reduced to below the £2.5m envelope that is recommended in this report.
- 13.10 If approved, the Equity Requirement (Council cash injection) would be significantly beneath the Council's upper threshold in all instances.
- 13.11 The remuneration for the fifth i4B Director has been benchmarked against similar positions and that awarded to the Board's only other independent member. These costs will be met by existing i4B revenues with only a marginal effect on financial forecasts.

13.12 A summary of the maximum aggregated financial ask pursuant to the recommendations in this report is included in Table 2:

Table 2			
	Business Plan Totals (£m)		Increase (£m)
	2017	2018	
Capital Outlay			
PRS 1	100	103.5	3.5
PRS 2	0	116.0	116.0
Intermediate Rent	0	35.0	35.0
Capital Outlay Total	100	254.5	154.5
Working Capital			
PRS 1	1.0	2.5	1.5
PRS 2	0	3.2	3.2
Intermediate Rent	0	0.8	0.8
Working Capital Total	1.0	6.5	5.5
Total Funding Requirement	101	261	160

14.0 Legal Implications

- 14.1 The adoption of the proposed Business Plan is a matter reserved to the council as the sole shareholder in I4B Holdings Limited.
- 14.2 The Business Plan contains proposals for various development opportunities to be funded through council loan and equity investment. There are potential State Aid implications for both, although with an equity investment there is a potential for the whole equity investment to be regarded as State Aid rather than just the difference between the interest rate applied for a loan and the market rate. The market economy operator principle does provide an exemption to both loan and equity investment falling foul of State Aid and this requires that any investment is made on a similar basis to that a private operator acting under market conditions and in similar circumstances would make. The proposed business plan does contain proposals as to how avoid the loan and equity investment constituting unlawful State Aid but full financial advice should be obtained.
- 14.3 The intention in the business plan is that i4B Holdings Limited will become involved in a range of business opportunities, including joint ventures. To date it has been possible to rely on the Teckal exemption under public procurement legislation (essentially that the company is controlled by the council and carries out at least 80% of its activities for the council) to enable the award of contracts between the Council and i4B Holdings Limited (and vice versa) without the need for a competitive procurement process but care will need to be taken to ensure that the new business opportunities do not undermine the ability to rely on the Teckal exemption.
- 14.4 Cabinet is permitted to delegate the Shareholder Consent Matters detailed in Appendix 1 to the Chief Executive. The delegation can be made subject to such limits or in consultation with others as is considered appropriate.

15.0 Equality Implications

15.1 The diversity of the i4B Board of Directors is being considered as part of the process to appoint new directors.

16.0 Consultation with Ward Members and Stakeholders

16.1 None.

17.0 Human Resources/Property Implications (if appropriate)

17.1 N/A

Report sign off:

CAROLYN DOWNS
Chief Executive