

	Cabinet 11 February 2019
	Report from the Chief Executive
i4B Holdings Ltd Business Plan 2019/20	

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: <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	Part Exempt Appendix 1 of the Business Plan is not for publication due to Paragraph 3, of Part 1, Schedule 12A of 1972 Local Government Act.
No. of Appendices:	Two Appendix 1: i4B draft Business Plan Appendix 2: i4B draft Rent Collection and Arrears Management Policy
Background Papers:	N/A
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1.0 Purpose of the Report

1.1 This paper presents the i4B Holdings Ltd (i4B) Business Plan 2019/20 to Cabinet for Shareholder approval. It also includes a number of other matters which require Shareholder approval:

- A rent collection and arrears management policy;
- An updated financial model.

2.0 Recommendations

2.1 Cabinet approves the Business Plan as set out in appendix 1.

2.2 Cabinet agrees to increase the proportion of properties purchased in Brent and Greater London.

2.3 Cabinet agrees to the proposal for the realignment of agreed funding which includes:

- Increasing the budget for PRS Phase 1 from the approved £103.5m to

£109m.

- Changing the PRS Phase 2 budget from £116m to £110.5m.
- Making £24m of the £110.5m available for the street properties and making £86m available for the purchase of new build properties
- Total agreed funding remains the same at £254.5m.

2.4 Cabinet approves the increase of the Company's cash flow facility from £3.5m to £4.0m.

2.5 Cabinet approves the Rent Collection and Arrears Management policy as set out in appendix 2.

2.6 Cabinet approves the updated financial model.

3.0 Background Information

3.1 In November 2016 Cabinet agreed to establish a wholly owned investment company, i4B Holdings Limited. The Company was set up to own and manage private rented sector properties in order to support the Council's homelessness agenda.

3.2 i4B's Shareholder Agreement states that the Company should produce an annual Business Plan for shareholder approval. The 2017/18 i4B Business Plan was the first business plan and included an initial property acquisition plan to purchase 300 properties by September 2018.

3.3 The 2018/19 business plan detailed plans to purchase a further 300 units between September 2018 and April 2021 (creating a total of 600 PRS properties by April 2021). The 2018/19 Business Plan also outlined plans to diversify i4B's products. It proposed introducing different affordable housing products, exploring property development opportunities, and increasing i4B's portfolio to 963 units by 2021.

4.0 The 2019/20 Business Plan

4.1 Appendix 1 contains the Company's 2019/20 Business Plan.

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

4.4 PRS Acquisition Programme

- 4.4.1 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.
- 4.4.2 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.
- 4.4.3 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.
- 4.4.4 Of the phase two budget of £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.
- 4.4.5 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.

4.5 The provision of Intermediate/Key worker accommodation

- 4.5.1 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.
- 4.5.2 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.

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

4.6.1 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.

4.6.2 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 aspires to deliver.

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

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

4.7.1 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.

4.8 Working more closely with First Wave Housing

4.8.1 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.

4.8.2 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 Rent Policy and the Debt Recovery Policy

- 5.1 The 2018 i4B Shareholder Agreement states that amendments to the Rent Policy and the Debt Recovery Policy require shareholder consent.
- 5.2. i4B has produced a Rent Collection and Arrears Management Policy for shareholder approval. The policy aims to: take all reasonable measures to prevent rent arrears occurring and escalating; to promptly and effectively recover arrears, only taking enforcement action when required; and to treat customers as individuals and respond to their differing needs in order to provide the assistance required to sustain their tenancy when appropriate.
- 5.3 Appendix 2 contains the Rent Collection and Arrears Management Policy.

6.0 Updated Financial Model

- 6.1 During 2018/19, the i4B business model was refreshed to simplify it and make sure it is fit for purpose. Internal Audit has just completed an audit of the refreshed i4B model. The audit assessed the design and build of the i4B model and checked its calculations are consistent with the model intent. PWC presented their findings to the i4B Board in December 2018. They stated that the model was “robust” and “fit for purpose” in relation to its scope, aims and methodology although a number of recommendations had been identified and will be implemented.
- 6.2 The final model requires Shareholder approval from Cabinet.

7.0 Financial Implications

- 7.1 i4B is forecast to break even over 30 years on a cash basis as a result of decisive actions by the Board including:
- setting a net yield target and;
 - terminating property transactions where the price or service charges would undermine i4B’s ability to break even.
- 7.2 The net yield target is now set at 1.1%. This is sufficiently low to allow properties to be purchased at an accelerated rate while maintaining i4B’s ability to break even over 30 years.
- 7.3 The reduced rate of property purchases in 2018/19 was exacerbated by a slow-down of the property market. This has contributed to a reduction in gross rental income for 2018/19: £2.1m compared to last year’s business plan forecast of £3.9m. This means that the company is forecast to make a £1.6 million loss in 2018/19 (excluding depreciation) compared to the £664k loss forecast in the 2018/19 business plan.

Table 1 – Summary of i4B profit/ (loss) forecast in the 2018/19 and 2019/20 business plans for 300 properties in PRS Phase 1

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
2018/19 Business Plan profit/(loss) excluding depreciation	-1,754	-664	554	583	613
2019/20 Business Plan profit/(loss) excluding depreciation	-1,550	-1,570	-790	210	240
Variance	204	-906	-1,344	-373	-373

7.4 The i4B Business Plan requests that funding for the first 300 properties be increased from £103.5m to £109m by changing the PRS Phase 2 budget from £116m to £110.5m. This reduction may make delivering PRS Phase 2 more challenging if there is property price inflation over the delivery of that phase.

7.5 In addition, the latest modelling suggests an increase in the peak working capital debt to £3.9m. The Business Plan therefore requests that the cash flow facility be increased from £3.5m to £4.0m.

8.0 Legal Implications

8.1 The adoption of the proposed Business Plan is a matter reserved to the Council as the sole shareholder in i4B Holdings Limited and intention is to seek Cabinet approval in February 2019.

8.2 Similarly, i4B's Rent Policy requires shareholder consent and intention is to seek Cabinet approval in February 2019. A copy of the Rent Collection and Arrears Management Policy is attached at Appendix 2.

8.3 It will be noted from the business plan that Directors are considering opportunities to deliver savings through closer alignment of i4B and FWH, potentially ultimately combining corporate and other services to create efficiencies. Shareholder agreement would be required to any significant corporate changes for both companies.

9.0 Equality Implications

9.1 N/A.

10.0 Consultation with Ward Members and Stakeholders

10.1 N/A.

11.0 Human Resources/Property Implications (if appropriate)

11.1 N/A.

Report sign off:

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