



**Audit and Standards Advisory
Committee**

26th September 2019

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

Report on i4B Holdings Ltd

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	<ol style="list-style-type: none"> 1. Risk Register 2. Risk Management Framework 3. Internal Audit Responses Action Plan 4. Internal Audit Follow up Review – Governance RM and FM Action Plan
Background Papers:	N/A
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1.0 Purpose of the Report

1.1 This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, audit arrangements, and risk register.

2.0 Recommendation(s)

2.1 The ASAC is asked to note:

2.1.1 Current performance.

2.1.2 The update to the i4B risk register.

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

3.0 Background

3.1 This report provides the ASAC with an update on the Company's performance, the current assessment of risks resulting from i4B's operations to the Council and i4B, and recent i4B audits.

- 3.2 i4B's 2019/20 business plan was agreed by the Shareholder in February 2019. The business plan incorporates the following as i4B's strategic priorities for 2019/20:
- Continuation of 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
- 3.3 The 2019/20 Business Plan also highlighted that the Shareholder was investigating opportunities to align i4B and First Wave Housing Ltd. This included looking at the possibility of merging the two companies. The Shareholder has determined that merging the two companies is not viable. This is principally because i4B is a company limited by shares and FWH is a company limited by guarantee.

4.0 Performance (August 2019)

- 4.1 Performance measurement for i4B is based on: acquisitions, conveyancing of properties, and on the housing management of the three contractors, Mears, Pinnacle and Brent Housing Management. Overall performance has improved since the Company last reported to the Committee in February 2019.
- 4.2 In February 2019, i4B had 204 properties in its portfolio, purchased at an average cost of £352,900 and 177 of these properties were let. As of August 2019, i4B's portfolio has increased to 228 properties, purchased at an average cost of £356,637; the target acquisition cost is £363,000. 213 of these properties have been let. The rate of acquisitions has slowed primarily due to the slowdown in the housing market. Officers are currently investigating opportunities to increase the rate of acquisitions.
- 4.3 As of August 2019, i4B has 22 properties in negotiation and valuation, 29 properties in conveyancing, and 4 properties in the delegated authority (final approval) stage, and 8 properties awaiting contract exchange.
- 4.4 The average rent collection rate as reported by the management agents in June is 94.35% compared to 90.67% in February 2019. BHM's collection rate of 95.61% is the highest amongst the three contractors. All contractors will continue to be closely monitored for rent collection performance to encourage the target of 98.5% to be achieved.
- 4.5 95% of all urgent repairs were resolved within 24 hours in August 2019, which is consistent with the 95% in February 2019. 100% of all emergency repairs were resolved within 24 hours both in February and August 2019.

5.0 Financial Performance

Table 1: summary of the draft financial outturn of i4B Holdings as at 31st March 2019 compared to the 2018/19 Business Plan.

	2017/18 Outturn (restated) £'000	2018/19 Business Plan £'000	2018/19 Outturn £'000	Variance £'000
Turnover	152	3,856	2,106	(1,750)
Cost of Sales	(183)	(186)	(186)	0
Gross Profit (loss)	(31)	3,670	1,920	(1,750)
Administrative expenditure	(512)	(1,034)	(1,115)	(81)
Interest payable and similar charges	(1,008)	(3,302)	(2,269)	1,033
Surplus on revaluation			1,362	1,362
Loss on ordinary activities	(1,551)	(664)	(102)	564

5.1 Rental income was lower than budgeted for three reasons:

- The 2018/19 Business Plan target was to purchase 300 properties by 31 March 2019. i4B purchased 214 properties by 31 March 2019, with 179 properties occupied. This had a one-off adverse impact of circa £1.5m.
- The average weekly rent per property target was £320 and actual was £296 (7% below). This will have an adverse impact of circa £160k per annum.
- The average cost per property (including works, SDLT, fees and VAT) target was £333,333 and actual was £358,000. All other things being equal, this would mean that fewer properties could be purchased for the same total budget.

5.2 Although administrative expenses were lower than budgeted, they were not significantly different from the budget for 300 properties. The 'flexed budget' (adjusted for variable costs relating to the properties) for administrative expenses relating to the 214 properties would have been £856k. This would imply an adverse variance of £260k. The company is undertaking further work to understand the nature of this variance.

5.3 Overall performance was better than forecast in the 2018/19 business plan. This is due to revaluation gains of £1.3m, i.e. in 2019/20 the value of i4B's stock increased by £1.3m.

6.0 Social Benefits of i4B

6.1 i4B's PRS acquisition programme increased the number 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 rent product. 360 new affordable homes will be created by April 2021.

- 6.2 As of January 2019, 213 Brent families, including 534 children, have been housed in i4B properties.

Table 2: Breakdown of families directed to i4B as of August 2019

Previous Accommodation	no. of families	no. of children
Direct to i4B	27	60
Women's Refuge	2	6
TA Stage 1 – B&B	163	398
TA Stage 2 – Leased	21	70
Total	213	534

- 6.3 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.
- 6.4 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.

7.0 Financial Benefits of i4B

- 7.1 i4B provides the Council with ongoing financial benefits. The below figures are drawn from the 2019/20 business plan.

Table 3: Annual Financial Benefits the Council will receive due to i4B once 300 properties are purchased

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.	£588,000	Saving of £588,000 based on 300 households diverted from stage 2 temporary accommodation which costs the Council £1960 per annum per household.
SLA payment	£444,000	
Total ongoing financial benefits to the Council	£1,280,000	

- 7.2 However, there are also ongoing financial costs.

Table 4: 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	£298,000
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7.3 In addition, the Council receives one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of property and property price increases. The one-off financial benefits from the loan for the first 300 properties are:

- Loan arrangement fee of 1% (~£830k)
- Loan non-utilisation charge (~£620k)

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

8.0 Key Worker Accommodation

8.1 The 2019/20 Business Plan, approved by Cabinet in February 2019, agreed that the Company progress the purchase of a block of 153 units for the provision of key worker accommodation at 60%-80% market rent. i4B is currently pursuing this new opportunity. In addition, the company is working with the Council to explore a number of other potential opportunities for purchasing smaller blocks, this is in line with the agreed business plan.

8.2 Benefits Analysis

8.2.1 There are a number of benefits that i4B and the Council will receive from the purchase of the key worker accommodation. These include:

- Attracting key workers into the Council. The Council is currently struggling to recruit a number of key staffing groups.
- Key worker accommodation will help retain key workers.
- The block will increase the amount of discounted market rented housing stock in the borough.
- The block may increase in value over time.
- The block will diversify i4B's business plan, and therefore reduce risk.

8.3 Risk Analysis

8.3.1 i4B officers have carried out an initial investigation of the key risks of purchasing the block. Table 5 below outlines these risks and the measures in place to mitigate risk.

Table 5: Key risks of key worker block purchase and mitigating measures

Risk	Mitigating Measure
Void periods are longer than expected. There is insufficient demand to fill the block. As a result, i4B has fewer properties receiving rent and is liable for costs such as council tax for void properties.	In the financial modelling, i4B has built in void rates of 50% in year 1, and 30% in year 2. In the event that there is insufficient demand from Council key workers, i4B will work with other public sector bodies.
At present, i4B does not have a full understanding of servicing and maintenance costs. As a result, costs may be higher than what is presently modelled.	i4B is working with BHM to investigate what the costs of maintaining the block will be. The company will have a full understanding of costs before purchase.
There are potential tax implications on tenants and i4B. These are not fully understood at present.	i4B is seeking advice on the tax implications on the company and tenants. At present, these are not thought to be major. An alternative purchase vehicle could be used if the tax is deemed unacceptable.
The block will bring a new management style for BHM. At present, BHM does not manage any blocks of key worker accommodation. Tenants of these blocks will expect a high standard of management.	i4B is already working in partnership with BHM to go through management costs and expected standards. This involves potentially employing personnel who will work solely on the block. i4B is also exploring market options for block management services.
All legal, financial, property and HR elements of the project must be identified and worked through for the purchase and operation of newly built development.	A project management working group has been created which is led by the councils Operational Director of Property and Assets, there is representation from i4B/FWH, finance and housing management partnerships. With a sub group feeding into this on working through the key worker aspects of the project

8.0 **Risk Register and Risk Management Framework**

8.1 The Company's Risk Register can be found in Appendix 1 and the Risk Management Framework in Appendix 2.

8.2 Since the last meeting with the Committee in February 2019, no new risks have been added.

8.3 The following risks remain as live issues and are being monitored as such:

- The pipeline of properties is slower than the SLA target.
- Business plan rent collection rates are not achieved and bad debt exceeding business plan assumptions.

8.4 A Risk Management Framework (Appendix 2) was created to accompany the Company's Risk Register. The framework outlines the Company's process for

identifying, measuring, managing, monitoring and reporting risks. It also discusses the Company's risk appetite and the Company's ambition to grow the business.

9.0 Financial Model Audit

9.1 The purpose of the audit was to assess the design and build of the i4B PRS financial model and to check that its calculations are consistent with the model intent. The following work was carried out:

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

9.2 Officers will be working to implement recommendations during the 2019/20 financial year. Full management responses can be found in the Internal Audit Responses Action Plan (Appendix 3).

10.0 Internal Audit Update

10.1 In April 2019, i4B agreed a programme of two internal audits for 2019/20. The Acquisitions audit is now underway. i4B will provide the Committee with an update when it next attends.

Table 1 – i4B internal audits

Audit	Scope	Status
Acquisitions	To include acquisition strategy, performance, sourcing, probity, management information and reporting	The audit has been complete. Management responses are currently being agreed.
Follow Ups	Follow ups of 2018/19 Audits: <ul style="list-style-type: none"> • Fraud Risk (to include FWH) • Financial Model 	Yet to commence

11.0 Update on Recommendations from Previous Audits

11.1 Internal audit recently carried out a follow up review into the i4B Governance Risk Management and Financial Management Action Plan (Appendix 4). i4B has fully implemented agreed actions from the audit.

11.2 This included the implementation of an annual policy review. i4B is currently undergoing this year's policy review. This review will include updating the policies with any new statutory regulations that have come into place since the last review. The policies are then resubmitted to the Board for approval before being distributed to the service areas and contractors.

11.3 The creation of the Risk Management Framework to accompany the Risk register was also part of the audit follow up review, which was completed by i4B. Other actions that were implemented due to the follow up review include:

- Ongoing review of SLA
- Code of Conduct, which was signed by all i4B directors.
- Creation of an Escalation Policy

- Scheme of Delegation
- Financial Procedures

Report sign off:

Martin Smith

Chair of i4B Holdings Ltd