# i4B Holdings

## Risk Management Framework

April 2019

**Document Master Sheet**

Amendments to this document detailed below:

| Version | Author | Date | Review Date | Comment | Approved by |
|---|---|---|---|---|---|
| 1 | Khadija Koroma | April 2019 | | Framework created | i4B Board |

## 1.0 Introduction

1.1 The risk framework was created to accompany the risk register, which is a standalone live document.

1.2 The risk framework outlines i4B's process of:

- Identifying
- Measuring
- Managing
- Monitoring and Reporting

The framework also discusses the risk appetite of the i4B Board.


1.3 The risk register identifies different types of risks, and the assumptions made in the business plan in relation to that risk. It then highlights the type of risk it is, e.g. financial, reputational etc.

## 2.0 Identifying

2.1 The risk register already identifies a number of risks.

2.2 Officers meets on a quarterly basis to consider the risks, and to add new risks that may arise as the business move forward. The new risks come as a result of new initiatives of the company, e.g. revisions of business plan or revisions of investment plan.

2.3 Risks relating to revisions of business plan are identified through the business planning process. Anticipated changes to the Company's risks as a result of the new business plan are discussed by the Board as part of the process.

2.4 Council representatives, who are specialists and experts in various aspects of the Company's work will identify external forces and bring it forward to be added to the risk register. This includes changes in the external environment, changes to law and government policy etc. This is fed into the risk assessment each quarter or brought to the attention of officers and the Board through timely communications.

## 3.0 Measuring

3.1 The risk register scores the risks in 2 pre-mitigating categories; 'Likelihood' and 'Impact' which then multiplies to generate a risk score. It then outlines the ways in which the risk can be mitigated. After this, there is another set of scores for the 2 post-mitigating categories ('Likelihood' and 'Impact'), and a new risk score is calculated. The risk status is then shown and comments are made regarding the risk. The pre-mitigating and post-mitigating scores are both calculated in the same way.

3.2 The likelihood is scored out of 5:

1 – Highly unlikely/improbable

2 – Not very likely

3 – Likely/Possible

4 – Very likely

5 – Almost Certain

3.3 The impact is scored out of 5:

1 – Insignificant

2 – Minor

3 – Moderate

4 – Major

5 – Catastrophic

3.4 The risk score is then scored out of 25. This is done by multiplying the likelihood and the impact. If the likelihood of a risk is 2, and the impact is 4, then the overall risk score will be 8.

3.5 Each score is decided through discussions between experts working for and with i4B. The experts are able to give the likelihood of a risk, and the impact said risk could have on the business. The risk score is then calculated and the expert gives advice on how the risk can be mitigated and how the mitigations will affect the post-mitigating risk scores.

## 4.0 Managing

4.1 It is important that i4B effectively manages the risk register to insure that officers are always kept up to date with the risks.

4.2 Changes to risks can be identified through the Key Performance Indicator (KPI) reports. The live Dynamics report produces an up to the minute data. This highlights any areas where the performance is not meeting its target, and actions can then be taken to ensure that the risk shown on Dynamics does not become an issue.

4.3 Risks are managed at both officer level and at Board level. The officers manage their individual tasks, and the Board manages the overall risk register as the register is on the agenda on a quarterly basis. The Board ensures that actions are taken by officers and these actions are logged and tracked through the Forward Plan and the Action Log.

4.4 Through the SLA officer meetings, risks from service providers are discussed. This means that i4B can assess if risks are being effectively managed by service providers and whether the risks are likely to increase or decrease.

## 5.0 Monitoring and Reporting

5.1 Risk are monitored through the KPIs, which have 34 different well-defined indicators that are monitored on a monthly, quarterly, or annual basis, depending on the individual KPI.

Officers responsible for the individual indicators monitor it and contribute to that KPI report that is provided to the Board each month. These reports highlight the performance of key areas, and supplementary reports are also provided for issues that need more consideration.

5.2 Audit govern the Board's approach to identifying, monitoring and maintain risks.

## 6.0 Risk Appetite

6.1 I4B is a business designed to deliver benefits to support LB Brent's strategies and deliver products which the council is unable or not well placed to do itself. The company is scrutinised for its contribution to the council's agendas and outputs such as LB Brent homeless nominees housed.

6.2 The Company's current business model is one based on small financial margins but significant investment and borrowing. The business invests to provide products and benefits which make a difference to the Council and the people of Brent. For these reasons the company is focused on delivering outputs and quality services to its customers. A low risk strategy has been adopted and provided the company, lender and shareholder greater reassurance in the company delivering sustainable outcomes.

6.3 Low risk taking has allowed the company to manage business risks and after two years, bring financial stability to the young business. This emerging stability has provided the company, lender and its shareholder confidence to continue with significant growth ambitions.

6.2 Although the business is continuing a high growth strategy, purchasing over 100 properties annually, the Board's low risk approach can be seen as offsetting its risk through the terms of its loan agreement, equity share arrangements with the shareholder, service level agreements and contracts. This ensures that its rent levels track but do not exceed levels covered by welfare payments.

6.3 The Board has placed significant emphasis on establishing and maintaining a rigorous monitoring regime and has sought swift and continuous improvements to establish the businesses controls. This approach has shown a cautious approach to risk but a high level of commitment towards proactive monitoring and management. Some of the key risks in the first two years have been mitigated through fixing loan terms and fixed fees for services. The Board has visited and revisited its financial model, ensuring loan terms and SLAs support the Company to achieve its financial targets.

6.4 As a young business, i4B has placed a significant amount of focus on key financial measures such as Gross and Net margins of yield, rent collection, cash flow and void rates. The company has refined purchasing guidelines on a regular basis to ensure it is not exposed to higher levels of risk due to an unsustainable portfolio costs. Likewise, there are constant reviews of refurbishment costs and the approach used to deliver refurbishment in order to mitigate risks.

6.5 The Board has established SLAs with LB Brent and contracts with private company's limiting the company's exposure to risk and protecting the Company's financial assumptions in the early years of business.

6.6 The business has made a decision to invest in new digital technology to ensure data records and performance management are using live data and automating processes wherever possible. This again is evidence of the Board placing emphasis on good performance management to deliver a good business and protect the company's financial model.

6.7 The Board recognises that its core PRS product is now established. Homes for rent at local housing allowance levels is the core business and the understanding of how this performs allows the company to build and maintain its low appetite towards risk. The company is therefore able to use its current approach to risk to grow the business in new direction without using higher risk strategies.

6.8 The Board's business growth plans are based on introducing higher yielding properties into its existing portfolio. The loan commitments and services which relate to higher yielding new homes will mirror those which have been applied to its PRS portfolio. The Board is therefore retaining its low risk strategy whilst seeking to create a stronger financial base and slightly higher margins.

6.9 The Board's growth ambitions will also allow it to make some financial efficiencies by utilising existing delivery routes through SLAs and contracts. Examples of these opportunities is the company's ambition to purchase newly built blocks of properties with known costs and efficiencies in management as opposed to street properties with less certain costs and a more disbursed management commitment. Throughout these purchases the company will retain its business model rigour of low interest charges, equity sharing and minimal property yield in excess of PRS.

6.10 Although the business growth strategy is ambiguous in its scale, it is designed to build on and increase margins of its core product.

6.11 The Board's business plan model contains assumptions that evidence a relatively low risk appetite and those include assumptions on rent collection, bad debt and void rates. In addition, the business plan includes a risk percentage to act as a buffer should costs increase or income reduce.

6.12 i4b has ambitions to grow the business which will in itself bring new risks. These risks will be mitigated through the processes that are already in place for i4B.