



**Audit and Standards Advisory
Committee**
26 July 2018

Report on i4B Holdings Ltd and First Wave Housing 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:	Four: <ul style="list-style-type: none"> • i4B's Risk Register • Brent Council Strategic Risk Register • Fraud Risk Review Final Report • Internal Audit Responses Action Plan
Background Papers:	N/A
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1.0 Purpose of the Report

- 1.1 Historically, when considering matters related to i4B Holdings Ltd (i4B), the Audit and Standards Advisory Committee ("ASAC" or "The Committee") has been provided with a report from i4B, with a cover report from the Council as i4B's shareholder. At its last meeting the Committee requested that a more rounded view of risks was presented, with a clearer delineation between those risks being managed by the Council and those being managed by i4B. This report aims to address this concern.
- 1.2 Similarly, it would be incomplete to consider the benefits of i4B in isolation, without also considering both the financial, and social benefit that the Council gains from i4B's operations, so this paper also aims to summarise those in totality.

- 1.3 The paper also highlights recent audit activity undertaken in relation to i4B, and progress towards implementing previous audit recommendations.
- 1.4 Additionally, the paper includes an update on First Wave Housing Limited's (First Wave) planned programme of internal audits

2.0 Recommendations

- 2.1 The ASAC is asked to note:
 - 2.1.1 The recent appointment of a fifth Board member to the i4B and First Wave boards.
 - 2.1.2 The updates to the i4B risk register and summary of key risks
 - 2.1.3 The summary of financial and non-financial benefits of i4B's operations
 - 2.1.4 The update on recent i4B audit activity, and progress towards implementing previous audit recommendations
 - 2.1.5 An update on First Wave Housing Limited's planned programme of internal audits

3.0 Board Member Appointment

- 3.1 Akintoye Durowaju was appointed as the fifth board member for i4B and First Wave through a competitive and transparent recruitment process that involved representatives from the Shareholder and the Companies.

4.0 Company Risk Management

- 4.1 Following a recommendation from the *Governance, Risk & Financial Management* audit, i4B has created a standalone risk register (appendix 1) that is a live document, and is reviewed regularly by i4B officers and the i4B board.
- 4.2 The risk register includes mitigation strategies that are reflective of the controls that the company has put in place to prevent the company's risks from materialising into issues. Risks are reviewed every quarter by i4B officers and an update is provided at the following board meeting, where the Board is asked to review the key risks, note any movements on the register, and agree the closure of identified risks.
- 4.3 Following discussion by the Board, the risk register has been updated to include post-mitigation scoring to measure the impact of the controls and mitigation taken against company risks. A risk status column has also been included in order that risks can be "closed" when no longer relevant, whilst maintaining an auditable record of the risk and any mitigation that was in place.

- 4.4 Following discussions it was agreed that two of the company's risks are borne by Brent Council and should be added to the council's risk register (appendix 2). The i4B board requested that the risks transferred to the council's risk register are also recorded within the company's register.

Table 1 – Company risks transferred to the council risk register

i4B Risk Number	Risk
1	The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord
7	The proportion of equity held by LB Brent in relation to the total loan exceeds target

- 4.5 Risks with a pre-mitigation "likelihood" rating of 5, indicate that a risk has become a live issue. The Board agreed that live issues are maintained on the risk register to allow full oversight of the company's risks and issues, and to allow easy de-escalation when an issue has been resolved, but where there remains a risk that it may happen again.
- 4.6 The Board agreed in June 2018 that three of the Company's risks have become live issues and this has been reflected on the risk register. See table 2

Risk Number	Live issues	Business Plan Measure	June Performance	How the issue is being managed
3	There is a risk that the average property purchase price exceeds budget and the portfolio of properties does not achieve the target Gross Yield margin	Avg. purchase price: £333,333 Gross Yield: 5%	Avg. purchase price: £360,407 Gross Yield: 4.91%	The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters
4	There is a risk that business plan rent collection rates are not achieved and bad debt will exceed business plan assumptions. There is a risk that the introduction of universal credit will adversely affect rent collection	98.5%	65.97%	<p>The Board is investing in additional monitoring of rent and arrears performance of housing management subcontractors. It is funding (through the SLA) a weekly monitoring of rent performance data of subcontractors to check contractors' data, identify variations and request information from subcontractors on actions being taken.</p> <p>Most of i4B's rental income is paid through housing benefits. The council collects around 98.5% of the rent due on temporary accommodation properties, which was the basis for the business plan measure, where many of the tenants have been in the properties for extended periods and whose housing benefits claims are therefore relatively stable. In i4B all of the tenancies are, at this stage in the business plan, relatively new and so any delays in setting up housing benefit claims will impact disproportionately on this important measure. Provided that claims are promptly put into payment performance should move towards the target measure relatively quickly, but until this has been demonstrated to be taking place in practice it is essential that significant management focus is maintained on this measure.</p> <p>Following a workshop between Brent Housing Management and i4B officers, an income collection action plan has been created to address some of the issues in rent collection from i4B tenants.</p> <p>The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.</p> <p>i4B will be reviewing its tenancy sign-up process ahead of the implementation of universal credit.</p>
15	The pipeline of properties is slower than the SLA target	300 by 30 th September 2018	145	i4B intends to supplement the purchase of individual street properties by considering the purchase of small blocks of flats and by working with the Council and developers to deliver new build properties / block purchase properties.

Table 2 - i4B's live issues and the actions implemented to manage them

4.7 i4B would like to draw the attention of the ASAC to the following company risk which has a higher risk score than two of the company's live issues outlined in table 2 due to its pre-mitigation impact rating.

- Risk 19 - The nominations process exceeds SLA target

4.8 The SLA currently has a target of 7 days from refurbishment handover to the property being let. i4B is currently reviewing its KPIs as they were set prior to the company commencing operations and targets did not reflect realistic timeframes. It is likely that the SLA target for Risk 19 will change following this review.

5.0 Financial Benefits

5.1 i4B is forecasting to break even by 2019/20 and turn a profit in the following years. Challenges in rent collection and a slower rate of acquisition of properties have contributed to the company being forecast to break even later than originally anticipated.

	31st March 2018 £000s	31st March 2019 £000s	31st March 2020 £000s	31st March 2021
Original business plan forecast net profit/(loss) before tax	(863)	91	517	536
Current actual/forecast net profit/(loss) before tax	(1,545)	(927)	16	369

5.2 Even while i4B makes a loss, the Council benefits financially from i4B through
 (i) avoided costs of temporary accommodation and
 (ii) charges relating to the loan provided to i4B.

5.3 The table below outlines the provisional council cost savings as a result of 104 lettings to i4B. There is an ongoing exercise to refine the figures, and once confirmed i4B will report back to the ASAC again at a future meeting.

Property size	Year 1 savings per unit as a result of avoiding the use of emergency accommodation (B&B, Hostel, Hotel Annex)	Year 2 savings as a result of avoiding the use of stage 2 accommodation (HALs, etc) (£25 pw per unit)	Total savings to the council per unit let to i4B	Number of customers discharged into i4B homes	Sub Total	Known exceptional savings relating to households housed by i4B*	Total estimated annual saving to council
1-bed (inc studio)	£1,886	£1,300	£3,186	0 (let at 2 bed rate)	£0	£0	£0
2-bed	£1,804	£1,300	£3,104	41	£127,264	£0	£127,264
3-bed	£4,466	£1,300	£5,766	42	£242,172	£0	£242,172
4-bed	£4,539	£1,300	£5,839	19	£110,941	£0	£110,941
5-bed	£16,066	£1,300	£17,366	1	£17,366	50000*	£67,366
6-bed	£33,627	£1,300	£34,927	1	£34,927	50000*	£84,927
Total Annex/B&B population	N/A	N/A	N/A	104	£532,670	£0	£632,670

5.4 The Council provides a loan to cover i4B's initial investment. The loan includes three types of charges to i4B:

- (i) an ongoing interest charge,
- (ii) a one-off arrangement fee every time a loan is drawn down and
- (iii) a reducing non-utilisation charge until the whole loan is drawn down.

5.5

	i4B payment	Description	Financial benefit to the Council in 2017/18	Ongoing annual benefit to the Council on £80m borrowing
1	Interest rate on the Council loan	The Council charges i4B a 0.3% higher interest rate than the rate at which the Council can borrow	£17,000	£240,000
2	Arrangement fee	A one-off arrangement fee of 1%	£452,000	0
3	Loan non-utilisation charge	A charge for balances not drawn down by i4B, to reflect the fact that the Council will have made provision for the whole amount to be available	£278,000	0
Financial benefit to the Council from loan			£747,000	£240,000

In addition, i4B pays the Council for services provided through the Service Level Agreement (SLA). The Council does not currently seek to make a profit from the SLA.

5.6 Since i4B is entirely owned by the Council, strong financial performance could bring additional financial benefits to the Council through a dividend payment. However, this direct financial payment, as opposed to the offset to Council costs achieved to date as set out above, is unlikely to be realised for some time as even on the original business plan assumptions the company was not forecast to make an accumulated profit until at least 2021.

5.7 Future property prices cannot be forecast with certainty, but if the long-term trend was for an average increase in value of 1% real (after inflation) p.a. then the increase in asset price would be *£0.8 million p.a.* Of course, this could only be realised by selling the assets, which is not currently envisaged, but it is nonetheless a relevant factor as it provides a degree of risk mitigation. Property prices may fall as well as rise in any given year, but the long-term trend in London and the surrounding areas has been consistently upwards.

6.0 Non-financial benefits of the Company

- 6.1 i4B was established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council.
- 6.2 Brent Council has one of the highest numbers of households in Temporary Accommodation (TA) in England. In quarter two of 2017/18, the council reported having 2,542 households living in TA, the fourth highest of all housing authorities in England.
- 6.3 As of June 2018, 123 Brent families, including 210 children, have been housed in i4B properties.

Table 3 - break down of families directed to i4B properties

Previous Accommodation	Number of Families	Number of Children
Direct to i4B	7	10
Women's Refuge	1	1
Homelessness Preventions	1	1
TA Stage 1 – B&B	100	173
TA Stage 2 – Leased	14	25
Total	123	210

- 6.4 All i4B properties are refurbished to a high standard and Brent Council's lettings team undertake a thorough matching process when considering tenants for i4B properties. Where possible families are matched with a property in-borough in the first instance. As of June 2018, 19 families have refused the offer of an i4B property which has resulted in the Council discharging its duty to house them.

6.5 Case studies of families housed in i4B properties

6.6 Family A:

A mother approached Brent Council as homeless and fleeing domestic violence. As the mother was affected by the overall benefit cap, she was aware that she would not be able to afford to live in London. When Brent Council officers were profiling the family, it became apparent that the mother's parents lived near an out-of-borough i4B property. The mother was pleased to accept the offer of a property which was close to her parents and support network, with good schools for her children and good transport links.

6.7 Family B:

A mother accepted an offer of an i4B property for herself and her daughter who has mobility issues. The property is on the ground floor, next to a train station, providing the family with easy access to transport. The property is close to the

mother's parents, who are able to assist her with support with her daughter.

6.8 Family C:

A couple with 3 children were made homeless due to their previous landlord selling the property they were living in. The family were immediately placed in emergency accommodation. The eldest child went to school out-of-borough and the family wanted to move to be closer to her school. Brent Council matched them to an out-of-borough i4B property within a 10 minute drive to the school. The family were very pleased with the offer, especially because the property was close to a park, allowing the family to enjoy access to green space and the benefits this provides.

7.0 Internal Audit Update

7.1 In November 2017, i4B agreed a programme of four internal audits for 2017/18:

Table 4 – i4B internal audits

Audit	Status
Governance, Risk & Financial Management	Complete Report provided to ASAC in March 2018
Benefits Realisation, Management Information and Reporting	Complete Report provided to ASAC March 2018
Fraud Risk Assessment	Complete
Financial Model Review	Date of Audit TBC

7.2 At the March meeting of the ASAC i4B provided an update on the findings from the *Governance, Risk & Financial Management* and the *Benefits Realisation, Management Information and Reporting* audits. Section 8 outlines the activity that has been taken since the last report to the committee.

7.3 The *Fraud Risk Assessment* Audit was completed in April 2018 and there remains one outstanding audit, the *Financial Model Review*. The remaining audit was originally scheduled to be completed in June 2018 and has been deferred slightly following the departure of the Council's Commercial Head of Finance. A new Head of Finance is in post and the revised date of the audit will be confirmed in August 2018.

7.3.1 Fraud Risk Assessment Audit Findings:

7.3.2 A fraud risk workshop was delivered by the internal auditors in April 2018. This was attended by the i4B management team and a representative from the Board of Directors, Peter Gadsdon. A facilitated discussion was held on the current and future risks to the Company and a report was presented to the

Board with the findings (appendix 3).

7.3.3 There was one risk finding from the review, which was rated as medium:

i4B may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to fraud as a result of risks not being appropriately treated.

7.3.4 The audit recommended that the company use the findings from the *Fraud Risk Review* to perform a fraud risk assessment of the company. It was agreed by the i4B Board that the company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing so that work can be aligned on fraud risk across both companies.

7.3.5 The board also agreed that i4B will review Brent Council's fraud and ethics policies with the aim of adopting these for i4B, and that the company will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risk

8.0 Update on recommendations from outstanding audits

8.1 i4B has created an action plan (appendix 4) to track the company's progress against the agreed actions from the internal audits completed to date. The action plan is reviewed at the monthly i4B management meetings and approval is sought from the Board when necessary.

8.2 i4B would like to draw the Audit and Standards Advisory Committee to the following actions that have been completed:

Action log Ref.	Action	Update
A4	Produce a Director's Code of Conduct	A Code of Conduct has been drafted and submitted to the Board for consideration. All board members will be asked to sign a copy of the conduct.
A6	Establish the company's Scheme of Delegation as a standalone document	i4B has created a standalone document to outline company delegations. This was approved by the Board in June and will be reviewed annually.
A5	Create a company Escalation Policy	The Escalation Policy was considered at the June Board meeting and following minor amendments, has been resubmitted to the Board for approval.
B3	Implementation of a Microsoft Dynamics System for i4B properties and processes	There is ongoing work to create a case management system for i4B properties and processes. This will improve Brent Council end-to-end processes through the SLA agreement and improve the accuracy and transparency of data collected. The expected go live date of phase one is September 2018.

- 8.3 There is ongoing work to review the company's policies and procedures. As part of this review a number of new company policies have been identified and i4B officers are meeting regularly to progress these.

9.0 First Wave Housing Limited

- 9.1 First Wave was previously part of Brent Housing Partnership (BHP) and was set up as a council wholly owned company in October 2017. The board membership for First Wave is the same as i4B.
- 9.2 First Wave has 329 tenanted properties, of which 170 are at LHA rates, 89 are at social rent rate, 25 are at intermediate rent and 45 are at market rent. The annual rent roll is £4.2million. There are also 2 commercial properties within the portfolio.
- 9.3 Given the similarities between First Wave and i4B, it was agreed that where applicable, the findings from audits for i4B would be implemented for First Wave.
- 9.4 A meeting took place between Brent Council's Head of Audit and representatives from PwC in which a background briefing on First Wave was given and a schedule of internal audit arrangements were developed. This was consider by the First Wave board in March 2018 and a programme of internal audit arrangements was agreed.
- 9.5 The following internal audits have been agreed:

Table 4 – schedule of planned internal audits for First Wave

Audit	Scheduled Date	Expected Update to the ASAC
Fraud Risk Assessment	w/c 13 August 2018	17 October 2018
Responsive Repairs Process	w/c 8 October 2018	TBC