

Appendix 2 – Risk Register

Risk	Business plan assumption	Risk Type	Likelihood (/5)	Impact (/5)	Risk Score (/25)	Mitigation
<p>The pipeline of properties is slower than the SLA target</p>	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel.</p> <p>The programme assumes 300 properties purchased by 1st April 2020 and 360 by 1st April 2021.</p> <p>The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is it's only source of funding.</p>	<p>Financial & operational</p>	<p>5</p>	<p>3</p>	<p>15</p>	<p>It was agreed at the June Board meeting that this risk had materialised into a live issue. The following steps are being taken to manage this issue:</p> <p>i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.</p> <p>Revisions have been proposed to the SLA target for conveyancing.</p>

<p>Company cash flow (capital and revenue) is insufficient to manage expenditure</p>	<p>i4B has commenced a large acquisition and refurbishment programme. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent.</p> <p>The potential consequences of this risk materialising is the company becomes insolvent.</p>	<p>Financial</p>	<p>3</p>	<p>5</p>	<p>15</p>	<p>i4B is monitoring SLA performance to deliver capital works and refurbishments within business plan requirements. i4B is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The Council has approved a cash flow facility of up to £3.5m and modelling is being undertaken to assess if this will be sufficient to meet i4B working capital requirements. i4B will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.</p> <p>The Company has requested to the Shareholder to increase cash flow facility to £4 million because Company loses have been forecasted to be higher than originally anticipated.</p>
<p>The nominations process exceeds SLA target</p>	<p>The business plan assumes 90 days for the refurbishment and lettings process.</p> <p>The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.</p>	<p>Financial & operational</p>	<p>4</p>	<p>3</p>	<p>12</p>	<p>The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could encourage the council (through the SLA) to introduce additional resources and change processes to reflect the new housing supply opportunity. i4B could work to bespoke some properties through a variation to its refurbishment specification. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation. i4B and the council will review the nominations agreement at its client company monitoring meetings. All hard to let four bedroom Home Counties properties have now been let. Therefore, lettings performance should improve.</p>

<p>Average property price exceeds budget and portfolio of properties does not achieve the target Net Yield margin</p>	<p>The average property price for PRS phase 1 is £345,00. If agreed, this will increase to £363,000 (£109m) and the average purchase price for PRS phase 2 is £400,000 (£24m) – this is based on purchasing a higher proportion of larger freehold properties than originally anticipated.</p> <p>1.1% average Net Yield (true)</p> <p>The potential consequence of this is i4B will be required to raise more capital to achieve unit targets. The ability to borrow more capital would be based on the strength of the company's business and underlying financial strength.</p>	<p>Financial</p>	<p>5</p>	<p>2</p>	<p>10</p>	<p>At the i4B board meeting in June, it was agreed that this risk had materialised into a live issue. The following steps are being taken to manage this:</p> <p>The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters.</p>
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<p>The cost to deliver i4B services exceeds business plan assumptions</p>	<p>There are a number of key assumptions built into the business plan and the setting of the Gross Yield %. These cost assumptions include: housing management services; repair and maintenance; insurance; contracts and service level agreements; major refurbishment programmes; and debt finance arrangements. As the business grows, cost assumptions may change and new costs may be encountered.</p> <p>The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.</p>	<p>Financial</p>	<p>3</p>	<p>3</p>	<p>9</p>	<p>A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce cost through contract management renegotiation, eliminating the cost where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. The company is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First Wave housing, ultimately combining corporate and other services to create efficiencies.</p> <p>Company budget and spend is reported and monitored at monthly Board meetings to ensure the Company is operating within budget.</p>
<p>The location of properties purchased varies from the business plan</p>	<p>The business plan assumes that: phase 1 – 220 properties purchased in Brent & Greater London, 80 in the Home Counties; phase 2 – up to 300 properties purchased in Brent.</p> <p>The potential consequences of this risk materialising is that purchasing more properties in Brent is likely to improve the financial strength of the company as long as the gross yield of 5% is maintained. If more properties are purchased in the home counties the underlying net yield is likely to be reduced and therefore create less income even at 5% gross yield.</p>	<p>Financial & operational</p>	<p>3</p>	<p>3</p>	<p>9</p>	<p>The decision has been taken to purchase more properties in Brent to mitigate the risk of purchasing properties that cannot be let. The financial impact of this on the business plan is offset by the speed of letting.</p> <p>The Company will continue to consider the business model tool at the board meetings to understand the impact of portfolio purchase the pipeline of purchases. i4B could reduce the scale of the programme or seek support from the council to purchase in alternative locations.</p>

<p>The refurbishment period exceeds SLA target</p>	<p>The SLA has a target of 70 days for the first 100, 64 days for the 2nd 100 and 56 days for the 3rd 100 units.</p> <p>The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.</p>	<p>Financial & operational</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's refurbishment service. Quotes for works are provided to i4B prior to properties being purchased. i4B could encourage the council through the SLA to introduce additional refurbishment teams or processes. The programme of purchases could be slowed to keep pace with refurbishment capacity.</p> <p>Early issues with the Refurbishment process have been addressed and now performance is within the KPI.</p>
<p>LHA rates fall below business plan assumptions</p>	<p>The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum.</p> <p>The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.</p>	<p>Financial</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>The 3% increase in LHA rates from 2018 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. The introduction of new products and some new build properties with higher yields may mitigate any future reductions in LHA rates. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.</p>
<p>There is a risk that there is a permanent downward adjustment of house prices</p>		<p>Financial</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>Difficult to mitigate as limited control of market conditions; continue to monitor closely.</p>

<p>Void periods exceed business plan</p>	<p>The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property.</p> <p>The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.</p>	<p>Financial & operational</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>i4B has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenants. i4B is working with the council to ensure purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. i4B could approach the shareholder to dispose of properties in locations consistently failing to attract customers.</p>
<p>Property price inflation reduces average yield and increases average purchase prices</p>	<p>The programme assumes 300 properties purchased by 1st April 2018 and 360 by 1st April 2021.</p> <p>The potential consequences of this risk materialising is the acquisition programme would slow down, reducing the realisation of benefits to the council. However, the company would also be weaker with fewer properties as some fixed costs would be spread between fewer properties. The company's loan facility would continue to incur costs to the company.</p>	<p>Financial & operational</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>Difficult to mitigate as limited control of market conditions; continue to monitor closely, and diversify activity as required.</p>
<p>There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord</p>	<p>The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.</p> <p>Failure to comply H&S requirements increase the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board.</p>	<p>Financial & Reputational</p>	<p>1</p>	<p>5</p>	<p>5</p>	<p>Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring and KPI reports include some key aspects including gas, complaints and customer satisfaction.</p> <p>BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.</p>

<p>There is a risk that i4B is deemed to have failed a statutory requirement in its corporate role</p>	<p>The company must comply with regulatory and best practice requirements around its own management and governance such as annual accounts, returns to Companies House, and other regulatory bodies such as the Housing Ombudsman.</p> <p>The consequences of other statutory failures may be fines and/or reputational damage to i4B.</p>	<p>Financial & Reputational</p>	<p>1</p>	<p>5</p>	<p>5</p>	<p>The Board is putting in place suitable policies and procedures in place to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements. Support for company governance is included within the companies' core SLA with the Council.</p>
<p>Interest rates increase impacting on new loans taken out by the Company</p>	<p>30 year loan facility for up to £109m at a fixed interest rate of 2.87%.</p> <p>Short term working capital loan facility for up to £3.5m at a fixed interest rate of 3%.</p>	<p>Financial</p>	<p>4</p>	<p>1</p>	<p>4</p>	<p>The current facilities are for fixed terms and fixed interest rates therefore i4B is not currently exposed to any interest rate risk. i4B will seek to arrange future loan facilities on the same terms whilst interest rates remain low. Should base rates significantly change, i4B will review and revise its growth and financing strategy appropriately having taken the necessary professional advice.</p>
<p>There is a risk that the demand increases for the types of properties that are financially less viable for i4B (e.g. large family properties in expensive areas in Brent)</p>	<p>The average property price for PRS phase 1 is £363,000 and the average purchase price for PRS phase 2 is £400,000 (£24m).</p> <p>5% average Gross Yield (true)</p> <p>Changes in demand could cause conflict between the companies' need to deliver on the Council's objectives, and the financial viability of it's business plan</p>	<p>Financial</p>	<p>1</p>	<p>4</p>	<p>4</p>	<p>Current demand is spread across lots of different property types, so it has been possible to tweak the mix of properties purchased to maintain average yield (e.g. purchasing increased numbers of 2 beds in Brent, which offer better yields than larger properties).</p> <p>Quarterly meetings have been initiated to monitor future demand and provide an early warning of this risk materialising.</p>

<p>The business plan does not diversify its products</p>	<p>The current business plan is primarily based on a Private Rented Sector (PRS) landlord model with permission to provide some market rent.</p> <p>The potential consequences of this risk materialising is the company may find its income and rent collection rate is more vulnerable to impacts of legislation including changes in housing benefit changes.</p>	<p>Financial & operational</p>	<p>1</p>	<p>2</p>	<p>2</p>	<p>i4B continues to seek to diversify its product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates.</p>
<p>There is a risk of Fraud to the company</p>	<p>Set up of invalid/fictitious suppliers by staff for personal gain.</p> <p>Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain.</p> <p>Payments to third parties for goods/services not received.</p>	<p>Fraud</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>Payments from i4B's account are made through the council's payment system and as such are subject to the Council's policies and procedures. i4B currently only makes payments to the council through the council's payment system.</p> <p>i4B's Scheme of Delegation states that any purchases or contracts of over £50,000 from the Company's funds requires the signatures of at least two of the Company's Directors.</p>
<p>There is a risk of Fraud to the company</p>	<p>Diversion of tenant rent payments by staff.</p> <p>Collusion between tenants and staff to write off rent arrears.</p> <p>Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.</p>	<p>Fraud</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>A 'Rent Collection and Arrears Management' policy is being drafted which will outline i4B's approval procedure for rent arrears right-off. This will include both board and shareholder approval.</p> <p>PRS programme manager receives weekly rent reports from housing management providers which detail if any refunds on rent overpayment have been given. To date, no refunds on rent overpayments have been given.</p>

<p>There is a risk of Fraud to the company</p>	<p>Collusion between staff/ board members and buyers to dispose of properties at under market value.</p> <p>Undeclared conflicts of interest between staff/board members and buyers.</p>	<p>Fraud</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>i4B will develop an Assets Disposal Policy to outline the process for the disposal of Company assets. This will consider the Council's checks and valuations, and will incorporate board and shareholder approval.</p> <p>The policy will be submitted to the shareholder for approval.</p>
<p>There is a risk of Fraud to the company</p>	<p>Falsification of financial position by i4B to secure additional Council funding.</p> <p>Nepotism in procurement processes, including bribery.</p> <p>Invalid or overly ostentatious expenses, for example for entertainment purposes.</p> <p>Facilitation of income tax avoidance.</p>	<p>Fraud</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>Regular Shareholder review meetings take place between i4B and the shareholder.</p> <p>i4B is reviewed twice a year at the Council's Audit and Standards Advisory Committee.</p> <p>Board member expenses are governed by council policy and procedures.</p> <p>All board members are required to declare their interests at monthly board meetings and have signed a Board Code of Conduct.</p>
<p>There is a risk of Fraud to the company</p>	<p>Subletting of properties by tenants.</p> <p>Letting of properties by Council or maintenance staff for personal gain during a void period.</p>	<p>Fraud</p>	<p>2</p>	<p>3</p>	<p>6</p>	<p>Property void times will be reported to the board to work to keep void periods low.</p> <p>BHM will prioritise regular visits to higher risk properties. High risk properties will be defined by intelligence from the Council's Audit and Investigation department.</p> <p>The board will be provided with detailed reporting on void checks undertaken by BHM.</p>

<p>There is a risk of Fraud to the company</p>	<p>Collusion between staff/board members and estate agents in relation to finder fees and commissions.</p> <p>Collusion between staff/board members and vendors to inflate purchase prices and share the additional amount.</p> <p>Staff making payments for fictitious property purchases to themselves.</p>	<p>Fraud</p>	<p>2</p>	<p>2</p>	<p>4</p>	<p>All properties purchased by i4B receive Delegated Authority approval in accordance with the Company's Scheme of Delegation. This is documented on i4B's Microsoft Dynamics case management system.</p> <p>The criteria for property purchase is pre-set by the Company's net yield calculator.</p> <p>Brent Staff acting on behalf of i4B are governed by the Council's Code of Conduct and their work is regularly assessed through internal management checks and processes.</p>
<p>There is a risk of Fraud to the company</p>	<p>Repairs/maintenance/major works – overcharging or charging for fictitious works.</p>	<p>Fraud</p>	<p>1</p>	<p>2</p>	<p>2</p>	<p>BHM will implement a post inspection regime to ensure that the repair and major works completed comply with what is being paid for.</p> <p>A review will be undertaken into a property when it receives more than 7 repairs in a 12 month period.</p> <p>The average cost per repair per property will be reported regularly to the board.</p> <p>Single repairs over £199 and double repairs over £299 are approved by i4B's programme manager.</p>