



Audit and Standards Advisory Committee

15 March 2022

Report from the Chair of i4B Holdings Ltd

Report on i4B Holdings Ltd

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| 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: | One 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; The Company) recent performance, and i4B's 2022/23 business plan, risk register, housing companies' development strategy and audit arrangements.

2.0. Recommendation(s)

- 2.1. The ASAC is asked to note the content of the report.

3.0. Background

- 3.1. 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.

3.2. i4B's 2021/22 business plan was agreed by the Shareholder in February 2021. The business plan incorporated the following as the medium- to long-term objectives for Brent Council's housing companies, i4B and First Wave Housing:

- 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 December 2021, i4B has housed 364 families and 871 children. The majority of these families were previously housed in stage one TA. The number of families housed is higher than i4B's PRS portfolio due to certain properties being re-let.

Table 1 – Breakdown of families accommodated by i4B as of December 2021

| Previous Accommodation | no. of families | no. of children |
|------------------------|-----------------|-----------------|
| Direct to i4B | 85 | 188 |
| Women's Refuge | 2 | 15 |
| TA Stage one – B&B | 241 | 559 |
| TA Stage two – Leased | 36 | 109 |
| Total | 364 | 871 |

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.

4.1.3. In addition, i4B took ownership of its 153-unit key worker block in Wembley Park, the Lexington Building, in February 2021. As of January 2022, 128 of the units have been let to public sector key workers. The pace of lets has been faster than business plan assumptions.

4.2. Financial Benefits

4.2.1. The Council receives financial benefits from i4B, mainly through reducing the use of temporary accommodation. i4B brings a gross annual benefit of £1.784 million to the Council. 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 its two contractors, Mears and Brent Housing Management.

Table 2 – Operational Performance

| Indicator | Target | Performance at December 2020 | Performance at December 2021 |
|-------------------------------------|-------------------|---|-------------------------------------|
| Number of units | 378 by April 2022 | 302 | PRS: 354 Key Worker: 153 |
| Average cost per property | £363,000 | £363,484 | £366,778 |
| Net yield of whole portfolio | 1.22% | 1.25% | 1.30% |
| Net yield of year to date purchases | 1.22% | 1.88% | 1.58% |
| Instruction to Legal to Purchase | 120 days | 132 days | 132 days |
| Minor void re-let times | 35 days | 93 days <i>NB: In Dec 20 void times were not split into major/minor therefore, there is only an overall figure</i> | 19 days |
| Major void re-let times | 72 days | 93 days <i>NB: In Dec 20 void times were not split into major/minor therefore, there is</i> | 151 days |

| | | | |
|----------------------------|--------|-------------------------------|--------------------------------|
| | | <i>only an overall figure</i> | |
| Rent collection | 98.50% | 93.50% | 88.5% |
| Landlord Gas safety Record | 100% | BHM – 95% Mears – 97% | BHM – 99.57% Mears – 92.42% |

5.1.1. During 2021-22, i4B's street property purchase programme has continued, and the Company is forecast to purchase between 45 and 50 properties in the financial year, against its target of 60. This is due to a reduction during the year of properties on the market i4B is able to purchase. However, i4B continues to purchase higher yielding properties, and the average net yield of the portfolio has increased during 2021-22 to 1.30%. The volume of property acquisitions must be balanced against the Company's need to remain financially viable; therefore all purchases are subject to meeting specific financial criteria, which include service charges, works costs and lease costs as well as property price. This is a steady and established supply stream for the Company, and is expected to remain so in the future.

5.1.2. The two main operational issues are void times and rent collection. Minor void re-let times are within target, however major void re-let times remain out of target. Brent Housing Management (BHM), the Council's Housing department, manage all Brent and Great London i4B properties and are responsible for void times and rent collection. BHM have produced a voids improvement action plan; progress will be closely monitored and reported to the Company Board during 2022-23. Officers are investigating the reasons for the drop in rent collection rates and drivers of arrears, and in 2022-23 will review current rent collection processes to identify improvements. The Board is conscious that the increase in the cost of living could have an impact on rent collection and the business plan modelling for FWH. This will be monitored closely going forward as a potential risk.

6.0. Development Strategy

6.1. A Development Strategy has been produced for both of the Council's housing companies. The aim of the Strategy is to support i4B's priority of utilising remaining and potential future funding to develop a portfolio of affordable new build accommodation which:

- Supports the Council's Housing Strategy and relieves housing need;
- Supports the financial viability of the Company; and
- Is feasible and realistic.

6.2. Throughout 2021-22, work has been carried out to review future housing demand in the borough, review market supply and affordability of PRS street

properties to i4B, implement a new acquisitions appraisal model, and to analyse arrears and tenant affordability. This work has allowed i4B to produce a list of criteria that i4B new build developments must meet.

- 6.3. The strategy outlines actions the Company will carry out in 2022-23 to ensure criteria are realistic, feasible, and viable. Work will also allow a degree of prioritisation to take place on criteria. This work will give i4B a better understanding of the properties it can acquire/develop that are financially viable and technically feasible. This will enable discussions with the Council on whether i4B's current resourcing and financing arrangements allow it to deliver accommodation that best meet the Council's housing need.

7.0. 2021/22 Financial Forecast

- 7.1. The financial monitoring forecast set out below is based on the income and expenditure position as at 31 December 2021. The first 9 months of SLA charges have now been received and are incorporated into the forecasts.
- 7.2. The company is forecasting a surplus of £0.111m against a budgeted surplus of £0.451m.
- 7.3. Net rental income at £6.578m has shown a slight increase from the £6.553m reported in November. An increase in gross rental income of £0.125m has been mostly offset by an increase in void rent loss of £0.101m.
- 7.4. Operating Expenditure has increased from £2.364m to £2.565m, which is an overspend of £0.246m against the budget of £2.319m.
- 7.5. Expenditure forecasts for the Key Worker Block have increased due to the costs of subsidised parking, council tax and unrecoverable energy costs being factored in to the forecasts.

| Financial Year 2021-22 | | Budget | Forecast | Variance | Variance |
|------------------------------|---------------------------------|------------------|------------------|------------------|------------|
| | | £ | £ | £ | % |
| | Gross Rental Income | 6,951,000 | 7,064,877 | 113,877 | 2% |
| | Void loss | (227,000) | (486,660) | (259,660) | 114% |
| | Net Rental Income | 6,724,000 | 6,578,217 | (145,783) | -2% |
| Cost Categories | | | | | |
| FIXED SLA COSTS | Corporate SLA | 284,000 | 284,000 | - | 0% |
| | HRA SLA | 369,000 | 386,000 | 17,000 | 5% |
| | Home Counties Management Cost | 74,000 | 99,000 | 25,000 | 34% |
| PREMISES RELATED EXPENDITURE | Major Works | 20,000 | 126,000 | 106,000 | 530% |
| | Annual maintenance | 282,000 | 122,000 | (160,000) | -57% |
| | Key Worker Block | 542,000 | 661,000 | 119,000 | 22% |
| | Electricity | 1,000 | 1,000 | - | 0% |
| | Council Tax | 40,000 | 40,000 | - | 0% |
| | Water And Sewerage | 3,000 | 4,000 | 1,000 | 33% |
| | Service Charges | 236,000 | 220,000 | (16,000) | -7% |
| | | | | | |
| SERVICES | Insurance | 45,000 | 48,000 | 3,000 | 7% |
| | Audit Fees | 37,000 | 38,000 | 1,000 | 3% |
| | Legal Fees | 36,000 | 1,000 | (35,000) | -97% |
| | Professional Services | 65,000 | 60,000 | (5,000) | -8% |
| | Other Revenue Costs | 1,000 | - | (1,000) | -100% |
| | Subsistence / Catering | - | - | - | 0% |
| CONTRIBUTIONS TO PROVISIONS | Bad Debts | 284,000 | 475,000 | 191,000 | 67% |
| | | | | | |
| | Total Operating Costs | 2,319,000 | 2,565,000 | 246,000 | 11% |
| | Operating Profit | 4,405,000 | 4,013,217 | (391,783) | -9% |
| | Interest & Similar Charges | 3,954,048 | 3,902,000 | (52,048) | -1% |
| | Profit/(Loss) Before Tax | 450,952 | 111,217 | (339,735) | 75% |

8.0. 2022/23 Draft Business Plan

- 8.1. i4B has drafted its annual business plan. The Company's Board, Shareholder and CMT have fed into the development of the plan, and a final version went to Cabinet for Shareholder approval on 7 March 2022.
- 8.2. The 2022-23 Business Plan is set out within the framework of the housing companies' medium to long-term objectives.
- 8.3. The strategic objectives, and key priorities for each of these across 2022/23, in the Business Plan are as follows:
 - 8.4.1 Increasing the supply of affordable housing in the borough
 - Priority 1: Purchase 48 street properties in 2022-23

- Priority 2: Take on 25 properties from First Wave Housing as part of the transfer of Granville New Homes
- Priority 3: Review new build market opportunities in the borough
- Priority 4: Review feasibility of setting up a new purchasing stream for adapted accommodation
- Priority 5: Review feasibility of purchasing larger properties with four or more bedrooms

8.4.2. Running a viable business

- Priority 6: Reduce void times
- Priority 7: Develop an Asset Management Strategy for i4B
- Priority 8: Commence the disposal of company properties in the Home Counties that do not meet demand
- Priority 9: Review void and repair costs
- Priority 10: Develop and implement a value for money strategy for i4B
- Priority 11: Review approach to former tenant arrears
- Priority 12: Improve rent collection and arrears management

8.4.3. Delivering safe and sustainable homes

- Priority 13: Establish a suite of compliance policies and standards to ensure legal compliance
- Priority 14: Establish a suite of performance monitoring metrics to give the Board assurance on compliance levels
- Priority 15: Carry out an audit of the new compliance suite
- Priority 16: Commission review of energy performance data for current stock
- Priority 17: Commission review to understand what work is required to bring stock up to an average of EPC B
- Priority 18: Model cost implications of bringing stock up to an average EPC B rating and develop a funding strategy for financing a carbon reduction works programme

8.4.4. Providing a consistently good housing service

- Priority 19: Monitor tenant satisfaction

9.0. Draft Business Plan Financial Implications

9.1. The financial implications are set out in the business plan itself. The key changes from the previous plan are a slowing of the purchase rate of new properties from 60 to 48 per year plus the addition of 25 units transferred from First Wave Housing. Higher inflation has been factored into the plan whilst rent levels have been frozen for the first 4 years on a prudent assumption that LHA rates will not increase.

- 9.2. The plan shows i4B moving into surplus with surpluses increasing substantially once rents start to increase again from 2025/26 onwards.
- 9.3. The business plan demonstrates that i4B is able to operate as a going concern.

10.0. Risk Update

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

- High Capital Programme costs, including future climate change obligations, undermine the viability of the business plan.
- Tenant non-payment of rent increases due to unaffordability of rent.
- 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 Health and Safety objectives.
- High void rent loss due to long void turnaround times.
- Company cash flow (capital and revenue) is insufficient to manage expenditure.

10.2. The Company's risk register is reviewed quarterly. Throughout the risk register business plan assumption and mitigations are updated

11.0. Audit Update

11.1. An internal audit has taken place on Health and Safety Compliance. The Board is awaiting the final report on this audit.

11.2. As part of the Council's audit plan for 2021-22 a Governance audit will be carried out for both of the Council's housing companies and is due to commence on 28 February 2022.