

	Community and Wellbeing Scrutiny Committee 19 January 2021
	Report from the Chair of i4B Holdings Ltd
Delivery of Affordable Housing by i4B	

Wards Affected:	All
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt:	Open
No. of Appendices:	N/A
Background Papers:	N/A
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1.0 Purpose of the Report

- 1.1 This is a report from i4B providing an update on the Company's operational performance. This will include providing an update on i4B's delivery of its policy objectives of providing good quality affordable housing and reducing the use of temporary accommodation.

2.0 Recommendation(s)

- 2.1 That the Community and Wellbeing Scrutiny Committee note the report.

3.0 Detail

3.1 *Policy context*

- 3.1.1 Between 2010 and 2015, homelessness doubled in Brent. This growth in homelessness was driven by the loss of private rented sector (PRS) tenancies due to affordability issues.

3.1.2 As a response to this challenge, on 14 March 2016, Brent Council's Cabinet approved the Council's Temporary Accommodation (TA) Reform Plan. The plan proposed that the Council set up a private company to acquire a large portfolio of affordable PRS accommodation for letting to homeless households.

3.1.3 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. The Company contributes to the Council's ambition of creating a borough with "a future built for everyone, an economy fit for all".

3.1.4 The Company was allocated an initial PRS phase one loan of £109m to purchase 300 units of private rented sector accommodation by September 2019. The 2018-19 business plan increased this target to 600 units (of which 360 would be street properties) and allocated additional PRS phase two funding of £110.5m. The Company's core business plan anticipates a financial breakeven position over 30 years.

3.1.5 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) (England) Order of 2012;
 - 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.
- The Board of i4B has limited discretion to let properties at discounted market 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 shareholder.

3.2 *Business model*

3.2.1 i4B's core business model is to purchase private rented sector street properties, refurbish them, and then let them to Council homeless nominees.

3.2.2 i4B is a wholly owned Company with the Council as sole shareholder. The Company has a Board of Directors that meet on a monthly basis to discuss company performance. The Board consists of two independent directors, one of whom is the chair, a Councillor, and two Council directors.

3.2.3 i4B operates at 'arm's length' from the Council. The Company's portfolio has been established through the purchase and refurbishment of existing street

properties. i4B buys properties in consultation with Brent Council's Housing Needs service to ensure it continues to meet its objectives of providing suitable accommodation for homeless individuals and families.

- 3.2.4 The Company has strict rules that guide property purchases. The Company has a 30 year business model which aims to break even over the course of 30 years whilst providing the Council with financial benefits. The model calculates an average portfolio target net yield that will enable the Company to do this. A net yield calculator that considers one-off and ongoing costs is then used to guide property purchases. The calculator allows the business to constantly review its ability to breakeven on a 30 year basis.
- 3.2.5 i4B has a Service Level Agreement with the Council to provide a range of services to support the company's operations, including:
- Corporate and financial services
 - Property purchasing and refurbishment
 - Housing management.
- 3.2.6 Properties in the Home Counties are managed by external agents Mears. The Company receives regular reports from Mears which allow the Board to monitor performance. The Company works closely with Mears to ensure issues are resolved efficiently.
- 3.2.7 In 2018/19, the Council agreed that i4B would also be a vehicle for increasing the amount of key worker housing in the borough. To this end, the Company has also purchased a block of 153 units and intends to let these units to key workers. The block is currently under construction but it is anticipated that the first let will be in February 2021.
- 3.2.8 The Company's governance arrangements include six-monthly meetings with the Chief Executive and Director of Finance who represent the Council as shareholder. As part of i4B's Shareholder Agreement, the Company produces and works to an annual Business Plan, which is agreed by Cabinet each year. i4B also has a robust internal audit programme with the results of findings being reported to the Audit and Standards Advisory Committee twice a year. The principal role of the ASAC is to review i4B/FWH's financial performance, risks to the Companies and Council, and internal audit arrangements. i4B last reported to the ASAC in December 2020.
- 3.2.9 A recent report by Grant Thornton detailed how Croydon's housing companies Brick by Brick and Croydon Affordable Housing contributed to the Council being issued a Section 114 notice. In the December report to the ASAC, i4B set out how the company is not subject to the same risks as Croydon's housing companies. As a buy-and-hold rental model, i4B's business activities are fundamentally less risky than those of the Croydon housing companies. i4B has robust governance arrangements, as detailed in 3.2.8. The Company produces and files annual statutory accounts and has a financial model and net yield target that guide all acquisitions. The financial model is regularly reviewed to

ensure its appropriateness and therefore the Company's ongoing financial viability.

3.3 Performance

3.3.1 At December 2020, i4B has purchased 302 private sector homes and switched the tenure to an affordable PRS product. All properties have been refurbished to a high standard. Table One provides a breakdown of i4B's portfolio and pipeline as of December 2020.

Table One – i4B portfolio as of December 2020

	1b	2b	3b	4b+	All
Purchased properties	42	111	99	50	302

3.3.2 Of these 302 properties, 198 are in Brent. 31 are in other London boroughs and the remaining 73 are in the Home Counties. i4B's current policy is to only buy new properties in Brent or in parts of neighbouring boroughs which border Brent.

3.3.3 Table Two shows the programme of property purchases since 2016/17. Midway through 2018/19, i4B introduced stricter financial criteria for purchasing properties. While this means that i4B purchases fewer properties, the properties purchased are more financially viable, and the Company's viability has thus also improved.

Table Two – Properties purchased each year

Financial year	Properties purchased
2016/17	19
2017/18	109
2018/19	86
2019/20	62
2020/21	26 YTD

3.3.4 i4B is generally performing well against its purpose. However, the pace of street property purchases has been slower than anticipated. The 2020/21 Business Plan set a target of purchasing 360 units of accommodation by April 2021. The reduced rate of acquisitions is due to market pressures and the low volume of properties on the market that meet i4B's financial criteria. This has been further impacted by Covid-19, as the housing market effectively froze between March and May 2020, and upon reopening there was a surge of demand and activity. This increased prices and thus meant there were fewer properties available that met i4B's financial criteria.

3.3.5 Refurbishment performance was previously negatively impacted by Covid-19, as materials suppliers had either closed or had longer lead in times, but is now back in line with business plan assumptions.

3.3.6 Prior to Covid-19, lettings performance was good, but void periods have since worsened following a period of two months where no properties were let.

3.3.7 Covid-19 has also had a negative impact on employment rates and thus people's ability to pay, meaning that rent collection rates have decreased.

Table Three – Key Performance Indicators

Indicator	Target	Performance at April 2020	Performance at December 2020
Number of units	300 by April 2020/360 by April 2021	277	302
Average cost per property	£363,000	£355,576	£363,484
Net yield of whole portfolio	1.22%	1.09%	1.16%
Net yield of year to date purchases	1.22%	1.42%	1.88%
Instruction to Legal to Purchase	120 days	122 days	132 days
Refurbishment	66 days	66 days	60 days
Letting Brent and Greater London	14 days	18 days	33 days
Rent collection	98.50%	95.09%	93.50%
Number of re-let voids	N/A	7	8
Number of evictions	N/A	7	9
Landlord Gas safety Record	100%	BHM – 100% Mears – 91% Pinnacle 100%	BHM – 95% Mears – 97% <i>Note: Mears now manage all Home Counties properties</i>

3.4 Outcomes

3.4.1 i4B has housed 299 families and 719 children. The majority of these families were previously housed in stage one TA.

Table Four – Breakdown of families directed to i4B as of January 2021

Previous Accommodation	no. of families	no. of children
Direct to i4B	57	127
Women's Refuge	2	15
TA Stage one – B&B	211	491
TA Stage two – Leased	27	80
Total	297	713

3.5 Temporary accommodation in Brent

- 3.5.1 Since 2016, i4B has been housing Council homelessness nominees. Demand from the Housing Needs Service has been for i4B to purchase two- and three-bedroom properties in Brent. The number of Brent households in TA has reduced from 2,088 in September 2019 to 555 in December 2020. The principal reasons for this reduction are good performance from Housing Needs as well as the ban on evictions during the Covid-19 pandemic. While this reduction cannot be fully attributed to i4B, the Company has housed 299 families who would otherwise be in TA and need housing.
- 3.5.2 Table Five gives a breakdown of all post Localism Act 2011 (LA2011) accepted households that are eligible for i4B stock.

Table Five – Total number of households in all TA schemes (families & non-families)

Household Type	Number of Households in TA
One Bed	309
Two Bed	133
Three Bed	90
Four Bed	15
Five Bed +	8
Total	555

- 3.5.3 However, demand from Housing Needs is changing. The most difficult cohort of homeless families to accommodate are families who require adapted properties due to a disability. There are currently 11 difficult to house families in need of an adapted property.
- 3.5.4 The bespoke nature of i4B properties is one of the main values of the Company. Housing Needs has recommend that a focus of i4B's PRS Acquisition Programme should be increasing the supply of adapted properties.
- 3.5.5 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.

3.6 *Delivery in the future*

- 3.6.1 Increasing the supply of affordable housing in the borough one of i4B's key strategic priorities for 2021/22.
- 3.6.2 In 2021/22, the Company will look to purchase 60 street properties. The Company will work with the Council's Property team to regularly review the property market and new opportunities.

3.6.3 The Company will also consider further block purchases, and seek to develop partnerships with developers, housing providers and other organisations to increase future opportunities for expanding the Company's affordable housing stock and continue the growth and diversification of the business.

3.6.4 There are various future risks and challenges to the procurement and management of private sector properties, based primarily on the current housing market and the uncertain impacts of Brexit and the Covid-19 pandemic.

3.6.5 **The Housing Market**

3.6.6 It is likely that purchasing will continue to be difficult in 2021-22, as the number of properties that meet i4B's financial criteria remains low. The number of properties i4B can consider is also impacted by an increase in the borough of both housing prices and demand, in line with national trends.

3.6.7 In September 2020, Brent Council's Property Team carried out an analysis of the borough's property market using Zoopla, which showed that of the 2,849 properties on sale, 18 were suitable for i4B purchasing. In response to this, the business plan for 2021-22 will include a focus on new build accommodation, in particular blocks with multiple units.

3.6.8 **The impact of Brexit**

3.6.9 The impact of Brexit on the housing market remains largely uncertain. It is generally thought that Brexit will lead to a fall in housing prices. Any anticipated fall in house prices will allow i4B to purchase properties at lower prices.

3.6.10 i4B has ambitions to purchase new build accommodation. Brexit could lead to increased costs in this area. Tariffs will increase the cost of materials and therefore increase construction costs. Furthermore, there is already a shortage of building workers. Reduced EU migration will increase this shortage and thus adversely affect the speed and cost of housebuilding.

3.6.11 **The impact of Covid-19**

3.6.12 As a result of Covid-19, the Government suspended evictions and possession proceedings. Therefore, in 2020/21 there have been fewer evictions, which means that the number of people eligible for temporary accommodation, and therefore the number of potential i4B tenants, has reduced.

3.6.13 However, when this suspension on evictions is lifted, it is likely that homelessness will increase as a result of the economic impact of Covid-19. For example, Brent has a very high number of furloughed employees whose jobs could be at risk when furlough ends.

3.6.14 Covid-19 could have a significant impact on demand for housing. The increase in the number of people working from home will have an impact on the London property market, as it is likely that more people will move outside of the capital.

3.6.15 Covid-19 has also had a negative impact on employment rates and thus people's ability to pay, meaning that rent collection rates have decreased.

4.0 Financial Implications

4.1 The principal purpose of i4B is to increase the supply of affordable housing available to Brent. This will assist in providing families with good quality affordable homes managed by a responsible landlord.

4.2 The Council has calculated that each property provided by i4B enables it to save £1,960 per year in temporary accommodation costs.

4.3 The original business plan had assumed that i4B would purchase 358 properties. The plan has now been revised to take account of the finance currently available to i4B and the purchase of the key worker block. Revised property forecasts are included in the table below.

Property Numbers	2020/21 £,000	2021/22 £,000	2022/23 £,000	2023/24 £,000	2024/25 £,000
Current Plan	313	358	358	358	358
Draft Plan	318	378	438	483	483
Variance	5	20	80	125	125
Key Worker Block		153	153	153	153
Total	318	531	591	636	636
Assumption = 5 properties purchased per Month					

4.4 Savings of £1,960 per unit have only been assumed on the core portfolio and not on the key worker block units. The original business plan envisaged purchasing 358 units, delivering the Council a saving in temporary accommodation costs of £702,000 per annum from 2022/23. The current forecasts are that i4B will deliver savings of £741,000 by 2022/23 rising to £947,000 by 2023/24

4.5 The increase in properties is also helping to ensure that i4B generates surpluses earlier than originally planned. Increased property numbers dilute management costs per unit. This helps to ensure the financial viability of i4B as a going concern.

4.6 i4B is forecasting a loss of £732,000 in 2020/21. As set out in the table below the company is forecasting a small surplus in 2021/22 of £68,000 increasing to a surplus of £2,458,000 in 2025/26.

Street and Key Worker	2021/22 £,000	2022/23 £,000	2023/24 £,000	2024/25 £,000	2025/26 £,000
P&L	451	1,854	2,299	2,968	3,089
Cashflow	68	1,389	1,750	2,350	2,458
Cash Balance	1,044	2,433	4,182	6,532	8,990

4.7 In the longer term generating surpluses will release resources for additional property purchases. This will reduce the scale of loan financing required and i4B's cost of capital. This in turn will ensure that more expensive properties are financially viable and will increase the company's ability to deliver affordable housing to Brent.

5.0 Legal Implications

- 5.1 There are numerous potential risks for the Council of operating companies. Whilst corporate structures will limit financial risk at law, reputational risk to the Council remains as well as risk to Council services of a company performing services badly or the company failing altogether. As a result, it is essential for the Council to be pro-active in monitoring and ensuring the adoption of robust risk management and internal controls systems encompassing the policies, culture, organisation, behaviours, processes and systems of the company. Such pro-active monitoring assists the Council to identify any potential issues with the operation of the company to ensure it meets its general and fiduciary duties to its rate and local taxpayers.
- 5.2 Pro-active monitoring of shared services is equally important as each local authority must satisfy itself that it has the statutory powers to engage in the activities involved in operating the shared service and that in the operation of the shared service all actions and decisions remain within the relevant powers so as to avoid the possibility of such actions and decisions being deemed ultra vires and therefore void and unenforceable.
- 5.3 The Council needs to be alert to potential conflicts of interest, which may arise as a result of officers' or members' representation in any company. Where a Council officer or member is a director of a company, ongoing consideration will need to be given as to whether that individual's wider (non-commercial) duties owed to the Council present a conflict with their obligations as a director. In particular, any officer or member who is appointed as a director of the joint body must bear in mind their obligations under section 172(1) of the Companies Act 2006 to at all times, act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (that is, not just for the benefit of Brent Council).
- 5.4 The ability for the Council to contract freely with its companies (and vice versa) is an essential requirement. This ability is reliant on the "Teckal" exemption under regulation 12 of the Public Contracts Regulations 2015. There are various conditions that need to be complied with to ensure that the company continues to benefit from the Teckal exemption e.g. the requirement that more than 80% of the company's activities are carried out in the performance of tasks entrusted to it by the Council or by other legal persons controlled by the Council. A failure by those operating the company to have regard to such requirements could fundamentally impact the relationship between the Council and the company.
- 5.5 The main homelessness provisions are contained in Part 7 of the Housing Act 1996 (HA96) and include the main accommodation duties the Council has

towards homeless applicants and how they can be discharged. The Homelessness Act 2002 introduced the requirement on local authorities to regularly review the levels (and likely future levels) of homelessness in their areas, and to formulate a homelessness strategy. The LA2011 amended the 1996 Act by giving local authorities the power to end the main housing duty by arranging an offer of suitable accommodation in the private rented sector.

5.6 The Homelessness Reduction Act 2017 (HRA17) came into force on 3 April 2018 (with limited exceptions). The changes introduced under the HRA17 apply only to an applicant who applied as homeless on or after 3 April 2018. It made significant changes to Part 7 HA96. Its main effect is to place increased duties on local authorities to assess an applicant's needs and to prevent and relieve homelessness.

5.7 The [Homelessness Code of Guidance for Local Authorities](#), issued by the Ministry for Housing, Communities and Local Government (MHCLG), provides statutory guidance on how to interpret and apply the homelessness legislation and contains details of good practice that local authorities should adopt. Whilst it is not legally binding, local authorities are required to have regard to it. Failure to have regard to the current Code can be used as a basis for a [judicial review challenge](#).

5.8 Where the duty to relieve homelessness has ended the local authority is subject to an ongoing duty to secure that accommodation is available to those applicants toward which it has accepted the main s193 HA96 duty. The main housing duty is a duty to provide temporary accommodation until such a duty is ended.

5.9 The main housing duty can be discharged with an offer of temporary or permanent accommodation. Any accommodation secured under the main duty must be suitable: s.210 Housing Act 1996. The Secretary of State has the power to issue regulations to specify details regarding the homelessness provisions, and has done so to prescribe for the suitability of accommodation criteria: Homelessness (Suitability of Accommodation) Order 1996 SI 1996/3204 and Homelessness (Suitability of Accommodation) (England) Order 2012.

5.10 The authority can discharge its duty to make accommodation available by providing accommodation itself or through another landlord such as a private landlord. The authority can provide financial assistance, such a finder's fee, to private landlords. Where the accommodation is secured from a private landlord, the tenancy will normally be an assured shorthold tenancy, unless the applicant is notified by the landlord that it will be an assured tenancy.

6.0 Equality Implications

6.1 i4B does not collect information on the protected characteristics of its tenants. All i4B tenants are Council homeless nominees.

7.0 Consultation with Ward Members and Stakeholders

7.1 N/A

REPORT SIGN-OFF

Martin Smith

Chair of i4B Holdings Ltd