



**Audit and Standards Advisory  
Committee**  
22 September 2021

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

**Report on i4B Holdings Ltd**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	One Appendix 1 i4B Risk Register
<b>Background Papers:</b>	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, the Company) recent performance, accounts outturn, risk register and audit arrangements.

## 2.0. Recommendation(s)

2.1. The ASAC is asked to note:

- Current i4B performance;
- The update on the i4B risk register;
- i4B's accounts outturn for 2021/22; and
- The update on recent i4B audits.

## 3.0. Background

- 3.1. i4B Holdings Ltd 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 2021/22 business plan was agreed by the Shareholder in February 2021. The business plan incorporates the following as i4B's strategic priorities for 2021/22:
- Increasing the supply of affordable housing in the borough;
  - Running a viable business;
  - Delivering safe and sustainable homes; and
  - Providing a consistently good housing service.

#### 4.0. Benefits of i4B

##### 4.1. Social Benefits

- 4.1.1. As of June 2021, 309 Brent families, including 755 children, have been housed in i4B properties, the breakdown for which is below.

Table 1 – Breakdown of families directed to i4B as of June 2021

Previous Accommodation	no. of families	no. of children
Direct to i4B	61	141
Women's Refuge	2	15
TA Stage one – B&B	214	505
TA Stage two – Leased	32	94
<b>Total</b>	<b>309</b>	<b>755</b>

- 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 333 properties, the net saving to the Council per year is circa £333k. 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. **2020-21** **Financial** **Outturn**

5.1. The company has made an operating loss of £1.071m in 2020/21 which is in line with business plan expectations. This £1.071m relates to i4B's gross turnover of £4.243m minus administrative expenses of £1.615m and finance costs of £3.699m. There has been an uplift of £16.267m in the valuation of the investment portfolio predominantly in relation to the revaluation of the Key Worker block and this gives rise to an overall profit of £15.196m in the accounts

### **Post Report Audit Changes.**

5.2. There are some final changes that need to be made to the accounts following feedback from the Audit. The key worker block will be reclassified as Property Plant and Equipment rather than as an Investment Property. This will move the surplus on revaluation of the key worker block of £17m from the P&L to Other Comprehensive Income. This is a presentational change on the income and expenditure statement and will not affect the cash or net asset position of the company.

5.3. Final taxation figures will be included that will reflect the level of deferred tax due on the increase in value of the properties. The figure for deferred tax is £2m.

**Statement of comprehensive income for the year ended 31st March 2021**

	<i>Note</i>	<b>2020/21</b>	<b>Restated 2019/20</b>	<b>Original 2019/20</b>
		<b>£000</b>	<b>£</b>	<b>£000</b>
Turnover	5	4,523	3,556	3,556
Cost of sales	6	(280)	(240)	(240)
<b>Gross profit(loss)</b>		<b>4,243</b>	<b>3,316</b>	<b>3,316</b>
Administrative expenses	7	(1,615)	(1,150)	(1,150)
Surplus on revaluation	10	16,267	(3,162)	(221)
<b>Operating Profit</b>		<b>18,895</b>	<b>(995)</b>	<b>1,946</b>
Interest payable and similar charges	15	(3,699)	(3,144)	(3,144)
<b>Profit on ordinary activities</b>		<b>15,197</b>	<b>(4,139)</b>	<b>(1,198)</b>
Tax on surplus on ordinary activities		0	0	0
<b>Profit (Loss) on ordinary activities after taxation</b>		<b>15,197</b>	<b>(4,139)</b>	<b>(1,198)</b>

- 5.4. The company balance sheet is set out below. The change in the restated 2019/20 balance sheet statement arises from the revaluation of the investment property portfolio. This has written down £9.217m of stamp duty and refurbishment costs in the 2018/19 and 2019/20 financial years. The revaluation was required as the properties should be recorded in the balance sheet at the market value they could realistically be expected to be sold for. The previous valuation overstated the value of properties as it included SDLT costs and refurbishment costs. This is purely an accounting entry that has been agreed with the external auditors.
- 5.5. In 2020/21 shareholder's funds increased by £14.463m when comparing the surplus reported to the last shareholder meeting in the original 2019/20 accounts of £59.254m to the position as at the 31st of March 2021 of £73.717m.

Statement of financial position at 31st of March 2021		Original	Restated	Original
		2020/21	2019/20	2019/20
	Notes	£	£	£
<b>Fixed assets</b>				
Housing properties at cost – affordable rental properties	7	163,376	91,486	100,703
Assets under construction		0	35,012	35,012
<b>Total fixed assets</b>		163,376	126,498	135,715
<b>Current assets</b>				
Debtors	8	837	1,162	1,162
Prepayments	8	0	0	0
Cash at bank and in hand	9	2,187	1,564	1,564
<b>Total current assets</b>		<b>3,024</b>	<b>2,726</b>	<b>2,726</b>
<b>Creditors: amounts falling due within one year</b>	10	<b>(4,924)</b>	<b>(4,008)</b>	<b>(4,008)</b>
<b>Net current assets</b>		<b>(1,901)</b>	<b>(1,283)</b>	<b>(1,283)</b>
<b>Total assets less current liabilities</b>		<b>161,475</b>	<b>125,216</b>	<b>134,433</b>
Creditors: amounts falling due after more than one year	10	(87,758)	(75,178)	(75,178)
<b>Net assets</b>		<b>73,717</b>	<b>50,037</b>	<b>59,254</b>
<b>Capital and reserves</b>				
Retained earnings	SOCIE	3,128	(12,068)	(2,851)
Equity Soft loan	SOCIE	38,243	32,173	32,173
Equity Shares		32,346	29,932	29,932
<b>Total shareholder's surplus</b>		<b>73,717</b>	<b>50,037</b>	<b>59,254</b>

5.6. A loss of £0.358m is forecast in the 21/22 financial year down from an operating loss of £1.071m in the 20/21 financial year. This is due to economies of scale improving operating efficiency as the company grows its property portfolio.

## 6.0. Update on Operational Performance

6.1. Tables 1 and 2 give a summary of operational performance at July 2021.

Table 1 – Key Performance Indicators

Indicator	Target	Performance at November 2020	Performance at July 2021
Number of units	360 by April 2021	300	333
Average cost per property	£363,000	£363,392	£363,091
Net yield of whole portfolio	1.22%	1.16%	1.27%
Net yield of purchases in YTD	1.22%	1.88%	1.47%
Instruction to Legal to Purchase	120 days	131 days	135 days
Refurbishment	66 days	68 days	73 days
Letting Brent and Greater London	14 days	60 days	60 days
Rent collection	98.50%	93.96%	90%
Evictions	N/A	7	0

Landlord Gas safety Record	100%	BHM – 95% Mears – 99%	BHM – 98.2% Mears – 100%
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Table 2 – Refurbishment and Lettings

Refurbishment & Lettings	Performance at November 2020	Performance at July 2021
Properties let	281	300
Properties void	16	33
Average rent per property	£316	£331

## 6.2. *Acquisitions*

6.2.1. In 2020/21, i4B purchased 40 properties. The original business assumption was that i4B would purchase 60 units; this was revised to 36 after Covid. As of i4B's last report to the Committee, the Company had purchased 300 properties. At August 2021, the Company's PRS portfolio had increased to 333 street properties.

6.2.2. The primary reason for the slower rate in purchasing is the surge in demand and ensuing increase in property prices following the extension of the Stamp Duty holiday. To address this, officers have reviewed the i4B acquisitions model, and an increase in the amount that can be spent on properties was agreed at the Company's December 2020 Board meeting. However, the Company is currently not able to purchase at competitive rates in the north of Brent. i4B is looking into further strategies to accelerate purchasing.

6.2.3. Despite the reduced rate of purchases, the Company has continued to purchase higher yielding properties, which has strengthened the Company's future financial position. The average net yield of the portfolio has increased from 1.16% in November 2020 to 1.27% in August 2021. The average net yield of the 15 properties purchased this financial year so far is 1.47%.

6.2.4. i4B currently has six properties progressing through the final internal approval process, and 45 properties in conveyancing.

## 6.3. *Refurbishment*

6.3.1. Current refurbishment performance is 73 days against a Business Plan target of 66 days.

## 6.4. *Lettings*

- 6.4.1. 90% of i4B properties are let (301 out of 333). Of the 32 void properties, seven are in refurbishment. Void periods for i4B remain an issue. Void times for i4B properties have increased to 133 days. High void periods for i4B are in part due to difficulties nominating clients to i4B properties. This is due to the increased supply of prevention PRS properties that the Council has available through Capital Letters, meaning families with less restrictions around affordability and mobility are housed through prevention. In addition, the eviction ban has led to a decrease in the amount of homeless families approaching the Council.
- 6.4.2. i4B properties are now being offered to households under the prevention duty as opposed to only those where the Council has accepted the main housing duty. The eviction ban was lifted on 1 June 2021; this should see an increase in homelessness and therefore a reduction in void times. However, in the short term it is likely that void periods will continue to be high. Furthermore, i4B is reviewing its acquisition strategy to review options to increase purchasing in the North of the Borough where LHA rates are lower and more affordable to tenants. More detail on this can be seen in Section 9.0.
- 6.4.3. In addition, the Company has reviewed its strategy for managing its properties in the Home Counties, as these properties do not meet current i4B demand and therefore have long void turnaround times. To mitigate this, when Home Counties properties go void, the Company will look to dispose of them if they cannot be used to meet immediate i4B demand.
- 6.4.4. i4B has housed 309 Brent families, including 755 children. The majority of these families were previously housed in unsuitable stage one temporary accommodation. This is an increase from 280 families and 688 children at September 2020.

#### 6.5. *Rent collection*

- 6.5.1. The rent collection rate for 2020/21 was 91.02%, which is below the target of 98.5% and below the collection rate for the 2019/20 financial year which was 97.12%. The principal reason for this is the impact of Covid-19. Residents whose income has been affected by Covid-19 are being directed to the Resident Support Fund.
- 6.5.2. Year-to-date rent collection is 90%, below target levels. This has been negatively impacted by delays in Housing Benefit and Universal Credit assessments.

#### 6.6. *Gas safety*

- 6.6.1. Gas safety performance in August was 98.2% against a target of 100%. Legal action is ongoing for the three properties without valid LGSRs.

## **7.0. Risk Update**

7.1. The i4B risk register is included in Appendix 1. The main risks the Company currently faces are detailed below:

- Poor data quality on asset management systems means compliance with H&S standards cannot be effectively monitored, resulting in i4B being non-compliant with its statutory obligations.
- Poor contractor performance and information control results in i4B properties being non-compliant with statutory H&S objectives.
- Company cash flow (capital and revenue) is insufficient to manage expenditure.
- High void rent loss due to long void turnaround times.

7.2. The Company's risk register is reviewed quarterly. Throughout the risk register business plan assumptions, mitigations and actions are updated.

## **8.0. Update on Key Worker Housing Block**

8.1. As agreed in the 2019/20 Business Plan, the Company has purchased a block providing 153 units of 1 and 2 bedroom apartments to be let at 65% of market rate plus service charge to key workers. The Lexington Building was handed over to i4B on 5 February 2021.

8.2. Currently, all properties at the block are either occupied, have sign-up dates booked in, have been offered to an applicant who is in the process of viewing the property, or have been reserved. 15 units have been reserved for Brent Council recruitment, a further 15 for employees of the Brent Community London Healthcare Trust, and all Tier 1 (priority occupations) applications in verification have been provisionally allocated a property where possible.

8.3. i4B's financial model was prepared on the basis that 78 of the 153 units would be let by October 2021. The Company has now met this target.

## **9.0. Future Options for i4B**

9.1. Following the purchase of the key worker block and the ongoing programme of street property purchases, i4B has committed £158m of its loan funding, and is on track to have used up its total loan funding of £230m by the end of the 2023/24 financial year.

9.2. Work is currently being carried out to develop a new purchasing strategy that will match the Council's housing demand to housing supply in the Borough and identify the affordability requirements of a financing package to enable these units to be delivered to address housing need in Brent. As part of this, i4B's Board has agreed a new acquisitions model which increases the amount that i4B can spend on properties. This model replaces the net yield target of 1.2%,

which only measures return in the year of acquisition, with a range of criteria better suited to testing performance and viability over the life of the asset. The criteria are:

- The asset generates a positive cash return within 12 months of acquisition;
- Debt starts to be repaid within 10 years; and
- All debt is repaid within 50 years.

9.3. Over the coming months officers will also work with Council colleagues in Finance, Housing and Property to: review market supply and demand; determine where to best target investment in private rented sector properties, including an analysis of the north of Brent; develop a strategy for assessing potential future new-build schemes; and review the financial viability of the Company.

9.4. This will lead to the development of a strategy to determine the future direction of the Company once all loan funding has been committed, in order to best support the Council's Housing Strategy. This strategy will be developed over the coming months and will form a key part of i4B's 2022-23 Business Plan.

9.5. If i4B were to continue with its current rate of street property acquisitions, funding will have been spent by the end of the 2023/24 financial year. However, if i4B were to enter into a new build scheme then this funding would be exhausted earlier. Thought needs to be given to potential options for i4B's future direction, including whether to agree a new loan with the Council to allow investment to continue, or to wind down purchasing once the remaining loan funding has been committed.

9.6. This work will be carried out over the coming months and will inform i4B's 2022-23 business plan.

#### **10.0. Audit Update: Service Level Agreement Audit**

10.1. The purpose of this audit was to review the design and effectiveness of key controls surrounding i4B's commissioning of services from the Council/third parties and management's oversight of this as per the SLA.

10.2. The audit identified four medium-risk and two low-risk issues. These were:

- SLA document (medium-risk);
- Timeliness of invoicing process (medium-risk);
- Performance reporting (medium-risk);
- Value for money assessment (medium-risk);
- Overarching process guidelines (low-risk); and
- Scheme of Delegation (low-risk).

10.3. The recommendations of the audit were presented to the i4B Board in January 2021, and a management action plan was agreed for each area of risk. This is summarised below:

Risk	Audit recommendation	Management action
SLA document	<p>1. The Company should consider having the SLA in the form of a written contract including the following as a minimum:</p> <p>Date and version history; Parties Involved and Lead Officers including defined roles and responsibilities; Overview of the agreement; Performance requirements including an appendix for the services commissioned including pricing; Length of agreement and review date including how this process will be undertaken; Service provision; Performance monitoring and reporting including reporting cycle and mechanism for assigning/determining KPIs for all services; Introduce a risk mechanism whereby each service is risk rated, and KPIs are aligned to services that may be categorised as medium or high-risk. Where KPIs are considered to not be appropriate for specific services the criteria for these should be defined; SLA amendments/Dispute resolution; Operational management of the relationship between all stakeholders including the frequency of meetings and review of performance; and Signed by all relevant stakeholders.</p> <p>2. The SLA should be drafted, reviewed including for grammatical errors and approved by the Head of Transformation and the Board of Directors.</p>	<p>1. When agreeing and drafting the new SLA for 2021/22, i4B will ensure the SLA is in the form of a formal written contract. This contract will include the recommendations detailed.</p> <p>UPDATE: This action is completed.</p> <p>2. The SLA will be agreed by the i4B Board of Directors as well as senior representatives from the Council.</p> <p>UPDATE: This action is completed.</p>
Timeliness of invoicing process	<p>1. A process and timeline for the review and approval of payments should be defined in collaboration with both parties. This may be</p>	<p>i4B will work with the Council to develop a clear process timeline for reviewing and approving invoices. i4B will look to introduce monthly invoicing.</p>

	<p>included in the SLA.</p> <p>2. Relevant roles and responsibilities in the process should also be defined.</p>	<p>UPDATE: This action is ongoing. The due date is Q2 2021/22</p>
Performance reporting	<p>1. Company officers should review or conduct spot checks in order to verify and sign off the source data and monthly performance reports prior to being presented to Board. This process should be documented with appropriate segregation of duties.</p> <p>2. The review and sign off process should be performed in collaboration with the Service Area Leads to ensure any discrepancies are addressed promptly for the timely reporting of the KPIs. Where delays occur, these should be documented and discussed in the SLA meetings with the Council's housing management and conveyancing teams.</p>	<p>1. i4B will ask service providers to document the internal controls around the performance information they produce and agree a programme of internal audit checks of data with the service providers</p> <p>UPDATE: This action is ongoing. The due date is Q3 2021/22</p> <p>2. i4B officers will request that service area leads send KPI reporting to i4B officers for review prior to Board meetings.</p> <p>UPDATE: This action is completed.</p>
Value for money assessment	<p>1. The Company should perform a benchmarking exercise to determine its financial position and performance in comparison to similar entities.</p> <p>2. External providers should undergo a procurement process with services provided and associated pricing and cost prices clearly outlined.</p> <p>3. Management should periodically review external providers to ensure an appropriate procurement process has been conducted and where discrepancies are found this should be investigated. This review process should be documented.</p>	<p>1. i4B will perform an annual benchmarking exercise against Regulator of Social Housing Value for Money metrics.</p> <p>UPDATE: This action is completed.</p> <p>2. A procurement exercise was recently carried out for housing management services for properties in the Home Counties.</p>

<p>Overarching process guidelines</p>	<p>1. The Company should produce an overarching guidance document outlining the key end-to-end processes and guidelines for processing various types of services commissioned including designated responsibilities for processes.</p> <p>2. This document should be aligned with an agreed SLA and reviewed periodically to reflect change in operations and practices.</p>	<p>An overarching guidance document on SLA processes will be produced. This will be reviewed on an annual basis alongside the SLA.</p> <p>UPDATE: This action is ongoing. The due date is Q3 2021/22</p>
<p>Scheme of Delegation</p>	<p>1. The Scheme of Delegation should be updated, reviewed and approved and include job titles, rather than names of individuals.</p> <p>2. It should include a review period and responsibility for conducting this review</p>	<p>In 2021/22 the Scheme of Delegation will be reviewed. It will then be reviewed on an annual basis.</p> <p>UPDATE: This action is ongoing. The due date is Q3 2021/22</p>