

	Audit and Standards Advisory Committee
	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:	Appendix 1: Company Risk Register
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, business plan, risk register and audit arrangements.

2.0. Recommendation(s)

2.1. The ASAC is asked to note:

- Current performance.
- The update to the i4B risk register.
- The update on recent i4B audits, and progress towards implementing previous audit recommendations.
- The impact of Covid-19 on i4B's operations and business objectives.

3.0. Background

- 3.1. i4B Holdings Ltd (i4B; the Company) was 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).
- 3.2. In November 2016, Cabinet agreed to establish its wholly owned investment company, i4B Holdings Ltd. The Company was set up with the purpose of acquiring, letting, and managing a portfolio of affordable, good quality PRS properties. Properties would be let to homeless families at Local Housing Allowance (LHA) levels. This would enable the Council to either prevent or discharge its homelessness duty and therefore reduce TA costs.
- 3.3. i4B's 2020/21 business plan was agreed by the Shareholder in February 2020. The business plan incorporates the following as i4B's strategic priorities for 2020/21:
- The PRS acquisition programme;
 - The provision of key worker accommodation;
 - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land; and
 - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market.

4.0. Benefits of i4B

4.1. Social Benefits

- 4.1.1. As of September 2020, 280 Brent families, including 688 children, have been housed in i4B properties, the breakdown for which is below.

Table 1 – Breakdown of families directed to i4B as of September 2020

Previous Accommodation	no. of families	no. of children
Direct to i4B	51	118
Women's Refuge	2	15
TA Stage one – B&B	202	480
TA Stage two – Leased	25	75
Total	280	688

- 4.1.2. 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 and less secure. Also,

with i4B as their landlord, tenants are safe from practices such as revenge evictions.

4.2. Financial Benefits

4.2.1. The Council receives financial benefits from i4B, mainly through reducing the use of temporary accommodation and supporting homeless families. The Council saves £1,960 per i4B property purchased and let. However, i4B does incur costs to the Council. At i4B's current portfolio of 300 properties, the net saving to the Council per year is circa £300k. This saving will increase as purchases increase.

4.2.2. The Council has also received the following one off financial benefits:

- PRS phase one loan: loan arrangement fee of £872k and non-utilisation charge of £330k
- PRS phase two loan: loan arrangement fee of £884k and non-utilisation charge of £408k

5.0. **Update on Operational Performance**

5.1. 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).

5.2. As of i4B's last report to the Committee, the Company had 276 properties in its portfolio, purchased at an average cost of £356k. 254 of these properties were let. As of November 2020, i4B's portfolio has increased to 300 properties, purchased at an average cost of £363k, matching the target acquisition cost. 281 of these properties have been let. The rate of purchases has been slower than originally forecast due to a lack of properties available on the market that meet i4B's financial criteria and due to the impacts of Covid-19.

5.3. As of November 2020, i4B has 71 properties in negotiation and valuation, 24 properties in conveyancing, 5 properties in the delegated authority (final approval) stage, and 2 properties awaiting contract exchange.

5.4. The cumulative rent collection rate at November 2020 is 93.96%. This has decreased from 95.09% as of i4B's last report to the Committee. This is short of the business plan assumption of 95% and the business plan target of 98.5%. The 2019/20 financial year collection rate was 97.12%. This decrease is primarily due to the impact of Covid-19.

6.0. 2021/22 Financial Performance

6.1. i4B is forecasted to make a loss of £0.890m compared to a budget loss of £1.101m. The income and expenditure performance of i4B as of October 2020 is below.

Table 2 – Full Year Budget vs Forecast FY 2020/21

Financial Year 2020-21		Budget	Forecast	Variance	Variance
		£	£	£	%
Gross Rental Income		4,816,000	4,837,240	21,240	0%
Void loss		(23,495)	(180,635)	(157,140)	669%
Net Rental Income		4,792,505	4,656,605	(135,900)	-3%
Cost Categories					
FIXED SLA COSTS	Corporate SLA	275,000	244,000	(31,000)	-11%
	HRA SLA	413,000	427,920	14,920	4%
PREMISES RELATED EXPENDITURE	Major Works	21,000	30,000	9,000	43%
	Annual maintenance	333,000	232,092	(100,908)	-30%
	DMS management Fee	31,000	31,000	-	0%
	Electricity	1,000	1,000	-	0%
	Council Tax	41,000	41,000	-	0%
	Water And Sewerage	3,000	3,000	-	0%
	Service Charges	268,000	268,000	-	0%
	Long term maintenance	88,000	-	(88,000)	-100%
SERVICES	Insurance	62,000	62,000	-	0%
	Audit Fees	36,000	36,000	-	0%
	Legal Fees	38,000	38,000	-	0%
	Professional Services	215,000	205,000	(10,000)	-5%
	Other Revenue Costs	1,000	1,000	-	0%
	Subsistence / Catering	1,000	468	(532)	-53%
CONTRIBUTIONS TO PROVISIONS	Bad Debts	236,000	238,000	2,000	1%
	Void Contingency	(100,000)	(100,000)	-	0%
	Other Costs	-	-	-	0%
	Risk Provision	116,000	116,000	-	0%
Total Operating Costs		2,079,000	1,874,480	(204,520)	-10%
Operating Profit		2,713,505	2,782,125	68,620	3%
Interest & Similar Charges		3,815,000	3,672,000	(143,000)	-4%
Profit/(Loss) Before Tax		(1,101,495)	(889,875)	211,620	19%

6.2. Net rental income is £0.136m under budget. Overall income is down due to reduced purchases and the time taken to complete the initial letting of these properties. Void rent loss is forecast at £0.157m which is significantly more than the budgeted level of £0.023m. Allowances will need to be made for a higher level of void rent loss in the new plan with plans agreed as to how the

figure can be reduced over the life of the business plan.

- 6.3. Operational costs are lower than expected, this is primarily due to reduced maintenance costs. Maintenance costs are forecast to be £0.180m under budget.
- 6.4. Interest costs are lower than anticipated. This is due to reduced property purchases.

7.0. Key Worker Housing – Block Purchase

- 7.1. As agreed in the 2019/20 Business Plan, the Company has purchased a block providing 153 units of 1 and 2 bedroom apartments, which will be let at 65% of market rate plus service charge to key workers.
- 7.2. There are a number of benefits that i4B and the Council will receive from the key worker block. These include:
 - Attracting key workers to the Council and other public sector organisations in Brent.
 - Retention of key workers.
 - An increase in the amount of discounted market rented housing stock in the borough.
 - Potential increase in value of the block over time.
 - Diversification of i4B's business plan.
- 7.3. The Council has signed off on the key worker nomination policy, and the applications portal is due to open in late November. The first tenants will begin to move in late January 2021. This is in line with Business Plan assumptions.

8.0. 2021/22 Draft Business Plan

- 8.1. i4B is currently preparing its annual business plan. The Company's Board and Shareholder will feed into the development of the plan, and a final version will go to Cabinet for Shareholder approval in February 2021.
- 8.2. In the 2020/21 Business Plan, the Shareholder agreed that i4B would seek to grow and diversify its business operations and products to strengthen its balance sheet, spread risk and increase its capacity to do more for Brent. Throughout 2020/21 the Company has worked with the Council to progress these opportunities. The Company has been successful in progressing the purchase of key worker accommodation.
- 8.3. The Board has considered the 2020/21 Business Plan and five-year forecast against its own performance and external market factors. The Board recommends that the themes of growth and diversification identified in

Business Plans from previous years remain the correct priorities. The 2021/22 i4B Business Plan refines the general ambitions in terms of growth and diversification presented last year, to give a detailed overview of i4B's current opportunities, growth and financial forecast.

8.4. The strategic objectives, and key priorities for each of these across 2021/22, in the Business Plan are as follows:

- Increase the supply of affordable housing in the borough.
 - Purchase 60 street properties in 2021/22.
 - Work with the Council, Registered Providers and private developers to identify new build development opportunities.
 - Negotiate additional sources of finance for the Company.
- Run a viable business.
 - Review the Company's Investment Appraisal Criteria.
 - Review the viability of Home Counties properties.
 - Carry out a benchmarking exercise.
 - Reduce void times.
 - Develop an Asset Management Strategy for i4B.
 - Implement Oracle Cloud finance systems for the companies.
- Deliver safe and sustainable homes.
 - Establish a suite of compliance policies and standards to ensure legal compliance.
 - Establish a suite of performance monitoring metrics to give the Board assurance on compliance levels.
 - Carry out an audit of the new compliance suite.
- Provide a consistently good housing service.
 - Review our approach to assessing customer satisfaction.
 - Review the sustainability and affordability of rent levels.

9.0. Draft Business Plan Financial Implications

9.1 i4B is showing an improved financial position due to higher property acquisition numbers being included in the model and higher rent levels reflecting current LHA rates.

9.2 The higher acquisition number reflect purchase capacity based on forecast property prices of £390,000 per unit and the level of approved finance still available to the company. The increased rental levels reflect current Local Housing Allowance rates with inflation of these rates assumed at CPI from 2022/23 onwards.

9.3 The impact of these modelling changes is that i4B is forecasting a first year of profit from 2022/23 one year earlier than in the current model. The deficits accumulated from previous years are currently forecast to be eliminated in 2025/26.

9.4 It is important to note that the business plan model is still being developed and the review process has identified a number of key risk areas where further work is required over the coming months. Key risks and mitigation actions are set out in the following paragraphs.

9.5 Rental Income

9.5.1 The model is particularly sensitive to changes in forecast rent levels. LHA rates for 2022/23 are expected to be confirmed in January. The model assumes they remain static for 2021/22 and increase from 2022/23 onwards. LHA rates were increased substantially at the start of the COVID pandemic. There is a risk that rates are reduced or frozen for a period of time as part of the government's response to stabilising the public finances. As part of ongoing business modelling work, the model will be stress tested through a three-year inflation freeze and a reversion to pre-Covid-19 LHA rates.

9.6 Capital Investment Requirements

9.6.1 Capital expenditure is forecast based on initial estimates from the Asset Management Team. The estimates here are low with figures for the first 5 years of the plan but currently no allowances for the remaining 25 years. It is clear that there will be capital spend throughout the life of the plan.

9.6.2 Additional investment requirements are likely once the requirements of the Building Safer Futures regulatory regime are clear and once the requirements of future asset management standards to combat climate change are clear. Both these factors are likely to have significant capital investment requirements associated with them.

9.6.3 i4B is intending to commission a stock condition survey to establish the base line capital expenditure requirement and carry out further stock investment review work once the standards set by the Building Safer Futures regulatory regime and policies to address climate change are clear.

10.0. Risk Update

10.1. The Company's Risk Register can be found in Appendix 1.

10.2. The main risks the Company faces are detailed below:

- Changing Government policy on rents/benefits means i4B cannot increase rents at business plan assumptions.
- There is an insufficient volume of properties on the market that meet i4B's financial criteria.
- Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored resulting in i4B being non-complaint with its statutory obligations.
- High void rent loss due to long void turnaround times.

- Poor contractor performance and information control results in i4B properties being non-compliant with statutory H&S objectives.
- 10.3. The Company's risk register is reviewed quarterly. Throughout the risk register business plan assumption and mitigations are updated.
- 10.4. *Report on Croydon Council Housing Company Brick by Brick*
- 10.5. As part of its ongoing work, the Council and the i4B Board regularly review learning from other local authority commercial companies. Grant Thornton recently published a report on Croydon Council's financial position and related governance arrangements following the council's issuance of a Section 114 notice. The Council's wholly owned housing company, Brick by Brick, formed part of the report as the governance of the company added pressure to the Council's financial position.
- 10.6. Brick by Brick was set up to develop homes for sale using short-term loan finance. Development is a high-risk activity and development for sale carries an even higher risk and operates in a highly competitive commercial environment.
- 10.7. The report concluded that the complexity and risks related to the governance of subsidiary companies was not understood by officers or members, the Council did not demonstrate sufficient scrutiny of Brick by Brick, and ultimately that the company's financial business case should be urgently reviewed by the Council.
- 10.8. Specific issues included:
- Lack of challenge to annual business plans.
 - No clear governance arrangements to ensure Council interests are safeguarded and business planning aims are achieved.
 - No formal reporting mechanism between company directors and the Council.
 - Lack of understanding of regulatory requirements.
 - Lack of monitoring and reporting on compliance and compliance breaches.
 - A situation whereby the Council was lending to Brick by Brick for the company to build housing, then taking out borrowing in order to purchase properties back from the company.
 - Failure to file a set of statutory accounts.
- 10.9. In addition to this, Croydon Affordable Housing was set up with a 10% Council ownership stake, exercised through a holding company. The financing arrangements for this vehicle were complex and without adequate Council representation were not subject to effective scrutiny. The holding company failed to file its statutory accounts and was struck off the Companies House register, with its assets reverting to the Crown.

- 10.10. As a buy-and-hold rental model, i4B's business activities are fundamentally less risky than those of the Croydon housing companies.
- 10.11. i4B mitigates against the above risks. i4B has six-monthly meetings with the Chief Executive and Director of Finance who represent the Council as shareholder. An annual business plan is produced for i4B and agreed with Cabinet on behalf of the shareholder. The Board is unable to deviate from this plan without shareholder agreement. i4B also has a robust internal audit programme with the results of findings being reported to the ASAC. The company has produced and filed annual statutory accounts.
- 10.12. Furthermore, i4B has a financial model that guides all acquisitions. A net yield target is set for all i4B purchases. This ensures property purchases are viable and that the Company is able to meet future financial commitments. The financial model is regularly reviewed to ensure its appropriateness and therefore the company's ongoing financial viability.
- 10.13. A 30-year business plan is in place for i4B, and this is reviewed annually. It is supported by audited accounts and monthly monitoring reports. Loans to fund asset acquisitions are on a long-term fixed rate basis which is an appropriate de-risking tool for financing the purchase of long term assets held for rent rather than for sale. Interest charges are included in the plan and are paid to the Council. As all loan finance is provided by the Council, the Council retains substantial freedom to restructure i4B's financial and ownership arrangements should it be necessary in order to secure the ongoing viability of the company or to safeguard the Council's financial interests.
- 10.14. Risks are aligned to the company's strategic objectives, and are reviewed and reported to the Board on a quarterly basis. The viability of the company is considered during the risk review as well as during the annual review of the business plan and when producing the annual statement of accounts.

11.0. Audit Update

- 11.1. An internal audit has taken place into the Management of the i4B/FWH Service Level Agreement. We are awaiting the final report on this audit.