

	Audit and Standards Advisory Committee 28 March 2024
	Report from the Chief Executive and Corporate Director of Finance and Resources
	Lead Member – Deputy Leader & Cabinet Member for Finance, Resources & Reform (Councillor Mili Patel)
Report on i4B Holdings Ltd	

Wards Affected:	All
Key or Non-Key Decision:	Not Applicable
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 i4B February 2024 Report to the Shareholder
Background Papers:	N/A
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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, and an update on the company's upcoming 2024-25 business plan.

2.0. Recommendation(s)

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

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. Reporting Arrangements

3.3.1. As agreed at the ASAC meeting in September 2023, this report provides information and 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.

3.3.2. Biannual reports to the Committee will outline the governance arrangements in place between the Council and company, provide a report on the most recent i4B-Shareholder meeting, and present the company's annual business plan and annual accounts.

3.3.3. Moving forward, operational performance for the company will be scrutinised by the Community & Wellbeing Scrutiny Committee. In 2024, a joint meeting of the Community & Wellbeing and Resources & Public Realm Scrutiny Committees will be convened to review the housing companies. A final date for this has not been confirmed, but is expected to be either in April or June 2024.

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 review the results of consultancy work which the company had commissioned in relation to development opportunities and a business planning strategy session for 2024-25.

- 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. The most recent Shareholder meetings took place in August 2023 and February 2024.
- 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.
- 3.4.8. i4B scores each of its risks based on likelihood and impact, and for each risk mitigating actions with owners and deadlines are in place. These mitigating measures are having a positive impact on the Company's risk profile; at the last review in January 2024 likelihood scores for six risks were reduced. By closely monitoring and responding to risks i4B is able to effectively maintain a grip on ensuring that potential issues affecting the Company do not materialise.
- 3.4.9. The current key risks for i4B relate to monitoring health and safety compliance, rental affordability for tenants, high capital programme and decarbonisation costs, and uncertainty in the external operating environment.
- 3.4.10. The Company has been working to mitigate and reduce these risks. Recently completed and ongoing actions to do so include:

- A full review of health and safety compliance at all i4B properties and blocks, and the creation of a comprehensive tracker which is reported each month to the Board.
- The Council-wide procurement of the True Compliance system to track all compliance elements, which is due to be fully implemented in the coming months.
- The introduction of a Nominations Panel to carry out additional affordability and suitability assessments on all applicants put forward to i4B from Housing Needs, to improve oversight of the allocations process and enhance rental affordability and tenancy sustainment.
- Delivering greater cost certainty by factoring the results of stock condition and energy surveys and associated costs into the financial business plan, which has demonstrated that the financial impact of future capital obligations on the Company is lower than previously forecast.
- Regular monitoring of the external environment – including economic factors such as inflation and interest rates, as well as changes in regulation and legislation and wider national and international contextual factors – and reporting to the Board on how this impacts the Company’s tenants, finances and operational performance, and any implications for the Company strategy. For example, i4B recently paused purchasing due to an unfavourable interest rate and housing market environment, but has now resumed its street property acquisition programme following a recent review of the property market.

3.4.11. As noted, these measures have been successful in reducing a number of scores at the latest review of the risk register, including the majority of highest-scoring risks, demonstrating that i4B is effectively managing overall risk and showing a positive direction of travel.

3.4.12. In response to an external audit recommendation, a risk in relation to the housing companies has been recorded on the Council’s Resident Services departmental risk register. This is to ensure that the Council as Shareholder of i4B is maintaining appropriate grip on the operations, governance and viability of the Company. It does this through a range of measures discussed in this report including regular i4B-Shareholder meetings, reports to the Audit & Standards Advisory and Scrutiny committees, and annual Shareholder appraisals of the Chair of the i4B Board. As with the Company’s internal risk monitoring processes, the arrangements in place between the Company and Council ensure that risk is effectively monitored and managed.

3.4.13. 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 and safety compliance, as well as the Council’s governance arrangements in relation to the company. An audit into the company’s financial controls, with a focus on the monitoring and charging of repairs costs, is currently underway and is due to be completed in early Q1 of 2024-25.

- 3.4.14. 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.
- 3.4.15. Since the last report to ASAC in September 2023, Martin Smith has stepped down as Chair of i4B. Following a selection process, Cabinet confirmed the appointment of Andrew Hudson as Chair and he took up post in January 2024.

3.5. Update from Shareholder Meeting

- 3.5.1. The latest Shareholder meeting between the Council and i4B took place on 8th February 2024.
- 3.5.2. The Chair of the i4B Board presented a report on the company's acquisition programme, operational performance, financial performance, 2024-25 business plan proposals, risks and governance to the Council's Chief Executive and Corporate Director of Finance & Resources.
- 3.5.3. The full report can be found in Appendix 1. This section provides a summary of key discussions at the meeting.

Operational Performance

- 3.5.4. Regarding health and safety compliance, the Shareholder noted that it would be more beneficial to receive a full compliance scorecard showing property numbers rather than percentages. The report in Appendix 1 has been amended to reflect this.
- 3.5.5. It was noted that some progress had been seen on voids; however, some outstanding long-term legacy voids were keeping turnaround figures high. It was therefore requested that these legacy voids be reported on separately until the small number of legacy voids were cleared.
- 3.5.6. i4B directors noted that void rent loss had reduced, which showed that progress was being made, and expressed a desire to understand best practice in London. The Company wanted to create a culture of being very good at turning around more simple voids, while acknowledging the challenges brought by more complex cases.
- 3.5.7. On disrepair, the Shareholder asked whether it would be more cost effective for the Company to pay to settle claims more quickly, while ensuring that all necessary works were carried out, rather than entering lengthy legal proceedings. On this, officers were planning for future reporting to provide a breakdown of compensation costs, works costs and legal costs to inform a future approach, and were continuing to look at overall stock condition in order

to pre-empt issues at specific properties. Regarding earlier payments, i4B would consider this approach but it was noted that this could bring the risk of prompting a greater number of claims from tenants as well as associated potential reputational damage to the Company.

Financial Performance

- 3.5.8. The Shareholder noted that corporation tax for Company seemed to be high. i4B had commissioned tax advice, which confirmed that the Company's current tax position and structure were as appropriate and effective as possible.
- 3.5.9. Any option to look at Company structures – such as a merger with First Wave Housing – would be challenging especially as First Wave Housing is limited by guarantee and has limited ability to dispose of its assets, and would be likely to make the group of companies less efficient overall. i4B has received expert advice on this previously.
- 3.5.10. It was noted that the 2024/25 uplift in Local Housing Allowance rates would be positive for the Company. This would allow i4B to increase rents ahead of business plan assumptions and would increase the Company's acquisition price caps.
- 3.5.11. The Shareholder requested more information on how this would impact the Company's position over the life of the business plan.

Business Plan

- 3.5.12. The Shareholder was presented with a draft of i4B's business plan priorities for 2024-25, and asked for feedback on these as well as overall Company strategy.
- 3.5.13. The Shareholder noted that i4B and First Wave Housing have authority from the Council to consider and pursue all appropriate opportunities to acquire more properties.
- 3.5.14. In addition to this, the Shareholder expressed a desire to do more for current tenants in order to support their financial position and employment situation, and help them to be able to move on from i4B accommodation. i4B noted that it had recently commissioned an organisation, BEAM, to provide this form of assistance. In the first instance, BEAM would be working with the 100 i4B tenants in the highest level of arrears.
- 3.5.15. The Shareholder would consider this further before the next meeting in July-August 2024, and provide any further input in line with the Council's overall change priorities.

Risk

3.5.16. The Shareholder asked what i4B directors felt were the key risks to the company. It was noted that future capital cost decisions represented a potential future risk to the Company, for example regarding i4B properties at Granville New Homes, energy efficiency works and loan repayments. Directors also highlighted the need to carry out further horizon scanning as a Board.

4.0. Stakeholder and ward member consultation and engagement

4.1. N/A

5.0. Financial Considerations

5.1. Financial considerations are outlined in the appendix.

6.0. Legal Considerations

6.1. N/A

7.0. Equity, 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