

Internal Audit Report 2018/2019

I4B Holdings Ltd

Final

November 2018

PRS Model Review

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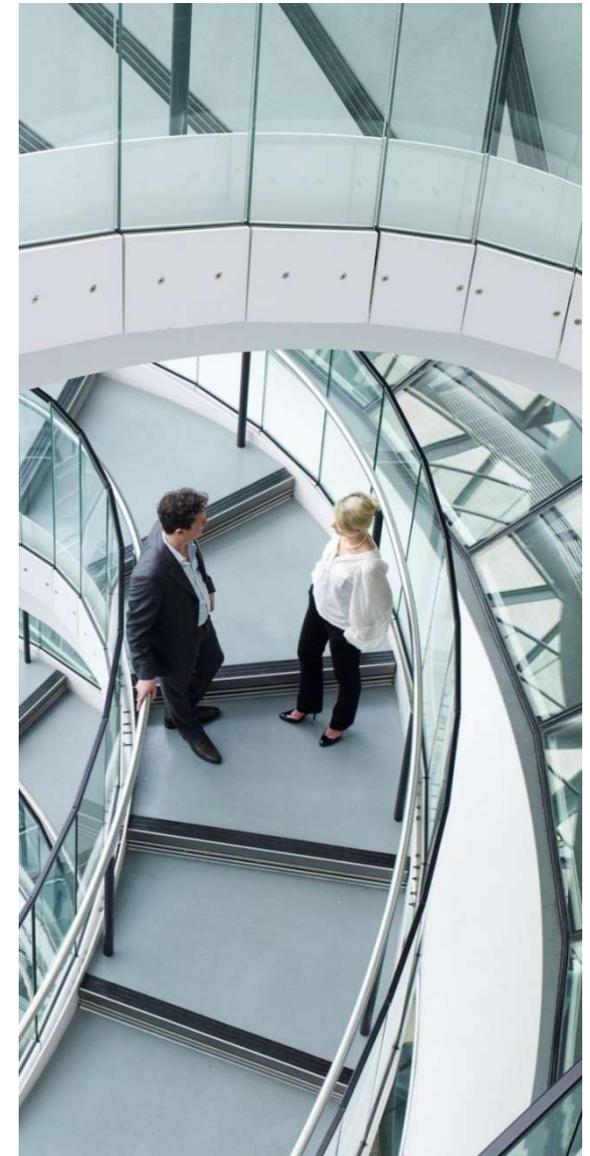
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Distribution list

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Executive summary (1 of 2)

Headlines

I4B Holdings Ltd (I4B) is a wholly owned subsidiary of Brent Council, incorporated in December 2016. I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

The purpose of this review was to assess the design and build of the I4B PRS model (the Model) and to check its calculations are consistent with the model intent. This was targeted at the specific areas included within the scope, namely we agreed to perform the following work:

- *We will review I4B's Model to understand if the Model is performing as designed, and to identify any errors in the calculations;*
- *We will assess the Model in comparison to our view of modelling best practice, including assessing the spreadsheet design and documentation*

Summary of findings

The purpose of the Model is to forecast the future P&L and Balance Sheet (BS) as a result of the planned investments as part of the initial phase of the I4B Strategy, including the purchase, refurbishment and letting of 300 houses and flats across Brent and the Home Counties.

The Model considers the existing portfolio of purchased houses, and those which are presently let, to set assumptions in relation to purchase costs and rental income respectively, as well as additional costs such as refurbishment, legal fees, valuation fees and disbursements. The nature of the future portfolio is set within the assumptions, as are inflation figures, time taken to move from the purchase of a house to it being fit to rent, and various void rates and time to re-let.

Generally, the Model sets out what it hopes to achieve, with a well constructed P&L and BS. There is a good level of flexibility within the Model, allowing users to make a range of changes to assumptions, as well as capability to define ten scenarios, and whether indexation applies in each of those or not.

Most of our findings are around points of design and best practice, and also general understanding of areas of methodology. A key point is that the Model lacks detailed documentation, both in the form of a user guide and methodology document, which can make it difficult to follow in areas, hence the number of queries raised in relation to methodology. This is likely to make handover of the Model more difficult.

One area of functionality lacking is the ability to translate what has occurred in practice with the forecasts. Notably that the assumptions on property mix are fixed, rather than adaptive based on the actual portfolio. This is at present an immaterial point, but if the actual portfolio deviates away from the planned portfolio (i.e. there is a need and supply of properties which are different from that expected) then it may lead to significant differences between the returns achieved and those forecast.

In addition, we have raised two key challenges to the methodology currently used. The first is the way in which the experience analysis is used to calculate the base house costs and rental values. This is detailed on pages 7-10 of the report. The second is around the use of house price inflation (HPI) as well as the assumptions used for both HPI and rental growth. This is detailed on pages 11-16 of the report.

Executive summary (2 of 2)

RAG Definitions – see appendix A

Methodology		Sensitivity (net assets)	Nature of Issues	RAG
A	Basis of assumptions	-£5.1m to -£7.3m	<i>Inconsistent cohorts of experience are used in the calculation, leading to an understatement in costs</i>	High
B	Property related inflation	High (see slides 12-15)	<i>HPI is not used within the model to forecast growth in the property portfolio. The impact of this is subjective</i>	High
Model Findings		Number of Issues	Nature of Issues	RAG
1	Potential Errors	4	<i>Incorrect formulae (logic or design), inconsistent use of assumptions, etc.</i>	Medium
2	Design Issues	3	<i>Areas of the model which are not consistent with documentation, or may lead to potential errors</i>	Low
3	Best Practice	9	<i>Model design which is not consistent with our interpretation of best practice</i>	Advisory
4	Cosmetic	13	<i>Typos and inconsistent references used within the model</i>	Advisory



Background and scope

Background

I4B are a wholly owned subsidiary of Brent Council which has been created to reduce homelessness in the area and reduce the number of individuals in short term temporary accommodation by providing properties through the private rented sector. As a wholly owned, Local Authority Company, I4B operates at 'arms-length' from Brent Council, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.

I4B is currently creating a model to produce balance sheet and cash flow forecasts to measure performance and delivery of the business. The purpose of this review is to assess the design and build of the I4B model and to check its calculations are consistent with the model intent. This will be targeted at the specific areas included within the scope below.

Limitations of scope

Our work was focussed on testing the design, build and documentation of investment appraisal model which are covered in the outlined scope above. Limitations of our review: were detailed in the agreed Terms of reference.



Methodology (1 of 11)

This section of the report focuses on two key aspects of methodology which we believe should, at a minimum, be reviewed and explained in depth why their current treatment is appropriate, or more likely will require changes, which could have a significant impact on the valuation.

For both of these, the slides set out:

- a description of the methodology taken;
- the finding of what impact this has on the model and why we disagree
- a recommendation around this; and,
- sensitivities relating to the changes which could be made, showing the financial impact on Rental Income, Net Income After Tax, the IRR, Cash and Net Assets.

Finding A – Setting of base rental value and property purchase price

This relates to the methodology used to derive the base values for both rental income in the various regions considered in the model, and the property purchase prices. This is covered on pages 7 to 10.

Finding B – Property related inflation

This relates to both the use of HPI in the model to be applied to property values, and the appropriateness of the actual rental inflation assumption used to project to rental income over the duration of the model. This is covered on pages 11 to 16.

Methodology (2 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

Rating

High

Description

The Model uses experience to set both the base rental values (i.e. weekly rent by property type, by location) and property purchase prices (also by type and location). This is based on the tabs 'Current Weekly Rents' and 'Historic Acquisition List' respectively.

Finding and root cause – Purchase Prices

The current methodology is comprised of two separate calculations.

- 1) Average price per property type (i.e. 2 bed flat) – cells AL215:AL220 in tab 'Historic Acquisition List'
- 2) A scaling factor to move from the average property price in Brent, to Home Counties (Low) and Home Counties (Medium) – cells AP183:AP184 in tab 'Historic Acquisition List'

This approach at present leads to an **understatement** in the property prices in the model. To show this, below is a worked example.

Portfolio A comprises of one flat (Af) and one house (Ah). These are valued at £200k and £300k respectively.

Portfolio B also comprises of one flat and one house (Bf and Bh). These are value at £150k and £250k respectively.

The average flat value is therefore £175k and the average house property is £275k.

The total value of Portfolio A is £500k and the total value of Portfolio B is £400k, which gives a scaling factor of 0.8.

Using the average values, Af is now calculated to be £175k, Ah is £275k, and Bf is £140k and Bh is £220k.

Methodology (3 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

Recommendation – Purchase Prices

The 'Historic Acquisition List' tab contains within it an additional set of scaling factors, which are based on ~~off~~ of the full average price, rather than being pegged to the Brent price. These are in cells AN182:AN184. These should be used as the scaling factors which are brought through into the 'Key Operational Inputs' tab, cells L99:L101, rather than the scaling factors used at present.

Methodology (4 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

Finding and root cause – Rental Income

Similarly, the current methodology is comprised of two separate calculations.

- 1) Average price per property type (i.e. 2 bed flat) – cells L103:L116 in tab 'Current Weekly Rents'
- 2) A 20% uplift used to move from the average rent, to the rent obtained in Home Counties – Medium.

This approach at present leads to an **overstatement** in the rental income in the model, as the average price contains properties from Home Counties Medium. Therefore, if there is a differential between rental income in practice, then the price used for Brent and Home Counties – Low will be set too high (as it will factor in the contributions from Home Counties – Medium), and Home Counties medium will be based on the full average, so the scaling factor will be being applied upon an implicit allowance already.

Recommendation – Rental Income

There are two potential ways to remediate this issue:

- 1) The calculation for the average rent should exclude those properties from Home Counties – Medium and then the 20% uplift becomes a stated assumption.
- 2) A scaling factor should be calculated for all properties based off on the actual empirical experience, as per the proposed solution for the Purchase Price.

Methodology (5 of 11)

Basis of Assumptions

Setting of the base rental value and property purchase price

A

Sensitivity

We have performed a sensitivity on the outputs by changing the assumptions in line with our recommendations.

N.B. These are based on Scenario 1 in the model provided, with inflation switch turned to On.

Financial Statement	Metric	Current Approach	Property Price (Only)	Rental Value (Only)	Property Price and Rental Value
P&L Yr 30	Rental Income	164.16	164.16	161.06	161.06
P&L Yr 30	Net Income After Tax	16.38	9.28	14.04	6.94
P&L Yr 30	IRR	29.5%	16.0%	25.7%	12.3%
BS Yr 30	Cash	22.07	15.08	19.71	12.73
BS Yr 30	Net Assets	34.52	29.42	32.19	27.09

When correcting the property price calculation, the IRR and cash positions take a significant hit. This is due to the increased cost of purchasing property over the first 2 years. The net assets reduces due to the cash component of this, although there is a slight offsetting impact as a result of the value of the property portfolio being higher.

The rental value correction is less material and the basis of calculation is more subjective. As such, a change may not be required, although we would recommend that i4B investigate this point further, alongside any remediation of the basis of the property prices.

Methodology (6 of 11)

Property Related Inflation

Rental growth and house price inflation

B

Rating

High

Description

The Model makes allowances for inflation within the generic income tab and these are then fed into a 30 year projection within the 'Timelines Monthly' and 'Timelines Yearly' tabs.

The inflation allows for Rental Income, Materials, RPI, CPI, Other and No Inflation. There is though no explicit allowance for House Price Inflation (HPI).

From working through the methodology of the model, none of the inflation metrics used drive any inflation against house prices, which we deem to be incorrect.

Additionally, we don't believe that the current inflation assumption in relation to rental income is accurate. This is currently set within the model to be 1.5%, which we deem to be generally low.

Finding

The introduction of HPI would have a two-fold impact.

1. It would drive an increase in costs on the P&L, as the cost to purchase would increase in years 2 and 3 to reflect the increasing prices of houses. This is likely to be a minor impact.
2. Assets on the balance sheet would increase, as the value of the portfolio increases over time. This would be a highly material change, regardless of the level of inflation implied.

Methodology (7 of 11)

Property Related Inflation

Rental growth and house price inflation

B

Recommendation - Setting of HPI

From discussions, we note that Rental Inflation has been set in line with the LHA assumption at 1.5%. We also note that there is a view that HPI would be around 1%, although this hasn't been built into the model. Were this to have been built in though, it would lead to increasing yields over time, as rental growth exceed property growth.

This assumption of increasing yields is difficult to justify, as taken to ad infinitum it would lead to rental income exceeding the property value. Additionally, 1% HPI is low compared to market experience. Whilst it is true that there is uncertainty in the market at present, in particular as a result of Brexit, a 1%pa flat growth rate is unlikely to persist over the next 30 years.

This is demonstrated with reference to the Nationwide House Price Index, which sets annual house price growth a c2%, despite the current economic uncertainty. As the model forecasts out over 30 years, it is likely that HPI will fluctuate around this point noting that the average HPI over the past 5 years has been c8%pa in London, and c5%pa going back 10 years which includes the 2008 recession that led to significant falls in the housing market.

Given this, we have presented sensitivities under various scenario's of HPI and rental growth over the next set of slides.

These are done in two ways. The first table for each metric is based on Rental Growth being set to a specific percentage across the whole portfolio, i.e. rental growth equals 4% for all properties. The second table presents a blended rental growth, factoring in the LHA rates. LHA rates cover three quarters of the portfolio, so in this instance, where rental growth is stated as 4%, that is 4% on a quarter of portfolio and 1.5% on the remaining three quarters. This is therefore a blended assumption of 2.125%.

The HPI assumptions used in both tables are consistent, as the values of the house will be set by market conditions rather than being influenced by the LHA rates.

Methodology (8 of 11)

Property Related Inflation

Rental growth and house price inflation

B

Sensitivity – Net Assets

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	9.12	37.26	54.53	74.33	186.81	270.09
	1.5%	34.53	62.66	79.93	99.74	212.21	295.49
	2%	44.74	72.87	90.14	109.94	222.42	305.70
	4%	97.04	125.17	142.44	162.25	274.72	358.00
	5%	131.94	160.07	177.34	197.15	309.62	392.90

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	27.48	55.62	72.89	92.69	205.17	288.45
	1.500%	34.53	62.66	79.93	99.74	212.21	295.49
	1.625%	36.99	65.12	82.39	102.20	214.67	297.95
	2.125%	47.44	75.58	92.85	112.65	225.13	308.41
	2.375%	53.06	81.20	98.46	118.27	230.75	314.03

Net Assets (Total Shareholder Funds) is currently £34.54m under scenario 1 in the model. Moving HPI to 1% (as suggested by i4B) would increase Net Assets to £62.66m, as the underlying value of the property portfolio by year 30 will have increase, although there is a small offsetting impact caused by increased purchase costs in years 1 and 2, which reduces the cash position.

Methodology (9 of 11)

Property Related Inflation
Rental growth and house price inflation

B

Sensitivity – IRR

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.5%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	4%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	5%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.500%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	1.625%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2.125%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%
	2.375%	29.47%	29.25%	29.14%	29.03%	28.59%	28.38%

IRR is only affected by HPI, as it is reported as an index neutral metric by i4B. HPI therefore has a small impact as it increases due to increased property purchase prices in years one and two. This has a two-fold impact of higher upfront costs, as well as a small, longer run, cost of interest.

Methodology (10 of 11)

Property Related Inflation Rental growth and house price inflation

B

Sensitivity – Rental Income

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	130.04	130.04	130.04	130.04	130.04	130.04
	1.5%	164.16	164.16	164.16	164.16	164.16	164.16
	2%	177.87	177.87	177.87	177.87	177.87	177.87
	4%	248.13	248.13	248.13	248.13	248.13	248.13
	5%	295.01	295.01	295.01	295.01	295.01	295.01

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	154.70	154.70	154.70	154.70	154.70	154.70
	1.500%	164.16	164.16	164.16	164.16	164.16	164.16
	1.625%	167.47	167.47	167.47	167.47	167.47	167.47
	2.125%	181.51	181.51	181.51	181.51	181.51	181.51
	2.375%	189.06	189.06	189.06	189.06	189.06	189.06

Rental income is only affected by the rental inflation. Under the current assumptions, the rental income is £164.16m over the 30 years. We believe that this is low, although note that 75% of the property portfolio is covered by the LHA rates. Under a blended assumption, where the rental inflation applied to the remaining 25% of portfolio is 2%, rental income increases to £167.47m. Using historic HPI as a proxy for rental income though, it is not unreasonable to believe that rental inflation could be 4%, pushing income up to £181.51m.

Methodology (11 of 11)

Property Related Inflation

Rental growth and house price inflation

B

Sensitivity – Net Income After Tax

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Rental Inflation	0.0%	- 9.02	- 9.15	- 9.21	- 9.27	- 9.52	- 9.64
	1.5%	16.38	16.25	16.19	16.13	15.89	15.77
	2%	26.59	26.46	26.40	26.34	26.10	25.97
	4%	78.89	78.76	78.70	78.64	78.40	78.28
	5%	113.79	113.67	113.61	113.54	113.30	113.18

		HPI					
		0.0%	1.0%	1.5%	2%	4%	5%
Blended Rental Inflation	1.125%	9.34	9.21	9.15	9.09	8.85	8.72
	1.500%	16.38	16.25	16.19	16.13	15.89	15.77
	1.625%	18.84	18.72	18.65	18.59	18.35	18.23
	2.125%	29.30	29.17	29.11	29.05	28.81	28.68
	2.375%	34.91	34.79	34.73	34.67	34.42	34.30

Net income after tax is positively affected by increasing rental inflation, due to higher rental income, but negatively affected by increasing HPI due to the increased costs of purchase of properties in years 1 and 2, as well as increased interest charges.

Model Findings (1 of 5)

Potential Errors

1

The findings presented here are areas of the Model where we believe there is a risk that an error is present. These should be reviewed as a priority and changed accordingly, otherwise they may lead to financial impacts on the model, especially should assumption change going forwards.

Rating

High

No	Issue Description	Sheet	Reference
1	Procurement Services Costs do not feed into the Sub Total	SLA	G21:I21
2	Average disbursement is being calculated as a sum of the individual components, this is artificailly high as some of the components only apply to specific houses which means that the average component cost is high. As such the current assumption suggests that all houses will be subject to valuation costs, legal fees VAT and disbursements which doesn't seem accurate given the historic portfolio. Consider changing calculation to be the average total fees and disbursement costs.	Historic Acquisition List	U151
3	Void Related Costs are not Consistent with the Model Overview - Logic Test sheet (£2,500 v £1,500)	Key Operational Inputs	L31
4	The formulae in this section are constructed to step through assumptions. At present, the formula in this specific table is, $=(AR208*Key\ Operational\ Inputs!\$F\$75)*Generic\ Inputs!\$F\$27$ but it should be; $=(AR208*Key\ Operational\ Inputs!\$F285*Key\ Operational\ Inputs!\$F\$76)*Generic\ Inputs!\$F\$27$ as this table relates to 'other'	Rental Income Yr 1-3	AR346:CA353

Model Findings (2 of 5)

Design Issues

2

The findings presented here are areas of the Model where we believe that the design an aspect of the model is not in line with how it is intended.

Rating

Low

No	Issue Description	Sheet	Reference
1	The index makes reference to a tab called 'Logic Test'. Is this a tab which is still required to be built. If not, remove from index.	Index	D23
2	The model structure specifies a colour coding to be used throughout the workbook in order to identify where there are inputs, calculations, outputs, etc. This colour coding is routinely not used within the model. Review needs to be performed to ensure consistency. This is an important point, as colour coding allows users to understand which cells can/should be changed, and which should be left. Also consider locking any calculation aspects of the spreadsheet in order to protect the formulae from user error (i.e. deleting, or making changes by accident)	Throughout model	All Cells
3	The SLA sheet doesn't have any flexibility for assumptions regarding a changing VAT rate (i.e. if there were planned increases in 2020). This is something which could be built in.	SLA	D49

Model Findings (3 of 5)

Best Practice

3

The findings presented here are areas of the Model where the current working do not align with those of “best practice”

Rating

Advisory

No	Issue Description	Sheet	Reference
1	Property costs are included as being both an input and a calculation. These should be split out into 2 tabs, one for the inputs, the other for the calculation, to maintain clarity	Model Structure	K16 and X22
2	Assumptions are repeated throughout the column. There is a risk that the user might only update the one, leading to inconsistencies. In addition, the 'void rate' in cell D45 (and D93) appears to be the difference between the churn and the re-let rates? Update to formula to reflect this?	Model Overview - Logic Test	Columns D and E
3	The COUNTIF functions currently use hardcoded references, i.e. "Ba". This reduces flexibility, so should instead be replaced by the cell reference. i.e. for cell J163, instead of using "Ba" could use E163	Historic Acquisition List	Summary sections
4	Should use sumifs and include flat/house as a criteria, rather than cutting off the array at the relevant location in the table above. The current approach has a risk of the formulae becoming wrong were additional house added in. As an example, suggest that the formula in cell J103 is changed from =SUMIF(P\$11:P\$58,I103,J\$11:J\$58), to =SUMIFS(\$J\$11:\$J\$58,\$P\$11:\$P\$58,\$I103,\$Q\$11:\$Q\$94,\$H103)	Current Weekly Rents	J103:K114

Model Findings (4 of 5)

Best Practice continued

3

The findings presented here are areas of the Model where the current working do not align with those of “best practice”

Rating

Advisory

No	Issue Description	Sheet	Reference
5	Formulae contain hardcoded components. This is not best practice. The hardcoded component (80% reduction of market rents), should be stripped out of the formula and made a separate assumption.	Key Operational Inputs	L74:U74
6	Commercial property is set to be 4 bed house + 50. The 50 is currently contained within the formulae. This should be stripped out as an assumption.	Key Operational Inputs	Row 270
7	Formula is not consistent across the row. Note, this is not an error, but for consistency, the formula should be dragged across in order to avoid confusion	Property Acquisition Profile	AX408 vs AR:AW408
8	Model structure should relate to the tabs in the workbook. At present this does not seem to be the case. Property costs are both an input and a calculation, this should be split out for clarity. Tabs should be hyperlinked.	Model Structure	All Cells
9	Inputs used here seem to relate to those in the Model Overview - Logic Test tab.	Key Operational Inputs	L27, L31 etc

We assume that the Logic Test is a simplified calculation to ensure relative accuracy of the model. In order to ensure that the check is relevant to the model, the assumptions in the Logic Test should link through to the 'Key Operational Inputs', to ensure consistency and to the model itself.

Model Findings (5 of 5)

Cosmetic

4

The findings presented here are areas of the Model where there are minor issues in relation to formatting, consistency and spelling.

Rating

Advisory

No	Issue Description	Sheet	Reference
1	The index makes reference to a 'Timelines Yearly' tab, but in the model it is called, 'Timelines Annual'. Correct for consistency.	Index	D25
2	The index makes reference to an 'Income Statement' tab, but in the model it is called, 'P&L'. Correct for consistency.	Index	D29 & D30
3	Income Statement Yearly - Indexed is included in the index but there is no sheet for this? We think that this is called 'P&L 2Yearly'? Correct for consistency, suggest to include reference to indexation in tab name for clarity.	Index	D31
4	The index makes reference to a 'Historic Acquisition Costs' tab, but in the model it is called, 'Historic Acquisition List'. Correct for consistency.	Index	D17
5	Typo - Current weekly rents x Property 'type'	Index	D18
6	The model structure specifies a tab called, 'Historic Costs SLA', but the Index and the model refer to it simply as 'SLA'? Update for consistency and clarity.	Model Structure	F14
7	Reference to the index switch in the 'swtiches' tab is incorrect. Change F22 to F28	Model Overview	C37
8	Indexation and Inflation are used interchangeably. Use consistent terminology throughout model to avoid uncertainty.	Throughout model	All Cells
9	Typo: weeeeks --> weeks	Model Overview - Logic Test	C11
10	Typo: Occupatio --> Occupation	Model Overview - Logic Test	C71
11	Typo: Monh --> Month	Model Overview - Logic Test	E85
12	Remove the text 'Units' and 'Check', as it doesn't relate to anything	Switches	Row 15
13	Change OP to OC	Generic Inputs	F41

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix B: Queries raised during investigation

No	Issue Description	Sheet	Reference	Response
1	Unfinished explanation around the number of properties acquired per month. Does this need to be finished?	Model Overview	C17	The model approach regarding this point will be revised at the next model refresh
2	What is the 'Model Overview - Tables' sheet aiming to achieve? If fixed input could it be locked down?	Model Overview - Tables	All Cells	This is a summary explaining what types of properties are purchased in which areas. This has been used in the construction of the model eg from row 111 on the Key Operational Inputs tab. Model usage is more flexible when cells are not locked down. Very few individuals physically interact with the model at the moment, so this flexibility is useful. Should the model be distributed more widely, we will lock down areas of the model.
3	Why is there no formula in month 1 for re-let within one month rates?	Model Overview - Logic Test	G71	A property becomes void (see G45) in month 1 and then is relet within a month - so that is month 2. The table from row 45 is shifted by 1 month in the table starting at row 58.
4	The outputs from the sheet do not seem to go anywhere - can you explain what this sheet is aiming to achieve?	Model Overview - Logic Test	All Cells	It does not feed into the model and so will be deleted.
5	Why do some of the Acquisitions and Refurbishments Costs only last for 2 years?	SLA	G27, G31	Yes, all properties relating to this phase will be purchased in the first two years, so there will not be any acquisition costs thereafter.
6	Why are the charges per property as per Fee Costs Year 4 appropriate to use and not the Fee Costs for Year 1?	SLA	I69	Year 4 excluded acquisition costs. Acquisition costs are accounted for separately eg Key Operational Inputs L25
7	What do pass through costs represent and how are they accounted for in the model?	SLA	Column E	These are costs that are initially paid for by the Council and are recharged to i4B e.g. the purchase price of properties E30, refurbishment costs from the Council's contractor
8	What are the Check % financing and Check % Capitalised Costs aiming to achieve?	Historic Acquisition List	Column AN & AP	Outliers can be used to sense check inputs

Appendix B: Queries raised during investigation

No	Issue Description	Sheet	Reference	Response
9	Why are some of the input columns totally blank? For Col AL, remove borders to row 148, as at the minute it looks like it's an empty cell, whereas it is actually only relevant to the summary.	Historic Acquisition List	Column AJ & AL	Agreed
10	What's the difference between a blank cell and a zero? Ensure consistency is there is no difference.	Historic Acquisition List	Column N, R, S, T, AC, AD, AF	Empty cell may be missing data eg cell N20. Zero is zero
11	Are the numbers in row 9 required? If not recommend they are removed.	Historic Acquisition List	Row 9	The sheet is taken from a separate model. In that model, these figures drive the calculations below. It may therefore be useful to have them as a reference to assumptions.
12	Are the Summary rows used for anything? i.e. could they not contribute to the Validation sheet?	Historic Acquisition List	Summary sections	It's not just validation, it's business information so it's useful to see.
13	Is it correct to remove the option to purchase 2 bedroom houses, given that there are currently 2 bed houses within the portfolio?	Key Operational Inputs	Row 125	There are no specific plans to buy 2 bed houses. The number is immaterial to the strategy.
14	What does other represent? Under what circumstances would this contain values?	P&L 1 Monthly	Row 52	Allows flexibility for further inputs.
15	What is SDLT and is it meant to flow through to any summary calculations?	Historic Acquisition List	P150	SDLT is Stamp Duty. This section is a paste special from another model. There, col V = sum of col O to T
16	Can you explain the difference between P&L 1 Yearly and P&L 2 Yearly? If it is the indexation point, should 2 yearly be renamed to make it clearer.	P&L 1 Yearly, P&L 2 Yearly	All Cells	Indexation. Agreed.