



**Audit and Standards Advisory Committee**

26 September 2023

**Report from the Chief Executive and Corporate Director of Finance and Resources**

**Lead Cabinet Member - Deputy Leader and Cabinet Member for Finance, Resources & Reform**

**i4B Holdings Ltd**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>List of Appendices:</b>	Appendix 1 – i4B August 2023 Report to the Shareholder.
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Sadie East Director of Transformation <a href="mailto:Sadie.East@brent.gov.uk">Sadie.East@brent.gov.uk</a> Tel: 020 8937 1507

**1.0. Executive Summary**

1.1. This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on the work of i4B Holdings Ltd (i4B; the company) to deliver against its business plan for 2023-24 which was agreed with the Council as Shareholder.

**2.0. Recommendation(s)**

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

2.2. The ASAC is asked to note the update on the company's financial outturn for 2022-23.

### **3.0. Detail**

#### **3.1. Introduction**

3.1.1. 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 Temporary Accommodation costs.

#### **3.2. Contribution to Borough Plan Priorities & Strategic Context**

3.2.1. The work of i4B contributes to the Borough Plan strategic priority of 'Prosperity and Stability in Brent: Safe, Secure and Decent Housing' as its core business activity involves increasing the supply of good quality affordable housing in the borough and reducing the use of Temporary Accommodation.

#### **3.3. Changes to Reporting Arrangements**

3.3.1. Historically, the Committee has received a report from the Chair of the i4B Board twice each year on the company's financial & operational performance, risks, business plan and governance.

3.3.2. Following a review of the Committee's arrangements, and in consultation with the Chair and Vice-Chair, it has been agreed that moving forward the Committee will receive bi-annual reports from the Council's Chief Executive and Corporate Director of Finance and Resources, providing assurance on the arrangements the Council, as Shareholder of i4B, has in place to oversee the good performance and governance of the company. This approach is in-line with best practice as set out in CIPFA's Audit Committees guidance.

3.3.3. Reports will outline the governance arrangements in place between the Council and company, provide a report on the most recent i4B-Shareholder meeting, & present the company's annual business plan and annual accounts.

3.3.4. Moving forward, operational performance for the company will be scrutinised by the Community & Wellbeing Scrutiny Committee. In early 2024, a joint meeting of the Community & Wellbeing and Resources & Public Realm Scrutiny Committees will be convened to review the housing companies.

#### **3.4. Governance Arrangements**

3.4.1. i4B is governed by a Shareholder's Agreement with Brent Council, which outlines the matters and decision-making powers which are reserved to the Council as

sole Shareholder. This includes approval of the annual business plan, which is agreed by Cabinet each year; the Board is unable to deviate from this plan without Shareholder agreement.

- 3.4.2. The i4B Board meets on a monthly basis and is made up of an independent Chair, two Council directors, one councillor and one independent non-executive director. In the past year, the Board has met 13 times; this includes 11 scheduled meetings – the Board does not meet in August – as well as two extraordinary strategy sessions, one to discuss 2023-24 business plan strategy and one to review the results of consultancy work which the company had commissioned in relation to development opportunities.
- 3.4.3. In addition, i4B has six-monthly meetings with the Chief Executive, Corporate Director of Finance & Resources and Deputy Leader who represent the Council as Shareholder. The Council and company are continuing to review governance arrangements and are considering scheduling additional touch-point meetings between these six-monthly meetings. Latest Shareholder meetings took place in January and August 2023.
- 3.4.4. A 30-year business plan is in place for i4B to ensure long-term financial standing. This is reviewed annually and is supported by monthly monitoring reports. The company produces and files annual statutory accounts.
- 3.4.5. The Company has a financial model that guides all acquisitions. A net yield target is set for all i4B purchases. This ensures that property purchases are viable and 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.
- 3.4.6. 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.
- 3.4.7. i4B maintains a risk register covering both strategic and operational matters. Risks are aligned to the company's long-term strategic objectives and are reviewed and reported to the Board on a quarterly basis as well as to the Shareholder on a biannual 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. The current highest scoring risks for i4B are:
  - i4B lacks the policies, knowledge and governance arrangements to effectively monitor regulatory and legal standards on compliance.

- Tenant non-payment of rent increases due to unaffordability of rent.
- High Capital Programme costs, including future climate change obligations, undermine the viability of the business plan.
- Substantial variations in inflation and interest rates compared to the business plan adversely affect financial performance and viability.
- Tax inefficiency in the i4B company structure makes property acquisition and decarbonisation works unaffordable.

3.4.8. In addition, a risk in relation to the operations and governance of the housing companies is recorded on the Council's Resident Services departmental risk register. Mitigating factors include the governance arrangements detailed in this section.

3.4.9. Furthermore, i4B has a robust internal audit programme with the current audit plan having been assurance mapped against the company's risk register and agreed by the Board, and the results of audit findings being reported back to the Board. Focuses of recent audits include health & safety compliance, as well as the Council's governance arrangements in relation to the company. Upcoming plans include an audit of the company's financial controls with a focus on the monitoring and charging of repairs costs.

3.4.10. The annual external audit is another means to demonstrate financial resilience and sustainability. This audit not only provides assurance on all financial matters that occurred during the year, it also provides assurance on the company's overall financial position and going concern status. A letter of representation is sent to the external auditor from the Director of Finance & Resources confirming Brent undertakes to provide continuing financial support to enable i4B to fund its liabilities as they fall due and to allow the financial statements of i4B to be prepared on a going concern basis.

3.4.11. The Chair of the i4B Board, Martin Smith, is due to step down at the end of 2023. The recruitment process to appoint a new Chair will commence in late September and Cabinet will be asked to endorse the appointment of a new Board Chair in December.

### **3.5. Update from Shareholder Meeting**

3.5.1. The latest Shareholder meeting between the Council and i4B took place on 8<sup>th</sup> August 2023.

3.5.2. The Chair of the i4B Board presented a report on the company's acquisition programme, operational performance, financial performance, business plan progress, risks and governance to the Council's Chief Executive, Corporate Director of Finance & Resources and Deputy Leader.

3.5.3. The full report can be found in Appendix 1. This section provides a summary of key discussions at the meeting.

#### 3.5.4. *Acquisitions*

3.5.5. The Chair of the Board highlighted that acquisitions in the past 9 months had been challenging due to high interest rates and property prices. The company is now purchasing again, although opportunities are still limited due to high price expectations and is exploring block acquisition opportunities.

3.5.6. The Council was asked to consider whether it would be open to providing further loan funding where an opportunity such as a block purchase arose that would be more costly than i4B's remaining loan funding.

3.5.7. The Council asked i4B about the results of its pilot project to purchase adapted properties for clients with mobility issues; i4B advised that given high prices for such properties this was not a financially viable programme at this stage.

#### 3.5.8. *Operational Performance*

3.5.9. The Council noted the good health & safety compliance performance of the company.

3.5.10. The Chair highlighted ongoing issues with void times. The Council asked whether the Board had considered moving away from Brent Housing Management (BHM) for its housing management services. The Chair responded that the Board did discuss this every 12-18 months and felt that performance, while below target, was in line with other contractors such as Mears. The Board also had a desire to support BHM in addressing issues and improving its performance.

3.5.11. Regarding particularly high void times in the Home Counties, managed by Mears, the Council queried whether there were likely to be future issues in re-letting these properties. The Chair agreed that this was likely, as Brent's accepted homelessness clients generally have local family and school connections in the borough. Going forward the company would consider disposing of these properties where suitable clients could not be found at the void stage.

#### 3.5.12. *Financial Performance*

3.5.13. The Chair highlighted that i4B was in the process of reviewing its tax efficiency, and that issues with late charges for void works & repairs from BHM were affecting the company's ability to forecast effectively.

3.5.14. The Council asked how the company was holding it and BHM to account for this; the Chair responded that i4B was considering introducing a deadline for charges – for example three months – after which invoices would not be paid. In addition, an audit on financial controls is due to begin in the autumn, which will suggest

further improvements to monitoring and charging processes.

#### 3.5.15. *Business Plan*

3.5.16. The Council asked the Company how i4B was performing against its Business Plan priorities. The Chair responded that, while progress varied between priorities, performance was generally good.

3.5.17. The first results of new tenant satisfaction measures had recently been received and showed that i4B's satisfaction was lower than that of First Wave Housing – the Council's Registered Provider – and BHM more widely. It was thought that this was due to i4B's properties being more widely dispersed, as well as i4B having a greater number of properties in blocks and estates owned by third parties (whether housing associations, other local authorities or private freeholders). The Board will receive tenant satisfaction reports every six months in order to monitor direction of travel.

### 3.6. **2022-23 Financial Outturn**

3.6.1. In the 2022/23 financial year, i4B made an operational profit of £0.659m compared to £0.549m in 2021/22. Void turnaround times and low-income collection rates remain the key drags on financial performance. The purchase programme slowed in 2022/23 as a result of strained affordability with interest rate rises.

#### 3.6.2. *Summary Financial Outturn*

3.6.3. The financial outturn for the year is below. The key points are:

- i4B has generated a surplus before revaluations, depreciation and tax of £0.659m compared to of £0.549m in the previous year.
- The principal variations to the prior year are £0.952m in net financing costs arising as a result of the drawdown of £40m loan facility in August 2022 in order to secure a favourable interest rate. The loan interest payable for the year is £5.2m which is partially offset by interest receivable of £0.3m; this is £369k higher than the budget of £4.55m.
- i4B initially set a target of acquiring 48 properties in its 2022-23 Business Plan. However, recent higher global inflation rates and ensuing increases in interest rates challenged this ambition. 24 new units were purchased and in addition, 25 intermediate units were transferred from First Wave Housing to i4B on 4th April 2022 as part of the transfer of the Granville New Homes blocks, hence increased turnover.

#### Table 1 – Financial Outturn 2022/23

i4B 22/23 Outturn	Budget 22/23	March 23 Outturn	Variance to Budget
Income	8,606	8,688	82
Expenditure	(3,081)	(3,109)	(28)
Financing	(4,551)	(4,920)	(369)
<b>Profit (Loss) before tax revaluations and depreciation</b>	<b>974</b>	<b>659</b>	<b>(315)</b>

#### 3.6.4. *Income and Expenditure Statement*

3.6.5. Profits excluding depreciation, revaluations and tax is £0.659m compared to £0.549 in 2021/22

3.6.6. The key changes compared to the prior year are:

- Increased income due to an increase in property numbers
- A positive revaluation gains due to increases in the property values market
- £0.952m increase in net financing costs as a result of the drawdown of £40m loan facility
- Tax on Profit on ordinary activities higher by £1.6m due to increased operating profit and increase in revaluation surplus.

#### **Statement of Comprehensive Income for the year ended 31 March 2023**

	<i>Note</i>	2022/23	2021/22
		£000	£
Turnover	5	8,688	6,663
Cost of sales	6	(338)	(314)
<b>Gross profit(loss)</b>		<b>8,350</b>	<b>6,349</b>
Administrative expenses	7,8,9	(2,771)	(1,833)
Depreciation		(519)	(526)
Surplus on disposals		30	0
Surplus (Loss) on revaluation	11	5,825	2,316
<b>Operating Profit</b>		<b>10,915</b>	<b>6,306</b>
Interest payable and similar charges	10	(4,920)	(3,967)

<b>Profit on ordinary activities</b>		<b>5,995</b>	<b>2,339</b>
Tax on Loss on ordinary activities	12	(2,096)	(442)
<b>Profit (Loss) on ordinary activities after taxation</b>		<b>3,899</b>	<b>1,897</b>
Unrealised Gain (Loss) on Property Plant and Equipment	11	2,893	(175)
Deferred Tax charge	12	(593)	(658)
<b>Total Comprehensive Income for the year</b>		<b>6,199</b>	<b>1,064</b>

3.6.7. Concerns have been raised about repeated late charges being received from the Council that should have been recharged earlier in the year. This is primarily on refurbishments, which is a high area of expenditure and therefore important to monitor. This has an impact on providing accurate forecasts to the board during the year. In addition, clarity on the cost and standard of refurbishments, as well as the approval process, requires further attention. To this end, the Council's internal audit team will be asked to carry out a review of company financial controls.

#### **4.0. Stakeholder and ward member consultation and engagement**

4.1. N/A

#### **5.0. Financial Considerations**

5.1. Outlined in the report.

#### **6.0. Legal Considerations**

6.1. N/A

#### **7.0. Equality, Diversity & Inclusion (EDI) Considerations**

7.1. N/A

#### **8.0. Climate Change and Environmental Considerations**

8.1. N/A

#### **9.0. Human Resources/Property Considerations**

9.1. N/A



## 10.0. Communication Considerations

10.1. N/A

**Report sign off:**

***Kim Wright***  
Chief Executive

***Minesh Patel***  
Corporate Director of Finance and Resources