

i4B Holdings Limited

Business Plan

2019/20

And

Forward Investment Proposals 2019-2024

Business Plan Structure

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1 The Purpose of the Company

- 1.1 i4B Holdings Ltd (i4B; the Company) has been established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council (the Council).
- 1.2 Brent Council has one of the highest numbers of households in Temporary Accommodation (TA) in England. For Quarter Two of 2018-19, the Council reported having 2,375 households living in TA, the seventh highest of all housing authorities in England.
- 1.3 On 14 March 2016, Brent Council's Cabinet approved the Council's TA Reform Plan, as a response to this challenge. One of the main measures outlined in the Plan was for the Council to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation. It was intended that the Council acquire properties, either directly or through partner delivery agents, to be let as long term PRS properties at Local Housing Allowance (LHA) levels to prevent homelessness or end a homelessness duty.
- 1.4 The primary purpose of the Company is to deliver the housing options defined in the TA reform plan. The core business of the Company is as a Private Sector Landlord accepting homeless nominations from the Council. Properties are let with the intention that the tenancy will be the foundation on which customers can improve their quality of life. The aim is that customers enjoy secure, affordable, and well maintained accommodation.
- 1.5 The Board of i4B has limited discretion to let properties at affordable rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the Company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative.
- 1.6 The Company has carried out business development activities, researching new ways and opportunities by which it could support the achievement of the Council's wider objectives. These are detailed in Section 7 – New Opportunities and Section 8 – Proposed Routes for the Delivery of Business Products.

2 The Benefits of Operating as a Company

- 2.1 As a wholly owned, Local Authority Company, the Company operates at 'arms-length' from Brent Council, with the remit of providing affordable PRS accommodation to households for which the Council has a responsibility.
- 2.2 The Company is set up with the following requirements:
- The Company has discretion over the individual properties it acquires provided that:
 - They are in a suitable location for the Council to comply with its duty under the Homelessness Suitability of Accommodation Order of 2011;
 - They are within the affordability criteria set out in the Company investment plan and Capital financing agreement with the Council;
 - The rental income will be broadly equivalent to the relevant Local Housing Allowance.
- 2.3 The Company's core business plan anticipates a financial breakeven position over 30 years. However, i4B is exploring commercial ventures, which include growth, diversification or higher-yielding businesses/investment, to support the business in the medium and longer term and importantly maximise its contribution to the Council's vision of 'making Brent a borough of culture, empathy and shared prosperity'.

3 The Structure of the Company

3.1 The Company is limited by shares, initially providing affordable homes for households who might otherwise be housed in temporary accommodation.

3.2 The Company is called i4B Holdings Limited.

3.3 The Company's registered office is:

Brent Civic Centre,
Engineers Way,
Wembley
HA9 0FJ

3.4 The Company's Memorandum of Understanding, Articles of Association, and Shareholders Agreement are as set out in the relevant documents.

3.5 The Board of the Company is chaired by independent voting Director Martin Smith. The other directors of the Company are:

- Independent board member Akintoye Durowoju;
- Councillor George Crane;
- Gail Tolley, the Strategic Director of Children and Young People; and
- Peter Gadsdon, the Director of Performance, Policy and Partnerships.

3.6 The Company has a Service Level Agreement (SLA) with Brent to provide a range of services to support the Company's operations, including:

- Corporate and Financial services;
- Property purchasing and refurbishment;
- Housing management.

3.7 In addition, the Company purchases services from the Council to buy, refurbish and manage the properties being acquired. Other services as may be required to discharge this business plan or Council agreed supplementary business cases.

4 Performance to Date

- 4.1 The Company was incorporated in December 2016 and bought its first property in August 2016. As of December 2018, the Company owns 201 properties and has let 177 homes to Council nominees..
- 4.2 The Company is aware that whilst it is young and purchasing properties its business is not in a steady state. i4B has been letting over 10 homes per month and working with customers new to their accommodation and tenant responsibilities. As a result, i4B has experienced financial challenges. The Company is forecast to make a £1.6 million loss in 2018/19 excluding property depreciation, revaluation gains or impairment losses, the 2018/19 business plan forecasted a loss of £664k. The Company is working with the Shareholder to ensure it is able to operate effectively and meet its core objectives.
- 4.3 However, the Board has benefitted from the experience of managing properties for 18 months and has improved its service. The Company has introduced the following improvements to strengthen the business and mitigate negative factors:
- 4.3.1 The average time from purchase to the first let has been reduced. The last 50 units to be let have averaged 89 days from purchase to let compared with the average from April 2018 which is in excess of 160 days. The business plan seeks an average of 90 days or less.
- 4.3.2 The proportion of the portfolio let and generating income compared to those in refurbishment has improved from 44% in April 2018 to 88% in January 2019.
- 4.3.3 The property acquisition strategy has changed to increase the proportion of properties purchased in Brent. This refinement will reduce sign up refusals and the number of appeals which the Council has to manage from customers housed outside the Borough. The average letting time within Brent is 19 days. Large four bedroom properties in the Home Counties have proved hard to let.
- 4.3.4 The Company's financial model is highly sensitive to property price, service charges, works costs, and lease costs. Therefore, the Company has introduced a higher financial threshold when buying properties based on net yield. A net yield calculator has been adopted by the Board, this is now the metric that guides property purchases. A net yield target of 1.1% was set in order to support the 30 year financial plan. The average net yield of the current portfolio is 0.96% with a pipeline of 1.32%. The Company is anticipating an average net yield of 1.05% for the first 240 properties and an average portfolio net yield of 1.1% for the first 300 properties. The new net yield target has caused some disruption to the pipeline and the withdrawal from purchase of a number of properties.
- 4.4 Tables 1 and 2 are a snap shot of acquisition, refurbishment, and first lettings performance at January 2019.

Table 1 – Performance within the acquisition to first letting process

Acquisitions – 14th January 2019	No	Value (£m)
Properties purchased	201	£66.3m
Properties in final authority to buy stage	5	£1.6m
Properties in conveyancing (legal)	25	£9.5m
Properties in pipeline	31	£11.2m
Total value of the acquisitions and pipeline	262	£88.6m
Refurbishment costs	262	£4.6m
Net yield of purchased properties	201	0.96%
Net yield conveyancing & pipeline	69	1.32%
Total rent roll per annum	201	£3,574,300

Table 2 – Refurbishment and Lettings Performance

Refurbishment & Lettings – 14th January 2019	No
Properties let	177
Properties matched	1
Properties awaiting letting to be matched	3
Properties void (after 2nd let)	0 (6 voids to date)
Properties in refurbishment	20
Discharge of duty cases where the customer refused the property	35
Properties with wet room and stair lifts	3
Properties suitable for people with low level mobility needs	10%
Average rent per property	£294.26

Acquisitions

- 4.5 The PRS programme set out in 2016 to provide 300 units of good quality private sector accommodation for Council nominees by September 2018. In February 2018, the Shareholder supported a second phase of 300 units to be purchased by 2021. The pace of acquisitions has been slower than originally envisaged with 201 units purchased by 14th January 2019.
- 4.6 There are a number of factors as to why the Company has struggled to purchase properties at the rate agreed with the shareholder. These include:

- 4.6.1 The low volume of properties on the market at a price the Company can pay;
 - 4.6.2 The dominance of leasehold properties in the market which bring complexities such as lease terms, third party freehold ownership, and services charges;
 - 4.6.3 Difficulties in reducing the acquisition timeline from property identification through to the first let; and
 - 4.6.4 The challenges of matching nominees and properties in the Home Counties especially large family accommodation
- 4.7 The average price per unit is above target at £353k compared to the budget of £345k per unit. However, to date, i4B has purchased more properties within Brent (116) than initially anticipated and fewer in Greater London (15) and the Home Counties (70). The Council's purchasing team has been successful at acquiring properties at increasingly higher yields and within Brent. An in year adjustment in net yield guided the Company towards purchasing more expensive three and four bed freehold properties. The revised yield will allow a proportion of high demand two bed units to be purchased to complement three and four bedroom units.
- 4.8 The portfolio pipeline reflects a 60% to 40% leaseholder freeholder split. Although many leases are in blocks which are owned by independent freeholders, the Company has been successful at purchasing leases in Brent Council blocks and purchasing multiple leases within the same dwelling to become the freeholder as well as leaseholder.
- 4.9 The Board is confident that the purchase of street properties will continue to play a significant role within a greater portfolio. The Board set out in the Company's 2018/2019 Business Plan, and repeats in more detail in this plan, its ambition to purchase higher yielding new built homes from the Council and from the market to provide affordable homes in Brent. This will increase the average yield of the Company's portfolio. A blended net yield of 1.1% should be achievable by April 2024.

Performance Improvements

4.10 Table 3 sets out the significant improvements that have been made in 2018.

Table 3 – Key Performance Acquisition to first let

Indicator	Target	Performance at February 2018	Performance at January 2019
Number of units	300 by October 2018	102 units at February 2018	201 units at 14 th January 2019
Average cost per property	£345,000	£355,892	£352,900
Gross Yield	5%	4.91%	4.95%
Net Yield	1.1% New Jan 2019	0.88%	0.96%
Period from panel approval to purchase (October data)	91	131	142
Refurbishment (October data)	66	122	64
Letting in Brent (October data) (days)	14	29 (all locations)	19
Letting outside Brent (October data) (days)	35	As above	114
Rent collection	98.5%	60.89%	90.25% (04/12/2018)
Evictions	N/A	0	2
Landlord Gas safety Record	100%	100%	99%
Void Rate (relets)	3%	0%	3% (6 properties in total all outside Brent) Void rent loss 1.6% (04/12/2018)

- 4.11 The time taken to refurbish and let acquired homes has reduced. The last 50 units have been refurbished and let within 90 days of purchase. Performance is at its best in Brent. Letting in the Home Counties has been harder due to greater resistance from customers to be housed outside the Borough and the difficulty in placing larger families outside Brent due to the increased likelihood for family members needing to remain in borough for education, employment, or medical reasons.
- 4.12 Void rates are low at around 3%. In each case where a tenancy has ended the property has been outside Brent.
- 4.13 There remain a number of challenges in rent collection and arrears management. Performance in this area has led to the serving of contract breach notices on management agents. However, rent collection is now at 90.25% (04/12/2018) and collection rates have improved for seven consecutive months. The Company

continues to monitor agents closely on this matter. A procurement process is underway for housing management contracts as the current contracts will end in the autumn.

Performance Management and Audits

- 4.14 Performance continues to be monitored by the Board and through a monthly service level agreement with the Council.
- 4.15 The establishment of a comprehensive Service Level Agreement (SLA) between i4B and the Council has enshrined service standards, expectations of performance, and resources. Monthly client meetings have been established between i4B and the Council to monitor adherence to the business plan and the SLA.
- 4.16 Bi annual shareholder meetings provide an opportunity for senior Council officers to discuss the performance and benefits of i4B with the Company.
- 4.17 The Company has undergone three internal audits. These have covered Governance and Risk Management, Fraud Risk, and Benefit Realisation. All audits have been assessed as Reasonable. The definition of reasonable is 'while there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk'. The Board has since implemented measures to mitigate and eliminate the risks and weaknesses identified by the three audits.
- 4.18 The Company has appeared at the Council's Audit Advisory Committee on three occasions to discuss its audits since September 2017, and will continue to attend at the appropriate intervals.
- 4.19 The acquisition of homes has moved to the Microsoft Dynamics CRM process and i4B has commenced using Brent Dynamics from November 2018. The system will help communication between the many Council service areas involved in the purchasing and refurbishment of properties via the Company's Service Level Agreement with the Council. The transparency of the records to more service areas helps in key areas such as finance, council tax, and payments as documents are visible from a core archive. The Brent Dynamics system is now able to report live performance and financial information which contributes to better and timelier decision making.

5 Benefits Analysis of the PRS Acquisition Programme to Date

- 5.1 The Company's purpose is to support the Council in achieving its vision of making Brent a borough of culture, empathy and shared prosperity. There are five areas which can be measured to support the Company's contribution:
- Helping the Council achieve its strategic objectives
 - Supporting the Council to retain and grow skills and invest in the expertise of those who deliver services
 - Income generated to the Council through 'on-lending' capital to the Company
 - Reducing the Council's revenue cost through i4B investing in new products and delivering services in new ways
 - Investing in assets that should appreciate in capital value over the medium and long-term.

Social Benefits

- 5.2 Although the PRS acquisition programme has not delivered new housing supply, 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.
- 5.3 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. Also, with i4B as their landlord, tenants are safe from practices such as revenge evictions.
- 5.4 i4B also supports the diverse needs of the borough. i4B has agreed a mobility friendly standard with the Council. Homes will have level access, walk in showers will often be installed as part of the refurbishment. Around 10% (30) of i4B properties will achieve this standard, helping provide more suitable accommodation for some homeless customers and make a contribution to hospital discharges.
- 5.5 Brent Council's lettings team undertake a thorough matching process when considering tenants for i4B properties. Where possible families are matched with a property in-borough in the first instance. The Company's out of borough stock enables it to support people fleeing domestic violence.
- 5.6 Through the SLA contract with i4B, the Council has been able to sustain and in some service areas increase staffing budgets. For example, the Council's property team has been strengthened with additional capacity and new skills. An additional five posts have been created in legal services.
- 5.7 As of January 2019, 168 Brent families, including 411 children, have been housed in i4B properties.

Table 4 – 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

Financial Benefits

- 5.8 The Council receives financial benefits from i4B, mainly through reducing the use of temporary accommodation and supporting homeless families. The Council also bears some additional costs from i4B. i4B estimates that on an ongoing basis, the first 300 properties purchased by i4B will bring ongoing net financial benefits of £300k per annum to the Council.
- 5.9 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 is a profit to the Council.
- 5.10 Although the Council is investing capital to reduce revenue expenditure, it can also consider the capital outlay as a medium and long-term investment. The housing market has historically provided good levels of investment growth. As the sole shareholder, the Council can benefit from property price growth of the portfolio.

6 Demand for i4B Properties

- 6.1 The below section contains information provided by the Council's Housing Needs Service which sets out their demand for PRS accommodation acquired by i4B to alleviate the demand for affordable housing from homeless household.

Demand by Household

- 6.2 Table 6 below shows the number of post Localism Act accepted cases broken down by bedroom need. This offers a broad assessment the current potential total demand for i4B properties.

Table 6 - Homeless Households in TA accepted post 09/11/2012 by bedroom category

Bedroom size required	Number of households
1	83
2	552
3	388
4	113
5	17
6	1
Total	1154

- 6.3 However, the practical demand for legacy households living in TA is approximately 1,000. This is because 71 households are affected by the overall benefit cap and approximately 50 households are in significant rent arrears.
- 6.4 Table 7 below shows a breakdown of homeless households for which the Council has accepted the main rehousing duty after 9/11/2012, who are living in nightly paid B&B. This illustrates the priority target households that i4B was set up to house.

Table 7 – Homeless Households accepted post 09/11/2012 by bedroom category and living in nightly paid B&B.

Bedroom size required	Number of households in B&B
1	15
2	35
3	22
4	8
5	0
Total	80

- 6.5 In addition to this demand, the Council's Housing Options team has historically accepted the main rehousing duty to approximately 30 households per month.
- 6.6 The above figures demonstrate that demand is greatest for households requiring two and three bedroom properties. Demand from households requiring two and three bed properties makes up 81% of total demand (households accepted post Localism Act)

and 71% of priority demand (households accepted post Localism Act living in nightly paid B&B).

Demand by Location

- 6.7 Since the implementation of the Government’s welfare reforms, total amount of welfare benefits received by a lone parent or couple with children has been capped at £23,000 (£442 p/w) in London and £20,000 (£385 p/w) outside of London. Any household who are affected by the overall benefit cap will be unable afford to live in Brent, as the LHA levels are too high.
- 6.8 Profiling of the 65 accepted families currently living in B&B (as set out in table 8) has taken place, to identify which households are exempt from the Overall Benefit Cap, either because they are working, or because they are exempt due to medical issues.

Table 8 – Profiling of accepted households in B&B

	2 Bed	3 Bed	4 Bed
Not working	20	6	3
Working	10	14	5
Med/exempt	5	2	0
Total	35	22	8

- 6.9 Generally, the households who require a two bed and are not working and not exempt from the cap will find it difficult to afford accommodation in Brent/London. Those households who are a three bed need, who are not working and not exempt will not be able to afford accommodation in Brent/London and realistically could only afford accommodation in Luton/Bedfordshire and Milton Keynes. Households who require four bed accommodation could only afford to live in accommodation in Milton Keynes and beyond.
- 6.10 Of the new 30 homeless households per month, there is a higher proportion of households who are affected by the Overall benefit Cap. Therefore, the future supply of properties would need to cater for families who cannot afford to live in Brent, and whom have no social or educational needs to remain in the borough.
- 6.11 However, there may not be a demand for these properties from homeless households. The location of a property has a significant impact on the refusal rate. Only 6% of i4B properties in Brent have been refused since April 2018. Whereas 25% of i4B properties outside of Brent have been refused. Moreover, in every case where a tenancy has ended the property has been outside Brent

Implications for i4B

- 6.12 The above demand figures will assist i4B’s purchasing strategy over the next year. Table 9 gives a summary of i4B’s portfolio when 300 properties are purchased.
- 6.13 As of December 2018, 230 properties have been purchased or are in conveyancing. Due to yield restrictions, it is probable that the remaining 70 properties will be made up of three and four bed properties. It is likely that 10 three bed properties in the Home Counties will be purchased. The Company will aim to purchase all of the remaining 60 properties in Brent and Greater London, this is due to difficulties in

housing households outside of the Borough. However, the Board would like flexibility to purchase bespoke Home Counties properties on behalf of the Council where there is demand.

Table 9 – Summary of i4B PRS property purchases by location and size

Location	2 bed	3 bed	4+ bed	Total
Brent & Greater London	100	74	46	220
Home Counties	9	47	24	80
Total	109	121	70	300

- 6.14 76% of properties in the i4B portfolio are either two or three bedrooms. This reflects the demand figures outlined in paragraph 6.6. Moreover, the new build opportunities outlined in Section 8 will reflect demand. For example, at Site 1, the Company’s priority project over the next year, 75% of units will be either one, two, or three bedrooms.

7 New Opportunities

- 7.1 The first i4B Business Plan in 2017/18 anticipated the purchase of 300 properties and a financial breakeven position over 30 years.
- 7.2 In the 2018/19 Business Plan, it was agreed with the Shareholder that the Company would seek to grow and diversify its business operations and products to strengthen the balance sheet, spread risk, and increase capacity to do more for Brent.
- 7.3 The Board has considered its 2018/2019 Business Plan and five year forecast against its own performance and external market factors. The Company recommends to the shareholder that the themes identified within the 2018/2019 Business Plan remain the correct priorities. The themes are:
- The PRS acquisition programme;
 - The provision of Intermediate / Key worker accommodation;
 - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
 - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market;
 - Strategic investment to strengthen the business and/or bring benefits to the Council benefit.
- 7.4 In addition, the Company will:
- Work with the Shareholder to look at the optimum structure for Council-owned housing companies, including i4B Holdings Ltd and First Wave Housing Ltd (FWH).
- 7.5 The 2019/2020 Business Plan refines the ambitions supported by the shareholder in February 2018 and provides more clarity on how these products will be delivered. Growth and diversification continues to be a theme to help mitigate risks associated with income. The Company is aiming to diversify the customer base through the provision of a wider range of affordable housing products. The Company will continue to focus on its commercial needs to ensure i4B accelerates and increases its contribution towards the Council's vision of 'making Brent a borough of culture, empathy and shared prosperity'.

8 Proposed Routes for the Delivery of Business Products

8.1 This section expands on how the Company plans to deliver the opportunities outlined in Section 7. The proposed profile considers the Council's need which is outlined in Section 6.

8.2 Table 10 shows the Company's proposed programme of opportunity. This programme is within the £254.5m approval agreed with the Cabinet in February 2018. However, as a result of experience over the past 12 months, the Company is proposing to change the distribution of the spend profile.

Table 10 – Summary of i4B growth opportunities (financial figures for the below are outlined in appendix 1, this will be restricted as contains commercially sensitive data)

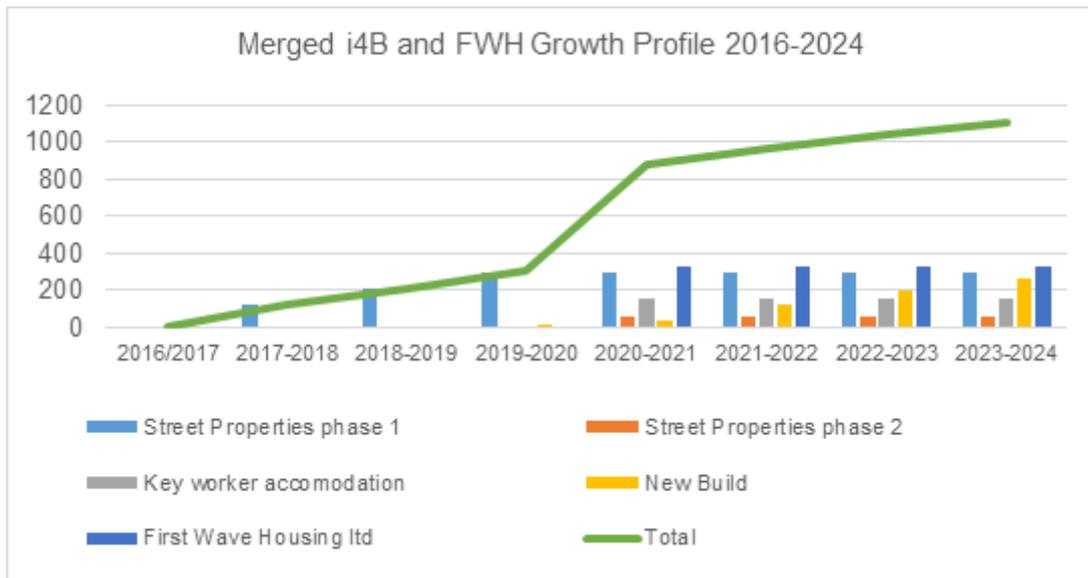
No.	Name	Units	Delivery Years	Delivery Partners
1	Street Properties	300	2016-2020	LBB / i4B (FWH)
2	Street Properties	60	2020/2021	LBB / i4B (FWH)
3	Intermediate / key worker accommodation	153	2019/2020	LBB / development partner / i4B (FWH)
4	New Build Site 1	100	2019-2023	LBB / i4B (FWH), In house development or partnership
5	New Build Site 2	4	2019/2020	LBB / i4B (FWH)
6	New Build Site 3	26	2019-2022	LBB / i4B (FWH), In house development or partnership
7	New Build Site 4	31	2019-2022	LBB / i4B (FWH), In house development or partnership
8	New Build Site 5	92	TBC	LBB / i4B (FWH), In house development or partnership
9	New Build Site 6	12	2020-2021	LBB / i4B (FWH), In house development or partnership
	Sub-Total	778		
10	Align with FWH	329	TBC	
	Total	1107		

- 8.3 The Company anticipates to purchase 300 units by April 2020 with a budget of £109m. The Council is considering requesting i4B to purchase and sell four shared ownership units, this proposal will be submitted separately should it emerge.
- 8.4 Schemes will be completed between April 2020 and April 2024. Greater detail and permissions will be sought in i4B's 2020-2021 Business Plan and 2020-2025 forecast.
- 8.5 The Company's focus over the next year will be progressing both the intermediate / key worker opportunity and the Site 1 new build opportunity.
- 8.6 The Company suggests it is able to grow from 200 units in January 2019 to 778 units by April 2024. Chart 1 demonstrates this growth. The main increase in portfolio would arise from the purchase of a single block of 153 properties in 2020 and the development of two Council owned sites comprising of 112 units.
- 8.7 The Council is also considering aligning i4B Holdings Ltd and First Wave Housing Ltd. Should a decision be made to bring the two companies together, the portfolio of the receiving Company could total 1107 units. The main period for portfolio growth would be 2019-2021. Chart 2 shows the growth of the merged portfolios between 2017 and 2024.

Chart 1 – i4B portfolio growth opportunities



Chart 2 – A combined i4B and FWH portfolio growth opportunities



8.8 An ambitious PRS acquisition programme

8.8.1 Summary: £109m to deliver phase 1 of the PRS programme of 300 units by April 2020, £110.5m to deliver phase 2 of the PRS programme of 60 street properties and 265 new build homes purchased from the Council.

8.8.2 There are a number of changes in the profile of PRS street properties to be purchased. The Company request the shareholder support the following:

8.8.3 In the 2018/2019 Business Plan, the Shareholder agreed to the purchase of 180 units in Brent and 120 units in the Home Counties in phase 1 of the PRS acquisition programme. The Company now proposes to purchase 220 of the 300 units in phase 1 within Brent or Greater London. It is anticipated that 200 of these will be in Borough. The Company proposes to reduce the number of units to be purchased in the Home Counties to 80. This recommendation follows the experience gained in letting properties to the Council's nominees and from reviewing the financial performance of portfolio properties. Despite the good quality of accommodation in the Home Counties, the Council has experienced significant challenges in placing families outside of the Borough. Moreover, the Company has also experienced greater difficulty in tenancy and income management for Home Counties properties. However, the Board would like flexibility to purchase bespoke properties on behalf of the Council where there is demand.

8.8.4 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. It is proposed that the additional £5.5m is taken from the February 2018 agreed PRS phase two budget of £116m. i4B considers a revised budget of £110.5m for PRS phase two to be achievable due to its ambition to purchase more new build properties which will have a higher net yield.

8.8.5 In 2018, the Shareholder supported a second phase of 300 PRS properties. The Company has identified opportunities to provide the majority of phase two PRS through new build opportunities with the Council. Therefore, the Company seeks to reduce the amount of street property purchases. In phase two, up to 60 street properties will be purchased through the market and circa 265 delivered through the acquisition of new build properties built on Council land. Purchasing new build schemes from the Council provides the below benefits:

- Retaining the land asset under the umbrella of the Council's ownership;
- Providing additional resources to complement the delivery of new build social rent housing funded by the housing revenue account;
- Providing the Council with a significant capital receipt;
- Providing a step change in the quality of i4B's PRS portfolio and an even higher standard of accommodation for Council nominees.

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

8.9.1 Summary: £86.5m of the agreed PRS phase 2 funding to be made available for the purchase of new build homes from the Council from 2020. Six schemes delivering 265 units have been identified to date. It is requested that i4B and FWH 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 Brent within a short period.

8.9.2 The Council aims to deliver 1,000 new units of affordable housing per year in Brent, through the various delivery routes. Alongside direct delivery by the Council funded by the Housing Revenue Account and the sale or granting of land for development to Registered Providers, i4B is one of several funding and delivery routes to achieve this target.

8.9.3 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. To date, 265 units over six schemes are considered suitable for purchase by i4B.

8.9.4 To ensure these properties remain affordable housing, i4B will work with the Council to explore opportunities to utilise grant or subsidy. i4B will review its financial model, allowing a more diverse offer of tenures in-keeping with the Councils requirement of 65% of market rents maximum.

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

8.10.1 Summary: i4B and FWH to be named as partners within an agreement with developers to increase the capacity of the Council and its wholly owned subsidiaries to deliver a large number of affordable units in borough within a short period.

8.10.2 The Company wishes 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.

8.10.3 i4B is also keen to use the skills of partner organisations to support regeneration initiatives. For example, the Company could work with a smaller Registered Provider or developer to capture opportunities to strengthen the Borough's high streets through selective housing interventions. i4B has contributed to a planning led paper on opportunities to strengthen high streets. A partnership with a larger Registered Provider or developer would also create new opportunities when considering the delivery of larger development schemes including regeneration in areas such as the Wembley Housing Zone. i4B has shared with the Council initial opportunities to support the Council's ambition for the Wembley Housing Zone.

8.11 The provision of Intermediate/Key worker accommodation.

8.11.1 Summary: Funding for intermediate rented accommodation will be used to support the purchase of one block of 153 units for the provision of key worker accommodation at 60%-80% market rent.

8.11.2 The Company's 2018/19 business plan set out the intention to develop an i4B intermediate rent offer. This links to the Council's wider commitment to support other public sector organisation to recruit and retain employees in Brent.

8.11.3 An opportunity to provide 153 units of key worker accommodation has been identified through a partnership between i4B, the Council and a developer.

8.11.4 The scheme will be 100% affordable and will honour the requirements of the s106 agreement. The purchase and first lettings will take place summer 2020 subject to agreement and contract. The Company would use the current shareholders approval to support this opportunity.

8.11.5 Throughout 2019/2020, i4B will work with the Council's housing supply and partnerships team to develop this opportunity as a flagship for key worker accommodation. This includes taking a key role in the commissioning of Cambridge University to undertake research into demand for key worker accommodation, how it should be targeted and rent levels that are proportionate to salaries of key workers in Brent.

8.12 Strategic investment to strengthen the business and/or bring benefits to the Council.

8.12.1 Summary – i4B will continue to carry out appraisals on regeneration opportunities within the Borough. The Company will seek to enter agreements to facilitate investment and the delivery of opportunities.

8.12.2 The Borough of Brent has seen a significant amount of regeneration investment over the past ten years including place changing initiatives at South Kilburn and Wembley. The Council and i4B are keen to ensure the benefits of regeneration are felt by local residents as well as attracting people to Brent as a location of choice to live and work.

8.12.3 The Company has conducted initial appraisals on two regeneration opportunities and provided the Council with a view of how the Company could help. Opportunities explored include new homes in the Wembley Housing Zone and how Brent High Streets could be strengthened through the provision of new homes.

8.12.4 The Company will continue to work with the Council to explore regeneration opportunities, carry out feasibility studies to refine proposals and bring opportunities to the shareholder.

8.13 Working more closely with First Wave Housing Ltd

8.13.1 The Council has two wholly owned Companies which are currently focused on Housing. FWH owns 329 residential properties and two commercial properties.

8.13.2 If the two companies are compared the only material difference is that FWH is a registered provider (and therefore eligible for grant funding from Government) and i4B is not. Both can raise finance, the Council is the sole shareholder for both companies, and they both use the Council to deliver many of their services, and the Shareholder has appointed the same Directors to both boards.

8.13.3 The Shareholder has carried out some initial work which has identified potential benefits of aligning the two companies. 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.

8.13.4 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.

9 Risk Analysis

9.1 The below risks are the top five issues and risks the Company presently faces. The risks focus on the Company's current PRS acquisition programme.

9.2 Table 11 – Top six issues and key risks (See Appendix 2 for the full company risk register which provides descriptions of risks, risk scores, and mitigations)

*denotes when a risk has become a live issue.

Issue/Risk	Business Plan Assumption	Risk Type
Business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions. The introduction of universal credit may adversely affect rent collection	<p>The Business plan assumes 98.5% rent collection rates and 1.5% bad debt (Income written off by the i4B Board due to bad debt in particular arrears).</p> <p>The potential impact of this risk is on i4B's cash-flow. i4B would have less income to cover expenditure.</p>	Financial
*The pipeline of properties is slower than the SLA target.	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel. The programme assumes 300 properties purchased by April 2020 and 360 by 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 its only source of funding.</p>	Financial
Company cash flow (capital and revenue) is insufficient to manage expenditure	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.	Financial
The nominations process exceeds SLA targets	<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</p>	Financial and operational

	and expenditure such as council tax liabilities increase.	
*Average property price exceeds budget and portfolio of properties does not achieve the target Net Yield margin	<p>The average property price for PRS phase 1 is £345,000 this could increase to £363,000 if the PRS phase 1 budget is increased to £109m and the average purchase price for PRS phase 2 is £399,000 (£24m).</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>	Financial

10 Financial Analysis – Existing Business Model

- 10.1 During 2018/19, the Board increased the net yield target for new purchases. This had a positive long term impact but did temporarily slow the purchase of new properties.
- 10.2 The slower rate of property purchases was exacerbated by a slow-down on 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 a £664k loss forecast in the 2018/19 business plan.
- 10.3 The Board has recently undertaken a business model review and has set a net yield target of 1.1% which is sufficiently low to allow properties to be purchased at an accelerated rate while maintaining i4B's ability to break even over 30 years.
- 10.4 The peak working capital requirement is also forecast to increase to £3.9m. It is therefore requested that the cash flow facility from the Council be increased from £3.5m to £4.0m.

Table 12 - Financial Analysis – existing business model

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Outlay	45,700	27,700	35,600	0	0	0	0
Long term loan	-45,700	-27,700	-13,800	0	0	0	0
Equity (cash injection)	0	0	-21,800	0	0	0	0
Net capital transactions	0	0	0	0	0	0	0
Revenue Income Cashflows							
Gross Rental Income	150	2,110	3,620	4,740	4,810	4,860	4,910
Revenue Expenditure Cashflows							
Loan Fees and Charges	-730	-340	-140	0	0	0	0
Management and Maintenance	-500	-1,180	-1,520	-1,700	-1,730	-2,190	-2,110
Company Operating Costs	-200	-200	-200	-200	-210	-110	-110
Net Operating Transactions	-1,280	390	1,760	2,840	2,870	2,560	2,690
Debt Financing	-270	-1,920	-2,460	-2,520	-2,520	-2,520	-2,520
Working Capital Financing	0	-40	-90	-110	-110	-100	-100
Net Profit/(Loss) excluding depreciation for PRS1	-1,550	-1,570	-790	210	240	-60	70

11 Key Performance Indicators

11.1 Table 12 lists all of i4B's key performance indicators (KPIs) and Targets for 2019/2020. The Board reviewed its KPIs in July 2018. The shareholder are asked to approve the below KPIs.

11.2 Table 12 – KPIs

No	KPI	Measure	2019/20 Business Plan Targets in weeks or calendar days	Monitoring Period	KPI Owner
1	Net Property Yield	Takes into account purchase price and LHA rate plus one off purchase costs and ongoing annual costs	1.1%	Monthly	i4B
2	Gross Property Yield	The annual rental income shown as a % of the property purchase price.	5%	Monthly	i4B
3	Average portfolio purchase price	The average cost of a portfolio property including works, SDLT, fees and VAT.	£345,000 or £363,000 if the loan has increased from £100m to £103.5m and if agreed £109m	Monthly	i4B
4	Maximum equity share held by LB Brent	The proportion of equity held by LB Brent in relation to the total loan provided to i4B.	23% (maximum)	Monthly	LB Brent – Finance
5	Business modelling exercises undertaken	The number of business modelling exercises undertaken and reported to the Board.	6 per year (minimum)	Quarterly	LB Brent – Finance
6	Property Negotiation - PRS panel to instructing legal	The average number of days in the reporting period between PRS panel instruction to property instructing legal.	60	Monthly	LB Brent - Property

		Activity in this period includes the negotiation of property price and the vender's acceptance of offer.			
7	Instructing Legal - Legal reporting to property	The average number of days between property instructing legal to legal reporting to property. Activity included in this period includes legal due diligence and title reporting.	55	Monthly	LB - Legal
8	Legal reporting to property - DA approval agreed	The average number of days between legal reporting to property to delegated approval agreed. Activity during this period includes delegated authority approval.	18	Monthly	LB - Property
9	DA approval - Keys handed to refurbishment	Period in calendar days between delegated authority approval to the purchase of the property including the period taken to provide keys/handover pack to refurbishment.	18	Monthly	LB - Property
10	PRS acquisitions	Number of PRS street properties purchased by the property team	300	Monthly	LB Brent - Property

11	Acquisitions – achieving the agreed programme	Number of properties purchased against the Company's agreed business plan	304 by 1st April 2020	Monthly	i4B
12	Acquisitions – property tenure	Number of Leasehold units purchased in comparison to freehold units.	60%/40% (few leasehold units = better)	Monthly	LB Brent – Property
13	Acquisitions - location	The number of units in different locations as specified in the business plan.	220 Brent & Greater London 80 Home Counties	Monthly	LB Brent – Property
14	Acquisition to property first being let	Period from acquisition date to the property first being let. Activity in this period includes property refurbishment and letting.	90	Monthly	LB Brent - Property
15	Refurbishment	Period in calendar days from receiving keys/handover pack from property to i4B receiving an electronic copy of a refurbishment handover checklist which is compliant with i4B requirements. This period includes quotes, works & certification.	66	Monthly	LB Brent - BHM

16	Letting - in-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	14	Monthly	LB Brent – Housing Needs
17	Letting - out-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	35	Monthly	LB Brent – Housing Needs
18	Number of lets in the period	Number of new tenancy sign ups in the month.	In line with PRS Programme assumptions	Monthly	LB Brent – Housing Needs
19	Number of property refusals by nominees leading to discharge of duty.	Customers approved by LB Brent as homeless who refused i4B accommodation and were the council formally discharged their duty.	No Target	Monthly	LB Brent – Housing Needs
20	Number of Voids	Any property not occupied by a tenant. Snap shot as of last day in the month.	3% of portfolio void for 60 days in any year	Monthly	i4B
21	Void loss	% of property void days as a proportion of 100% portfolio occupation.	1.50%	Quarterly	i4B
22	Bad Debt	Income written off by the i4B Board due to bad debt in particular arrears.	2%	Quarterly	i4B

23	Rent collection	Rent collected as a % of rent due. This is measured on a 4 weekly cycle in line with BACs payments to i4B.	98.50%	Monthly	Housing Management Agents
24	Rent arrears action	Section 8, 10 or 11. 21 Notices served.	No Target	Monthly	Housing Management Agents
25	Rent arrears action	Evictions.	No Target	Monthly	Housing Management Agents
26	Customer Satisfaction	Annual Survey.	80% Satisfied with the condition of the property	Quarterly	i4B
27	Customer Satisfaction	Annual Survey.	80% Satisfied with the management of the property	Quarterly	i4B
28	Customer Satisfaction	Annual Survey.	80% Satisfied with the Repairs Service	Quarterly	i4B
29	Customer Satisfaction	Survey participation.	1/3 of customers surveyed annually (min)	Quarterly	i4B
30	Complaints	Complaints resolved through management agents agreed procedures.	100% resolved	Quarterly	Housing Management Agents
31	Ombudsman decisions upholding a complaint	A decision by a statutory body upholding a complaint made by a customer, contractor, employee or	None	Quarterly	i4B

		member of the public.			
32	% of Portfolio property home visited	Three properties visits are required in the first year of a letting. 2 property visits are required for each subsequent year. % of property visits completed in relation to the properties under management.	100%	Annual	Housing Management Agents
33	% of Portfolio with valid CP12	Properties let with a valid CP12 gas certificate (properties with a served legal warrant qualify as certified).	100%	Monthly	Housing Management Agents
34	% of Emergency Repairs completed within 24 hrs	The % of all emergency repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	100%	Quarterly	Housing Management Agents
35	% of Urgent Repairs Completed Within 7 days	The % of all urgent repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Quarterly	Housing Management Agents

36	% of Routine Repairs Completed Within 28 days	The % of all routine repairs resolved within 24 hrs measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Quarterly	Housing Management Agents
37	Average repair cost per property per annum in common areas	The average cost of responsive repairs on the portfolio as charged by the housing management agent (excludes gas servicing).	£750per annum	Quarterly	Housing Management Agents
38	Void Period (Repairs)	The period from the void contractor being notified of a void property to the receipt to the housing management agent of the keys, handover form and certificates.	28 days	Monthly	LB Brent - BHM
39	Average EPC	Average EPC Awarded to portfolio properties.	All properties	Annual	i4B
40	% of i4B portfolio let above LHA rate	Show as a % i4B properties let at a weekly rental income higher than the LHA in the property locality.	No Target / Max 25%	Quarterly	i4B