



**Audit and Standards Advisory
Committee**
5 February 2019

**Report from the Chair of i4B
Holdings Ltd**

Report on i4B Holdings Ltd

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of Part 1, Schedule 12A of 1972 Local Government Act)	Part Exempt Appendix 1 of the i4B Holdings Ltd Business Plan is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
No. of Appendices:	Four: <ul style="list-style-type: none"> • i4B Business Plan 2019/20 • Company Risk Register • Internal Audit Report 2018-19 – PRS Model Review • Internal Audit Responses Action Plan
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 (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, proposed 2019/20 Business Plan, audit arrangements, and risk register.

2.0 Recommendations

2.1 The ASAC is asked to note:

2.1.1 The plans set out in the Company's draft 2019/20 Business Plan.

2.1.2 The summary of the financial and non-financial benefits of i4B's operations.

2.1.3 The update to the i4B risk register.

2.1.4 The update on recent i4B audits, and progress towards implementing previous audit recommendations.

3.0 Background

3.1 This report provides the ASAC with an update on: the Company's draft 2019/20 Business Plan, the risks and benefits of i4B's operations to the Council and i4B, and recent i4B audits. Background information on the Company's performance can be found in section 4 of the 2019/20 Business Plan (appendix 1).

4.0 Business Plan

4.1 Appendix 1 contains the draft 2019/20 Business Plan at the time of writing (25/01/2019). The final version of the 2019/20 Business Plan will be submitted to Cabinet for approval on 30th January 2019. Therefore, there may be changes between the business plan in appendix 1 and the final version that goes to Cabinet. If there are significant changes officers will verbally update the Committee.

4.2 The Board has considered its 2018/2019 Business Plan and five year forecast against its own performance and external market factors. The Board believes that the themes of growth and diversification identified within last year's Business Plan remain the correct priorities. Next year's i4B Business Plan (2019/2020) therefore refines the ambitions supported last year. These are:

- The PRS acquisition programme;
- The provision of Intermediate / Key worker accommodation;
- Develop a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
- Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market.

4.3 However, as a result of changes in market conditions, opportunities arising over the past twelve months, and scheme details emerging the Company is requesting that the shareholder supports a realignment of the £254.5m financial commitment provided in February 2018 by Cabinet.

4.4 Below is a summary of the key proposals of the 2019/20 Business Plan.

4.5 PRS Acquisition Programme

4.5.1 The Board seeks to complete phase one of 300 PRS street properties by April 2020. The Board proposes that the proportion of properties in Brent and Greater London increases.

4.5.2 In the 2018/2019 Business Plan, the Shareholder agreed to purchase 180 units in Brent and 120 units in the Home Counties. The Company now proposes to purchase 220 properties within Brent or Greater London and 80 properties within the Home Counties. This recommendation is due to the significant challenges the Council has faced in placing families outside of the Borough. The Company has also experienced greater difficulty in tenancy and income management for Home Counties' properties. However, Housing Needs have

advised there may be bespoke cases where Home Counties properties are required. Therefore, the Board would like flexibility to purchase bespoke Home Counties properties on behalf of the Council if there is sufficient demand.

4.5.3 The Company proposes to increase funding for phase one of the PRS acquisition programme to £109m this reflects the higher average property cost within Brent compared to the Home Counties.

4.5.4 The Company is proposing to reduce the phase two budget from £116m to £110.5m. Of the £110.5m the Company is proposing to use £24m to purchase 60 street properties by April 2021 and £86.5m to purchase 265 new build units from the Council between 2020 and 2024.

4.5.5 In the 2018/19 Business Plan it was agreed that £116m would be used for the purchase of an additional 300 street properties in phase 2 of the PRS acquisition programme. The number of units have been revised down to 60. The revision is primarily due to the lack of sufficient properties at the yield which i4B requires to make the financial model viable. The purchase of new build units from the Council is beneficial because:

- They have higher yields than market street properties;
- They are of better quality;
- They provide the Council with a significant capital receipt.

4.6 The provision of Intermediate/Key worker accommodation

4.6.1 In the 2018/19 Business Plan, Cabinet supported the need to develop an i4B intermediate rent offer. The 2019/20 Business Plan proposes that a portion of agreed funding for intermediate rented accommodation be used to support the purchase of one block of 153 units for the provision of key worker accommodation at 60%-80% market rent.

4.6.2 Throughout 2019/20, i4B will work with the Council's housing supply and partnerships team to develop this opportunity as a flagship for key worker accommodation.

4.7 Develop a portfolio of new build accommodation working with the Council to develop housing on Council owned land

4.7.1 The Company proposes that £86.5m of the February 2018 agreed PRS phase two funding to be made available for the purchase of new build homes from the Council from 2020. Six schemes have been identified to date consisting in total of 265 units. It is requested that i4B and First Wave Housing be named as partners within an agreement with developers to increase the capacity of the Council to deliver a large number of affordable units in borough within a short period.

4.7.2 Over the next five years i4B believes it has the financial capacity to purchase 20% to 25% of the circa 1000 new units which the Council aspire to deliver.

4.7.3 Throughout 2019/20 the Company will work with the Council to progress new build opportunities.

4.8 Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market

4.8.1 The Company proposes to create a delivery partnership with one or more registered providers or commercial developers. These partnerships will enable i4B to be more active and intelligent in the market, and increase the Company's ability to respond quickly to market opportunities. Ideally, the partnership would encourage small sites as well as major sites to be purchased and developed. Within its pipeline of development sites, the Council has identified a number of privately owned sites which are suitable for affordable development opportunities.

4.9 Working more closely with First Wave Housing

4.9.1 The Shareholder has carried out some initial work which has identified potential benefits of aligning i4B and First Wave Housing. The Company understands that three provisional options have been highlighted by the Shareholder:

- The Shareholder, with the 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.

4.9.2 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.

5.0 Social Benefits to the Council

5.1 i4B has increased the amount of affordable housing tenures in Brent and the Home Counties. The Company has been successful in purchasing private sector homes and switching the tenure to an affordable private rented sector product. 300 new affordable homes will be created by April 2020.

5.2 As of January 2019, 168 Brent families, including 411 children, have been housed in i4B properties.

Table 1 – Breakdown of families directed to i4B as of January 2019

Previous Accommodation	no. of families	no. of children
Direct to i4B	16	39
Women's Refuge	2	4
TA Stage 1 – B&B	130	302
TA Stage 2 – Leased	20	66
Total (under private rented offers scheme)	168	411

5.3 All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS accommodation which is generally of a lower standard.

6.0 Financial Benefits to the Council

6.1 i4B provides the Council with ongoing financial benefits.

Table 2 – Annual Financial Benefits the Council will receive due to i4B once 300 properties are purchased.

Annual Benefits	Annual financial benefit	Description
Loan interest benefit 0.3%	£248,000	The Council can borrow money at a lower rate than it charges i4B (currently 2.6% and 2.9% respectively).
Temporary Accommodation savings £1,960 p.a.	£588,000	Saving of £588,000 based on 300 households diverted from stage 2 temporary accommodation which costs the Council £1960 per annum per household.
SLA payment	£444,000	
Total ongoing financial benefits to the Council	£1,280,000	

6.2 However, there are also ongoing financial costs.

Table 3 – Ongoing Financial Costs

Annual Costs	Annual financial cost	Description
Interest on equity investment	£538,000	The Council can initially invest existing resources but will have to borrow the funds for the equity investment in the next few years. It will therefore incur ongoing interest charges relating to the equity investment.
Costs relating to SLA provision	£444,000	
Total ongoing financial benefits to the Council	£982,000	

Net ongoing annual financial benefits to the	£298,000
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- 6.3 In addition, the Council receives one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of property and property price increases. The one-off financial benefits from the loan for the first 300 properties are:
- Loan arrangement fee of 1% (~£830k)
 - Loan non-utilisation charge (~£620k)
 - The Council is initially funding the i4B loan through existing funds, but it plans to borrow the full amount in the next few years. Until the Council borrows the funds, the entire interest payment goes to the Council.

- 6.4 As the sole shareholder, the Council can benefit from property price growth of the portfolio.

7.0 Risk Register

- 7.1 The Company Risk Register can be seen in Appendix 2.

- 7.2 Since the last meeting with the Committee the following risks have been added:
- Ten fraud related risks which were identified in a fraud risk audit.

- 7.3 The following risks have increased:
- The pre-mitigation likelihood of Company cash flow (capital and revenue) being insufficient to manage expenditure has increased from two to three.

- 7.4 The following risks remain as live issues and are being monitored as such:
- The pipeline of properties is slower than the SLA target;
 - Average property price exceeds budget and portfolio of properties does not achieve the target net yield margin.

- 7.5 In July 2018, the following risks were transferred from the Company risk register to the Council risk register:
- The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord.
 - The proportion of equity held by LB Brent in relation to the total loan exceeds target.

8.0 Internal Audit Update

- 8.1 In November 2017, i4B agreed a programme of four internal audits for 2017/18:

Table 4 – i4B internal audits

Audit	Status
Governance, Risk & Financial Management	Complete Report provided to ASAC in March 2018
Benefits Realisation, Management Information and Reporting	Complete

Audit	Status
	Report provided to ASAC March 2018
Fraud Risk Assessment	Complete Report provided to ASAC July 2018
Financial Model Review	Complete Report Provided to ASAC February 2019

8.2 At the July 2018 meeting of the ASAC, i4B provided an update on the findings from the Fraud Risk Assessment audit. Section 8 outlines the activity that has been taken since the last report to the committee.

8.3 The Financial Model Review audit was completed in January 2019. The audit was originally meant to be completed in June 2018 but was deferred due to the departure and subsequent recruitment of a Head of Finance. i4B has now completed its audit schedule for 2017/18. i4B will be meeting with Internal Audit to produce an audit schedule for 2019/20.

8.4 Financial Model Review Audit Findings

8.4.1 The full audit report can be seen in appendix 3. The purpose of the review was to assess the design and build of the i4B PRS model and to check its calculations are consistent with the model intent. The following work was carried out:

- The model was reviewed to see if it was performing as designed and to identify any errors in the calculations.
- The model was assessed in comparison with the auditor's view of modelling best practice. This included assessing spreadsheet design and documentation.

8.4.2 The review found that the model sets out what it hopes to achieve, with a well-constructed future profit and loss account and balance sheet. There is a good level of flexibility within the model, allowing users to make a range of changes to assumptions, as well as capability to define ten scenarios, and whether indexation applies in each of those or not.

8.4.3 Most of audit's findings were around technical points of design and best practice, and also general understanding of areas of methodology.

8.4.4 There were two high level findings relating to methodology. The first is the way in which experience analysis is used to calculate average property prices and rental values. Essentially, the model understates average property prices and overstates rental income. A full explanation can be seen in appendix 3 pages 7-10.

8.4.5 The second is around the use of house price inflation (HPI) as well as the assumptions used for both HPI and rental growth. A full explanation can be seen in appendix 3 pages 12 to 16.

8.4.6 Officers will be working to implement recommendations at the start of the 2019/20 financial year. Full management responses can be seen in the audit action plan (appendix 4).

9.0 Update on Recommendations from Outstanding Audits

9.1 i4B has created an audit action plan to track the Company's progress against the agreed actions from the internal audits completed to date. i4B would like to draw the Audit and Standards Advisory Committee to the following actions that have been completed:

Action log Ref.	Action	Update
B3	Implementation of a Microsoft Dynamics System for i4B properties and processes	A Microsoft Dynamics case management system for i4B properties and processes has been created. This will improve Brent Council processes and introduce clearer measuring periods for the company's KPIs. The system went live in November 2018. Work is ongoing to improve the accuracy of KPI reporting.
C1	i4B should use the findings from the fraud risk workshop to perform a fraud risk assessment.	A fraud risk assessment was undertaken in October 2018. At the October Board the Board agreed to transfer the fraud risks identified to the Company Risk Register. These risks will then be reviewed on a quarterly basis.
C2	i4B should also ensure that they have in place a set of fraud and ethics policies	In October 2018, the i4B Board agreed to adopt Brent Council's Anti-Fraud and Bribery Policy, Gifts and Hospitality Policy, and Whistleblowing Policy. Board Members have also signed a code of conduct policy.