



Housing Scrutiny Committee
27 March 2019

Report from the Board of i4B Holdings Ltd and First Wave Housing Ltd

Update on i4B Holdings Ltd and First Wave Housing Ltd

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	N/A
Background Papers:	N/A
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1.0 Purpose of the Report

- 1.1 The purpose of this report is to provide the Housing Scrutiny Committee with an update on i4B Holdings Ltd (i4B) and First Wave Housing Ltd's (FWH) performance and progress in implementing their respective business plans.
- 1.2 Due to the differences between i4B and FWH the report will initially discuss both companies separately. The report will include:
- 1.2.1 An update on i4B's recent performance;
 - 1.2.2 An update on FWH's recent performance;
 - 1.2.3 Customer Satisfaction for i4B and FWH
 - 1.2.4 How both i4B and FWH impact the housing waiting list and fit in to the wider Housing Service; and
 - 1.2.5 Opportunities for i4B and FWH to align.

2.0 Recommendations

- 2.1 The Committee is asked to note the contents of the report and provide comments on the issues it raises.

3.0 i4B Background Information

- 3.1 On 14 March 2016, Cabinet approved the TA Reform Plan, as a response to rising homelessness in the borough. 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 could be protected against rental inflation. It was intended that properties would be let as long-term PRS properties at Local Housing Allowance (LHA) levels to households the Council had a homelessness duty towards and thus allow the Council to end a homelessness duty and reduce TA costs.
- 3.2 In November 2016, Cabinet agreed to establish the wholly owned investment company i4B Holdings Limited. The purpose of i4B 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 enabling the Council to discharge duty. 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.
- 3.3 The Company has a Board of Directors that meet on a monthly basis to discuss company performance. 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.
- 3.4 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.
- 3.5 The Service Level Agreement enables the Company to operate with minimal staff and subsequently minimal operating costs. Across the Council, there are a number of Council officers involved in the end-to-end processes of the Company from the property negotiation and purchase, to the property refurbishment, tenancy nominations and lettings, and the subsequent management of the property once it is let.
- 3.6 i4B's initial 2017/18 business plan set out the ambition of purchasing 300 PRS properties.

3.7 In February 2019, the Shareholder approved the Company's 2019/20 Business Plan.

4.0 Social Benefits of i4B

4.1. 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. As of March 2018, 210 properties have been purchased to be let at affordable rates.

4.2 As of February 2019, i4B has housed and discharged the Council's housing duty to 172 families, including 464 children. Of these families, 80% came from unsuitable stage 1 B&B accommodation. An additional 10 families are living in i4B accommodation but classified as living in temporary accommodation.

4.3 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 that is generally of a lower standard. In addition, with i4B as their landlord, tenants are safe from practices such as revenge evictions.

Case studies of families housed in i4B properties

4.4 Family A:

A mother approached Brent Council as homeless and fleeing domestic violence. As the overall benefit cap affected the mother, she was aware that she would not be able to afford to live in London. When Brent Council officers were accessing the family, it became apparent that the mother's parents lived near an out-of-borough i4B property. The mother was pleased to accept the offer of a property that was close to her parents and support network, with good schools for her children and good transport links.

4.5 Family B:

A mother accepted an offer of an i4B property for herself and her daughter who has mobility issues. The property is on the ground floor, next to a train station, providing the family with easy access to transport. The property is close to the mother's parents, who are able to assist her with support with her daughter.

4.6 Family C:

A family of six were previously living in a property with two bedrooms. They were rehoused in an i4B property that has provided them with a good sized property in a location where they had previously struggled to find a PRS property they could afford.

4.7 Family D:

A mother and her two children presented to the Council as homeless, they were previously living in unsuitable temporary accommodation. i4B provided the family with a two-bedroom property in Brent close to the family's support network.

5.0 Financial Benefits of i4B's Operations

5.1 i4B provides the Council with ongoing financial benefits.

Table 1 – Annual Financial Benefits the Council of i4B

Annual Benefits	Annual financial benefit	Description
Loan interest profit 0.3%	£248,000	This is profit on the loan interest, since 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.	£411,600	Saving of £411,600 based on 210 households (current number purchased) diverted from stage 2 temporary accommodation that costs the Council £1960 per annum per household.
SLA payment	£444,000	To provide services such as housing management and conveyancing
Total ongoing financial benefits to the Council	£1,103,600	

5.2 However, there are also ongoing financial costs.

Table 2 – 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 Council	£121,600
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5.3 Once 300 properties are purchased the annual temporary accommodation saving will rise to £588k. Therefore, the net ongoing annual financial benefit will be £298k

5.4 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 surplus to the Council.

5.5 As the sole shareholder, the Council can also benefit from property price growth of the portfolio.

6.0 Update on i4B Operational Performance

6.1 Operational performance has improved after some early challenges during the establishment of the company. Improvements are the result of a range of factors including increased management of the end-to-end purchasing process and a series of reviews focussing on key areas where performance has been below target.

6.2 Tables 3 and 4 are a snap shot of acquisition, refurbishment, and first lettings performance at February 2019.

Table 3 – Performance within the acquisition to first letting process

Acquisitions – February 2019	No	Value (£m)
Properties purchased	210	£74.5m
Properties in final authority to buy stage	8	£3m
Properties in conveyancing (legal)	20	£6.5m
Properties in pipeline (identified but under negotiation, 50% withdrawal expected)	62	£23m
Total value of the acquisitions and pipeline	300	£107m
Refurbishment costs	300	£6m
Net yield of purchased properties	210	0.96%
Net yield conveyancing & pipeline	69	1.30%
Total rent roll per annum	210	£3,235,259

Table 4 – Refurbishment and Lettings Performance

Refurbishment & Lettings – February 2019	No
Properties let (March data)	187
Properties matched	0
Properties awaiting letting to be matched	4

Properties void (after first let)	3 (7 voids to date)
Properties in refurbishment	17
Properties with wet room and stair lifts	6
Properties suitable for people with low level mobility needs	10%
Average rent per property	£296.27

6.3 Table 5 sets out the improvements that were made in 2018.

Table 5 – Key Performance Acquisition to first let

Indicator	Target	Performance at February 2018	Performance at February 2019
Number of units	214 by 31 st March 2019 360 by 31 st March 2021	102 units at February 2018	210 units at February 2019
Average cost per property	£365,000	£355,892	£354,421
Gross Yield	5%	4.91%	5.03%
Net Yield	1.05% for first 240 units 1.1% thereafter	0.88%	0.96%
Refurbishment	66	122	57
Letting in Brent (days)	14	29 (all locations)	21
Letting outside Brent (October data) (days)	35	As above	108
Rent collection	95% first 5 years 98.5% thereafter	60.89%	90.19%
Evictions	N/A	0	2
Landlord Gas safety Record	100%	100%	100%
Void Rate (relets)	3%	0%	0.4% (7 properties in total all outside Brent)

Acquisitions

- 6.4 210 properties PRS street properties have been purchased. This compares to an initial business plan target of 300 by September 2018. Officers have advised that difficulties in procuring properties are due to the limited availability of street properties in Brent that meet i4B's yield target. This is largely owing to a flat property market. The 2019/20 business plan therefore aims to complete the first 300 acquisitions by April 2020 and 360 acquisitions by April 2021. This delay will lengthen the time in which full revenue savings will be gained by the Council.
- 6.5 The Company has implemented a number of measures designed to increase the pace of acquisitions. Firstly, in January 2019, after a business modelling exercise, the net yield target was revised down from 1.5% to 1.1%. This is sufficiently low to allow street properties to be purchased at an accelerated rate while maintaining i4B's ability to break even over 30 years. The average

net yield of the current portfolio is 0.96% with a pipeline of 1.30%. 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.

6.6 Also, as a result of the lack of sufficient street properties at the yield which i4B requires to make the financial model viable the 2019/20 Business Plan revised down the number of street properties to be purchased in phase two of the PRS acquisition programme from 300 to 60. i4B will, with the support of the Council, purchase 265 new build units from the Council between 2020 and 2024 instead. 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.

6.7 i4B is also looking to purchase a block of 153 units for use for key worker housing. i4B aims to have 778 units by 2023/24. Council support is required for this.

6.8 To date, the Company has purchased 119 properties in Brent, 16 properties in Greater London, and 73 units outside of London. Below is a breakdown of i4B properties by location.

Table 6 – Breakdown of i4B properties by location.

Location	No. of properties
Brent	121
Barnet	1
Ealing	6
Harrow	2
Hillingdon	3
Hounslow	2
Hammersmith and Fulham	1
Lambeth	1
Welwyn Hatfield	5
Milton Keynes	9
Luton	10
Hemel Hempstead	24
Slough	8
South Herts	6
Wycombe	5
Oxfordshire	6
Total	210

6.9 The 2018/2019 Business Plan, planned to purchase 180 units in Brent and 120 units in the Home Counties. However, in the 2019/20 Business Plan the Shareholder agreed to purchase 280 properties within Brent and Greater London and 80 properties within the Home Counties. This change was due to the significant challenges the Council has faced in placing families outside of

London. 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 Company has discretion to purchase Home Counties properties where there is demand.

- 6.10 This refinement will reduce sign up refusals and the number of appeals that the Council has to manage from customers housed outside the Borough.

Conveyancing

- 6.11 The time properties spend in conveyancing has been improving, although the average conveyancing period remains high at 112 days, against a target of 91 days. However, a recent review of conveyancing performance showed that the ability to meet targets is affected by a number of properties that have extended conveyancing periods owing to factors outside the control of the council such as complex chains and legal issues.

Refurbishment

- 6.12 Refurbishment performance has improved and is now in line with the business plan assumptions. For the financial year to date, the average time from acquisition to a compliant property handover is 63 calendar days. The business plan target is 66 calendar days.
- 6.13 i4B has a lettable standard document which outlines the standard that newly refurbished properties must meet. The document acts as a specification for refurbishment works. The standard outlines essential works that ensure the property is compliant with statutory standards. The Company takes a lifecycle approach to refurbishments. i4B carries out comprehensive high quality refurbishments in order to reduce future repair costs. For the same components, repair costs are typically 20-40% more expensive than refurbishment costs.
- 6.14 The government's Clean Growth Strategy aims that all homes achieve an Energy Performance Certificate (EPC) band C rating by 2030. The average of EPC rating of i4B properties is a rating of 68; this is band D but only one point off band C. The Board has set a target for all i4B dwellings to achieve band C by 2030.

Lettings Performance

- 6.15 Lettings performance is best in Brent. It takes 21 days to let properties in Brent. By contrast, Home Counties properties take 108 days to let.
- 6.16 Lettings performance is expected to increase as all hard to let four-bedroom Home Counties properties have been let. Moreover, the Company is increasing the amount of properties purchased in Brent.

Housing Management

- 6.17 In June 2018, rent collection was a critical issue. Rent collection rates in June were 65.97%. However, after serving breach of contract notices to Mears and

BHM, rent collection rates have increased. Pinnacle's rent collection rate for January 2019 was 86.56%, BHM's was 90.78%, and Mears' was 92.37%. The rent collection rate is now 90.19%. Further improvements are needed to reach the Business Plan target of 98.50%.

- 6.18 In all cases where a tenancy has ended due to the tenant moving or eviction the property has been outside Brent. This supports a strategy to invest in Brent homes unless bespoke dwellings are required outside the Borough.

7.0 Update on i4B Financial Performance

How i4B is funded

- 7.1 i4B is financed via a state-aid compliant loan from Brent Council. Brent Council borrows money to cover the initial £109m investment and then on lends this to i4B at a higher interest rate. The Council loans a minimum of 77% of the money to i4B and contributes in equity funding up to 25%. Income generated through rents is then used by i4B to repay the loan and fund the running costs of the company.
- 7.2 As of the latest business plan, i4B has £254.5m of agreed funding. £109m of for PRS phase 1, £74.5m of this has been spent, and £145.5m for PRS phase 2.

Current Financial Performance

- 7.3 The i4B business model is a going concern and is on course to break even on a cash basis after 30 years. A net yield of 1.1% allows properties to be purchased at an accelerated rate while maintaining i4B's ability to break even over 30 years.
- 7.4 The reduced rate of property purchases in 2018/19 due to a slow-down of the property market, has contributed to a reduction in gross rental income for 2018/19; £2.1m compared to the 2018/19 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 a £644k loss forecast in the 2018/19 business plan.

Table 7 – 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

8.0 Local Government Chronicle (LGC) Award

8.1 The Council and i4B were highly commended for an LGC award for Best Housing Initiative. The entry was successful against nominations from other local authorities. Judges said that i4B was:

“An excellent blend of public sector ethos being delivered through a commercial venture.”

9.0 FWH Background Information

9.1 First Wave Housing Limited (the ‘Company’ or ‘FWH’), formerly Brent Housing Partnership (‘BHP’) is a local authority owned company of the London Borough of Brent (‘LBB’, ‘the Council’), and is limited by guarantee. The Company is a registered provider of social housing.

9.2 Prior to 30 September 2017, LBB had a management contract with BHP to provide housing management services.

9.3 The Council terminated the management agreement with BHP, in relation to the Council housing stock, on 30 September 2017. The Council owned the majority of BHP’s property stock and the management of these was brought back into the Council with the creation of a new Brent Housing Management (BHM) department.

9.4 However, BHP owned properties in its own right. As a registered provider, BHP had access to grant funding that enabled it to buy and build its own properties. When the management agreement with BHP was terminated, ownership of BHP owned properties could not be easily transferred to the Council. Therefore, in October 2017, the Council made the decision to continue to own properties through a separate company but to re-name BHP as First Wave Housing Limited (FWH) and restructured the company. FWH now manages and owns the properties that were previously owned by BHP.

9.5 FWH has 329 tenanted properties. Of this 329, 170 are settled homes rates, 89 are at social rent rate, 25 are at intermediate rent, and 45 are at market rent. The annual rent roll is £4.2million. There are also two commercial properties within the portfolio.

9.6 Below is a breakdown of FWH properties by location

Table 8 – Location of FWH properties

Location	No. of properties
Brent	296
Barnet	11
Ealing	22

9.7 The Company has a Board of Directors that meet on a monthly basis to discuss company performance. 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.

9.8 The Company has a Service Level Agreement (SLA) with the Council to support the Company's operations. Under the SLA, the Council provides corporate services such as governance services, financial services, and legal services. The Council's housing management service Brent Housing Management (BHM) provides FWH with services to support the Company's landlord function such as: housing management, repairs, and void management.

10.0 FWH Operational Performance

10.1 FWH has not purchased any new properties. Therefore, performance is only based on housing management.

10.2 For January 2019, the average time to re-let a property is 81 days. This is below performance standards. However, October, November, and January performance was 38, 53, and 41 days respectively. Underperformance can partly be explained by the fact that a high proportion of voids have required major works. Furthermore, in January, there were two market rented re-lets. Market re-lets typically take longer to let as FWH's market rented properties are typically of poorer quality compared to similar products on the market. Therefore, in the 2019/20 FWH Business Plan, the Council provided the Company with the flexibility to consider the product and rent level for each portfolio property on its re-let. In practice this flexibility will mean market rented accommodation would be considered for letting at local housing allowance levels to households through a nomination agreement between the Council and FWH. This will help assist the Council's homelessness agenda and reduce re-let times due to high demand. For non-market rented properties in order to bring re-let times down, operating processes have been integrated within the Council's procedural framework and it is expected that this will improve re-let times. BHM plan to develop more proactive ways of identifying void works to enable better coordination of void works.

10.3 Rent collection rates for the 2018/19 financial year to date are 98.03%. This is slightly below the target of 98.5%. Nevertheless, the current collection trend is positive, this indicates FWH is on track to achieve the end of year target of 98.5%.

10.4 100% of properties have valid CP12 certificates. FWH continues to deliver high compliance pertaining to gas safety. Operating processes are robust and focus on resident safety.

10.5 The percentage of routine repairs completed on time was 87% in January; this is below the target of 95%. However, between November 2018 and March 2019, 95% of repairs will be completed within timescale. A joint improvement plan is underway between the FWH, the Council, and Wates. This aims to

deliver significant improvements to the responsive repairs and asset management service.

- 10.6 The FWH stock has not received investment for a number of years. FWH has delivered 2,700 repairs over the first eighteen months of its life. This is an average of six repairs per property; this is high for the industry. Three blocks appear to have greater repair requirements. The properties were built less than ten years ago and major works are already required. Works include reroofing, safety equipment reinstallation on the roof tops, lift renewal and weather protection for exposed deck access and stairwells. The company has allocated extra resource for capital works and s20 notices over the next three years. A 100% internal and external stock FWH condition survey is currently being carried out. Once completed, a comprehensive asset management plan will be drawn up.

11.0 FWH Financial Performance

- 11.1 The Company is profitable and finances are sound. Table 8 gives information on FWH's financial performance.

Table 9 – Financial Performance of FWH

	Actuals 17/18	Forecast 18/19	Comment
	£,000	£,000	
Turnover			
Rental Income	3,532	3,107	Net of 2% bad debt provision
Service Charge	51	-	No longer exists under FWH
Management Fees	27	-	No longer exists under FWH
Total Social Housing	3,610	3,107	
Market Rent	653	1,004	
Management and support service fees (including SLA fees and recharges)	36,082	-	No longer exists under FWH
Total Turnover	40,345	4,111	
Less: Void costs	-	21	
Net turnover	40,345	4,090	
Operating Costs			
Wages and salaries	3,099	-	These costs no longer exists under FWH
Agency costs	1,253	-	
Training	13	-	
Supplies and Services	5,809	-	
Property Maintenance Costs	27,401	336	Leasehold Service charges (£80k), Insurance (£63k), Responsive repairs (£144k), Stock condition survey (£43k), Valuation (£5.5k)
Depreciation	30	560	
Audit Fees	35	25	

SLA	-	564	
Total Operating Costs	37,640	1,485	
Operating Profit	2,705	2,605	
Less: Loan Interest Payable	2,114	2,076	
Add: Surplus on revaluation of properties	214	-	
Profit before tax	805	529	

12.0 i4B and FWH Customer Satisfaction

- 12.1 BMG Research Group have conducted a text/telephone survey of i4B and FWH tenants. The i4B survey had 38 respondents and the FWH survey had 101. The report found that satisfaction levels for both companies are below that of top performing landlords. Overall satisfaction was 72% for i4B tenants and 52% for FWH tenants. Council tenants' satisfaction levels were 59%.
- 12.2 BHM is currently undertaking a number of projects to improve tenant satisfaction. This includes the rollout of new Microsoft Dynamics modules, the creation of Customer Experience Panel and a new Customer Portal. In addition, the Council and Wates are working together to improve operational processes in order to create a better customer experience.
- 12.3 Both i4B and FWH are also looking at how they can engage with tenants. This will involve the creation of company websites as well as bi-annual newsletters to tenants.

13.0 How i4B and FWH fit into the wider housing service

- 13.1 Both i4B and FWH provides accommodation to people who would otherwise be on the housing waiting list. i4B allows the Council to use PRS accommodation to discharge its homeless duty to homeless households. Therefore, i4B is a key source of continual revenue savings for the housing service.
- 13.2 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 and FWH are two of several funding and delivery routes to achieve this target.
- 13.3 Throughout 2019/2020, i4B and FWH will work with the Council's planning and finance teams to develop an opportunity to purchase a block of 153 units for key worker accommodation. The companies will also work in partnership with the Council's housing supply and partnerships team. The Council's housing supply and partnership team will commission 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.

14.0 Opportunities for alignment between FWH and i4B

- 14.1 The Council has carried out some initial work to explore potential benefits of aligning the two companies. This has involved considering three provisional options: merging i4B into FWH or FWH into i4B or merging the two companies into a groups structure.
- 14.2 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.

Report sign off:

PETER GADSDON

Director of Performance, Policy, and Partnerships