



**Audit and Standards Advisory
Committee**
21 March 2023

**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:	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 2023/24 business plan and risk register.

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. The company has drafted its 2023/24 Business Plan which was presented to the Company Shareholder on 11th January 2023, the i4B Board on 24th January 2023 and CMT on 16th February 2023. Feedback from the Board and Guarantor as well as CMT has been incorporated into the final draft presented to Cabinet on 13th March 2023.

4.0. Benefits of i4B

4.1. Social Benefits

4.1.1. As of December 2022, i4B has housed 404 families and 930 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 One – Breakdown of families accommodated by i4B as of December 2022

Previous Accommodation	no. of families	no. of children
Direct to i4B	99	206
Women's Refuge	2	15
TA Stage one – B&B	267	600
TA Stage two – Leased	36	109
Total	404	930

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 also owns a 153-unit block which is let to public sector key workers; the Lexington building has now been operational for two years.

4.2. Financial Benefits

4.2.1. The Council receives financial benefits from i4B, mainly through reducing the use of TA. i4B brings a gross annual benefit of £2.093 million to the Council, representing a 5.76% return on investment.

4.2.2. In addition the Council has injected equity of £36.354m into i4B and has received one off loan fees of £1.421m from i4B.

4.2.3. The net assets are currently less than the equity injected as when assets are initially acquired stamp duty and refurbishment costs are incurred which are not reflected in an increase in the market value of the assets on the balance sheet. In the early years of holding an asset this results in a loss where the value of the equity injection exceeds the net asset value. As the company begins to

generate revenue surpluses and as assets and rents rise in value in line with inflation net assets will exceed the value of the equity injection.

I4B - Net Assets	£34.289m	as per 21/22 accounts
Council Equity	£36.354m	as per 21/22 accounts
Loss	-2.065	
One off loan advance fees	£1.421m	1% of £142m
Net Position	-0.644	
Annual Benefits		
Interest rate mark up	£0.426m	30 bp on £142m
TA savings	£1.666m	£85 per week per property based on 377 properties
Annual Benefits	£2.093m	
Return on investment	5.76%	

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 Two – Operational Performance

Indicator	Target	Performance at December 2021 (YTD)	Performance at January 2023 (YTD)
Number of units	418 by April 2023	PRS: 354 Key Worker: 153	PRS: 391 Key Worker: 153
Instruction to Legal to Purchase	120 days	132 days	147 days
Minor void re-let times	35 days	104 days	New purchases: 111 days Re-lets: 162 days
Major void re-let times	72 days	151 days	New purchases: 126 Re-lets: 206 days
Rent collection	98.50%	88.5%	BHM – 92.1% Mears – 90.5%
Void Rent Loss	1%	9%	5%*
Emergency repairs completed within 24 hours	100%	100%	97%
Urgent repairs completed within 7 days	95%	81%	80%
Routine repairs completed within 28 days	95%	91%	76%
% of properties with a valid gas safety certificate	100%	BHM – 99.57% Mears – 92.42%	BHM – 100% Mears – 95.2%

*figure is for December 2022 as this is reported on a bi-monthly basis

5.1.1. The two main operational issues continue to be void times and rent collection. A voids improvement project has been set up covering both housing companies and the Council's Housing Revenue Account; progress will be closely monitored and reported to the Company Board during 2023/24. A dedicated Tenancy Sustainment Officer has been appointed to ensure that tenants are set up on the relevant benefits and are able to make regular payments. A wider project looking at tenancy sign-up, rent collection and arrears management processes and systems has also been set up to begin in early 2023.

5.1.2. BHM are undertaking a series of actions to improve void turnaround performance. These include:

- Updating the CRM system to provide better visibility to managers on outstanding actions for their staff. This will lead to improved identification of performance issues and necessary actions. The majority of this systems work is due to be completed on 8 April 2023.
- The Homes & Communities team have resumed pre-tenancy termination inspections. The purpose of visits is to inspect the condition of the property and to remind the resident of their responsibilities and obligations when a tenancy is terminated.
- For i4B properties, a single point of contact for the end-to-end void process will be introduced on a trial basis.
- Voids & Lettings are engaging directly with British Gas to clear meter debts at the void stage. Subject to contractual agreement, this will remove previous delays related to using a third party contractor and thereby reduce void turnaround times.
- DocuSign will be introduced at new sign-ups to increase efficiencies and improve the new tenant experience.
- Additional training and away days are being arranged to discuss void processes and issues collaboratively across services, and identify solutions to improve performance.

5.1.3. i4B currently has 24 voids, of which five relate to new acquisitions and three are Lexington properties. In 2022/23 to date, i4B has let 85 properties, of which 26 were new acquisitions and 23 were Lexington properties.

5.1.4. In the 2022/23 Business Plan, i4B set a target of acquiring 48 properties. However, due to higher global inflation levels and increased interest rates driving property prices up, there is a lack of properties on the market that meet i4B's financial criteria. As of January 2023, i4B has purchased 22 properties in the financial year, with a further 9 in the pipeline. Alongside high interest rates, it is expected that property values will reduce over the coming year. As a result, the i4B Board has taken the decision to pause the street property purchasing programme and suspend new offers on properties for six months.

6.0. 2022/23 Financial Forecast

6.1. The financial monitoring forecast is set out in the table below. The company is forecasting a surplus of £0.622m which is £0.352m less than the £0.975m budgeted surplus.

6.2. Income is forecast to be £0.103m greater than budget due to higher than forecast rental income, although void rent loss is also forecast to be £0.081m higher than budgeted.

6.3. Operating expenditure is forecast to be £2.793m, which is £0.288m below budget. This is primarily due to the key worker block forecasting an underspend of £0.209m; this is because no major works are forecast for the year.

6.4 Financing costs are £0.743m greater than budget as the full remaining balance of the Council loan to I4B was drawn down in August 2022 at an interest rate of 3.45% in order to take advantage of lower interest rates available at the time.

Table Three – Financial Forecast 2022/23

Income and Expenditure 2022/23	Budget £,000	Forecast £,000	Variance £,000
Rental Income	8,962	9,145	183
Void Rent Loss	-355	-436	-81
Net Rental Income	8,606	8,709	103
Cost Of Sales			
Key Worker Block Operating Costs	632	423	-209
Responsive Repairs	342	346	4
Planned Repairs	0	0	0
Major Works	0	0	0
Housing Management SLA	463	405	-58
Home Counties Management Costs	90	104	14
Utilities Costs	24	32	8
Council Tax	41	12	-29
Service Charges	287	175	-112
Total Cost of Sales	1,879	1,496	-383
Gross Profit	6,727	7,213	486
Administrative Costs			
Corporate SLA	301	301	0
Insurance	46	50	4
Audit Fees	38	42	4
Legal Fees	38	32	-6
Other Professional Services	67	162	95
Other Revenue Costs	1	0	-1
Bad Debts	711	711	0
Depreciation	0	0	0
Revaluation	0	0	0
Total Administrative Costs	1,202	1,297	-95
Total Costs	3,081	2,793	-288
Operating Profit	5,525	5,916	391
Interest & Finance Costs	4,551	5,294	743
Profit/(Loss) Before Tax	974	622	-352

7.0. 2023/24 Business Plan

7.1. 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 13th March 2023.

7.2. The 2023/24 Business Plan outlines the Company's strategic priorities for the year. Priorities for 2023/24 are set out within the framework of the medium to long-term objectives of Brent's Housing Companies. These objectives are:

- 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.

7.3. The strategic objectives and key priorities are as follows:

7.4. Increasing the supply of affordable housing in the borough

- Priority 1: Explore future financing arrangements with Council
- Priority 2: Review feasibility of a block acquisition
- Priority 3: Review feasibility of new build purchases
- Priority 4: Review feasibility of re-entering street property market

7.5. Running a Viable Business

- Priority 5: Carry out project to reduce arrears
- Priority 6: Implement VfM strategy
- Priority 7: Reduce void costs
- Priority 8: Improve void turnaround times
- Priority 9: Explore potential stock rationalisation

7.6. Delivering Safe and Sustainable Homes

- Priority 10: Monitor health and safety compliance
- Priority 11: Implement plan in response to Building Safety Act
- Priority 12: Develop decarbonisation strategy
- Priority 13: Develop disrepair policy

7.7. Providing a Consistently Good Housing Service

- Priority 14: Review tenant satisfaction
- Priority 15: Improve complaints oversight and monitoring

8.0. 30 Year Cashflow

8.1. Over the year, cost inflation has increased, income inflation has not kept pace with cost inflation and interest rates have risen. This has significantly reduced the financial capacity in the business plan. This effect can be seen at a national

level in the global accounts and indices published by the Regulator for Social Housing (RSH).

- 8.2. The cash position of i4B is initially positive but reduces over two years due to the cost of the refurbishment works to the Granville blocks. The cash balance then remains broadly stable for five years to 2030/31 as rental growth offsets the cost of decarbonisation works through the stock. From 2031/32 onwards cash balances start to increase as rental growth continues and capital costs associated with the decarbonisation works end.
- 8.3. i4B is forecasting positive cash balances of around £0.5m for the five years up unto 2030/31. These balances are relatively small in terms of the size of the organisations. As a result all the stress test scenarios modelled in the business plan put the organisation into deficit. The business plan sets out that further work will be required on contingency plans to ensure the organisation can maintain its financial viability. These include:
- Reducing void rent loss
 - Improving arrears collection
 - Surveys to quantify decarbonisation costs
 - Potential stock rationalisation of low energy efficiency or assets showing poor financial performance
- 8.4. i4B does have £23m of financial capacity to acquire additional properties. The costs of this borrowing are reflected in the business plan as the loan finance has already been drawn down. No rental income or management and maintenance cost assumptions are included in the plan as decisions are still to be made on how this financial capacity will be utilised. Any additional purchases will make a positive cash flow contribution to the business plan.

9.0. Risk Update

- 9.1. The i4B risk register is included in Appendix 1. The main risks the Company faces are detailed below:
- i4B lacks the policies, knowledge and governance arrangements to effectively monitor regulatory and legal standards on compliance.
 - 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.
 - Compliance actions are not effectively identified, followed up and monitored when issues arise, leading to non-compliance with statutory obligations.
 - Tenant non-payment of rent increases due to unaffordability of rent.
 - High void rent loss due to long void turnaround times.
 - High Capital Programme costs, including future climate change obligations, undermine the viability of the business plan.
 - i4B is deemed to have failed a statutory requirement in its corporate role following developments in the regulatory environment such as the Hackitt Review.

- Substantial variations in inflation and interest rates compared to the business plan adversely affect financial performance and viability.
- There is an insufficient volume of properties on the market that meet i4B's financial criteria
- There is an insufficient amount of development opportunities that meet i4B's development criteria
- I4B has insufficient capital to fund new acquisitions.