



Cabinet
10 February 2020

Report from the Chair of i4B Holdings Ltd

Appendix 1: i4B Holdings Ltd Business Plan 2020/21

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt – Appendix 1 of the Business Plan is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	One Appendix 1(cont): i4B 2020/21 Business Plan
Background Papers:	N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Sadie East Head of Transformation Sadie.East@brent.gov.uk Tel: 020 8937 1507

1.0 Purpose of the Report

- 1.1 This report presents the i4B Holdings Ltd (i4B) 2020/21 Business Plan to Cabinet for Shareholder approval.

2.0 Recommendations

- 2.1 Cabinet, on behalf of the Council as Shareholder, approves the business plan as set out in appendix 1.
- 2.2 Cabinet approves the below alignment of PRS phase two loan funding:
- 2.2.1 £24m of phase two funding be used to purchase 60 street properties;
 - 2.2.2 £86.5m of phase two funding be used for the purchase of a block of 153 units and the purchase of new build opportunities; and
 - 2.2.3 depending on the viability of new build schemes, the Board be given the discretion to increase/decrease the amount of street properties and new build opportunities purchased.

- 2.3 Cabinet approves increasing the amount of PRS phase one and two properties purchased in Greater London.
- 2.4 Cabinet approves giving the i4B Board the authority to dispose of lower yielding Home Counties properties.
- 2.5 Cabinet approves the updated financial model.
- 2.6 Cabinet approve the below financial modelling:
- 2.6.1 Based on current modelling, for the purchase of 360 street properties and the key worker Wembley DMS block:
- i4B's maximum cumulative loan will be £140m;
 - i4B's maximum working capital will be £6.7m (£7m recommended for contingency);
 - i4B will break even on an annual basis by 2023/24 and break even on an overall basis by 2035/36; and
 - i4B's forecasted 30 year cumulative profit will be £11.4m.

3.0 Progress on Implementing 2019/20 Business Plan

- 3.1 In November 2016, Cabinet agreed to establish a wholly owned investment company – i4B Holdings Limited. The Company was set up to own and manage private rented sector (PRS) properties, in order to support the Council's homelessness agenda.
- 3.2 i4B's Shareholder Agreement states that the Company should produce an annual Business Plan for Shareholder approval. In February 2019, the 2019/20 i4B Business Plan was approved. In the plan, the Shareholder agreed that i4B would seek to grow and diversify its business operations and products to strengthen its balance sheet, spread risk, and increase capacity to do more for Brent. The 2019/20 Business Plan outlined the following strategic priorities:
- The PRS acquisition programme;
 - The provision of key worker accommodation;
 - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land;
 - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market; and
 - Working with the Shareholder to explore options for aligning with First Wave Housing Ltd.
- 3.3 The following reports on progress against these priorities.
- 3.4 PRS acquisition programme:
- 3.4.1 The 2019/20 Business Plan outlined an ambition to purchase 300 street properties by April 2020 using the phase one loan of £109m. The Business Plan also supported the purchase of an additional 60 street properties by April 2021 using £24m of the phase two loan.

3.4.2 The pace of street property purchases has been slower than envisaged. It is anticipated that the Company will have purchased 280 units by April 2020, 20 short of the 2019/20 target. This shortfall is primarily due to the low volume of properties on the market at a price i4B can pay, and the dominance of leasehold properties in the market.

3.4.3 The Company now purchases properties based on their net yield. A net yield target of 1.22% has been set to support the 30-year business plan. Purchasing against a net yield target has strengthened the Company Business Plan; the net yield of the portfolio has increased from 0.88% in February 2018 to 1.06% in November 2019. However, the higher financial threshold properties must meet has reduced the number of properties on the market that fit the Company's purchasing criteria.

3.5 Provision of Key Worker accommodation:

3.5.1 The 2019/20 Business Plan identified an opportunity to work with the Council and a private developer to purchase a block of 153 units. These properties would be let as key worker accommodation at 65% of market rent plus service charge.

3.5.2 Throughout 2019/20, i4B has worked with the Council and the private developer to advance the purchase of the block. It is anticipated that by the start of the 2020/21 financial year, i4B will have purchased the block as part of the wider section 106 agreement between the Council and the private developer.

3.6 Developing a portfolio of new build accommodation, working with the Council, Registered Providers, and private sector developers:

3.6.1 The 2019/20 Business Plan identified six Council new build schemes that would be potentially suitable for i4B purchase. i4B has worked with the Council to model these opportunities. However, modelling has been limited as full costs are not available at this time.

3.6.2 i4B is working with the Council to understand plans for future ownership and management of new build homes. The Company understands that if the Council requests the properties be let at London Affordable rent levels, grants would be required (or a discounted sale value), and therefore First Wave Housing, as a registered provider, may be in a better place to purchase and manage the stock.

3.6.3 i4B has also been in contact with registered providers and private developers to explore development opportunities. However, as of yet, nothing has materialised into a viable opportunity.

3.7 Alignment with First Wave Housing:

3.7.1 In 2019/20, the Shareholder undertook work to review options for aligning i4B Holdings Ltd and First Wave Housing. It was agreed that aligning the two companies was not viable due to the different structures of the companies.

4.0 **2020/21 Business Plan**

4.1 Appendix 1 contains a final draft of the Company's 2020/21 Business Plan. The i4B Board met on 19 December 2019 to agree the business plan.

- 4.2 The Board has considered the 2019/20 Business Plan and five-year forecast against its own performance and external market factors and recommends that the themes of growth and diversification remain the correct priorities. The 2020/21 Business Plan therefore refines these ambitions and gives detail on how the Company plans to spend its phase two loan of £110.5m.
- 4.3 i4B's strategic priorities for 2020/21 are:
- The PRS acquisition programme;
 - The provision of key worker accommodation;
 - Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land; and
 - Developing a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market.
- 4.4 The Company's focus over the next year will be incorporating the new key worker block into its wider portfolio of properties, this will be done in tandem with regular street property purchases. Throughout 2020/21, i4B will carry out further analysis of other local development sites in partnership with developers, registered providers, and the Council with a view to bringing them into its pipeline of properties.
- 4.5 The PRS Acquisition Programme
- 4.5.1 The phase one loan of £109m will be used to purchase 300 street properties. £24m of the £110.5m phase two loan will be used to purchase another 60 street properties.
- 4.5.2 The 2019/20 Business Plan outlined the Company's ambition to use phase two funding to purchase 60 street properties and increase the total portfolio of street properties to 360. The Company maintains this ambition. However, the Company request the shareholder support the following.
- 4.5.3 In the 2019/20 Business Plan, the Shareholder agreed to purchase 220 of the 300 units in phase one within Brent and Greater London. It was agreed that 200 of these would be in Brent. As of December 2019, the Company has 258 properties, 164 of these properties are in Brent. The Company is currently finding it challenging to identify new properties in Brent that meet its purchasing criteria. Therefore, the Company requests that this target be revised to 185 Brent properties. The remaining 35 of the 220 Brent and Greater London properties will be purchased in Greater London. These properties will be purchased in nearby boroughs (Ealing, Hounslow, Barnet, Hillingdon, and Harrow). Letting times are not expected to be significantly impacted. Since April 2018, Greater London properties have been let in 22 days, this is only marginally higher than the Brent average of 18 days. Officers in Housing Needs have confirmed that there will be sufficient demand to let these properties quickly.
- 4.5.4 The 2019/20 Business Plan did not outline where the 60 street properties in phase two would be purchased. The Company will aim to purchase as many properties in Brent as possible. However, the Company would like discretion to

purchase up to 30 of these properties in neighbouring boroughs (Ealing, Hounslow, Barnet, Hillingdon, and Harrow).

4.5.5 The Board requests discretion to increase/decrease the amount of street properties purchased depending on the viability of new build schemes.

4.5.6 Throughout 2020/21, following recommendations from Housing Needs, i4B will look to increase its stock of adapted properties. i4B will instruct buyers to actively look for level-access properties (buyers will still be instructed to purchase non-adaptable properties). i4B will work in partnership with Housing Needs and Occupational Therapists to ensure properties are suitable.

4.5.7 In addition to purchasing street properties, i4B will look to dispose of some of its lower yielding void properties. In July 2018, the Board introduced a higher financial threshold when buying properties based on net yield. Prior to this, the metric that guided purchases was a gross yield. Properties that were purchased using a gross yield, have an average net yield of 0.86%. This is low compared to the portfolio average of 1.06%. Many of these lower yielding properties are in the Home Counties. In order to compensate for these lower yielding properties and be financially viable over 30 years, i4B has set a net yield target of 1.22% for new purchases. The i4B Board proposes that as lower yielding Home Counties properties go void (properties below the average net yield of the portfolio) the Company review whether it would be beneficial to sell the properties, and if so, sell the property and reinvest the capital receipt into a higher yielding London property. Depending on the rate of disposals, this may allow the Company to reduce its net yield target for new acquisitions. This would increase the rate of purchases.

4.6 The provision of key worker accommodation

4.6.1 Phase two loan funding will be used to fund the acquisition of 153 units of accommodation. These units will be let to key workers at 65% of market rate plus service charge.

4.6.2 It is anticipated that by the start of the 2020/21 financial year, i4B will have purchased the block of 153 units as part of the wider section 106 agreement between the Council and the private developer. Planned practical completion is scheduled for August 2020 and handover to i4B is scheduled for October 2020.

4.6.3 Throughout 2020/21, i4B will work with the Council's Housing Supply and Partnerships team to develop this opportunity as a flagship for key worker accommodation. Key areas of work that will be undertaken in 2020/21 include:

- The procurement of a block management agent. The management agent will be procured by July 2020 to ensure a smooth handover for managing the block in October 2020;
- The development of an allocation policy;
- An employer's agent will attend development project meetings on behalf of i4B;
- Develop and commence an internal and external marketing campaign; and
- The development of tenancy agreements.

4.7 Developing a portfolio of new build accommodation working with the Council to develop housing on Council owned land

- 4.7.1 The Company will work with the Council to explore investment opportunities on Council owned land.
- 4.7.2 The Council aims to deliver 1,000 new units of affordable housing per year in Brent, through the various delivery routes. Alongside direct delivery by the Council funded by the Housing Revenue Account and the sale or granting of land for development to Registered Providers, i4B is one of several funding and delivery routes to achieve this target.
- 4.7.3 The Council has identified an internal development programme of approximately 1,300 new units. 817 of these units are for social rent and funded by grant from the Greater London Authority. Throughout, 2019/20 i4B has worked on developing these opportunities. i4B will continue to do this in 2020/21. As mentioned in paragraph 3.6.2, as an RP with access to grant funding First Wave Housing may be a more suitable vehicle to purchase these units from the Council. However, i4B will look to progress suitable opportunities as they arise.
- 4.7.4 As opportunities develop, i4B will review its financial model and tenure offers, to ensure these schemes remain affordable and in keeping with the Council's requirement of 65% of market rents.
- 4.7.5 This is a new way of working for the Company. However, new build purchases will bring social and economic benefits to the Council in the form of increased affordable accommodation and reduced TA spending.

4.8 Develop a portfolio of new build accommodation working with Registered Providers or private sector developers on sites purchased from the market

- 4.8.1 The Company will continue to work with the Council and private sector partners to explore investment opportunities that bring about benefits to the Council.
- 4.8.2 As in 2019/20, the Company will continue to seek out opportunities to partner with registered providers and commercial developers. These partnerships will enable i4B to be more active and intelligent in the market, and increase the Company's ability to respond quickly to market opportunities.
- 4.8.3 i4B is also keen to use the skills of partner organisations to support regeneration initiatives. For example, the Company could work with a smaller Registered Provider or developer to capture opportunities to strengthen the Borough's high streets through selective housing interventions.

5.0 Updated Financial Model

- 5.1 During 2019/20, the financial model was updated to reflect changes in strategy. There are now two models: the Wembley DMS model for block purchases and the i4B total portfolio model, which includes block purchases and street properties. The new Wembley DMS model has been audited and approved by Internal Audit. The output from this feeds into the total i4B model. The total i4B model is based on a previously reviewed i4B model with changes made to reflect block purchases and additional street properties. The updated total i4B model is being reviewed internally within finance to ensure design, calculation

and output are fit for purpose and that the model achieves its aims. Any recommendations will be assessed and implemented.

5.2 Both models require Shareholder approval alongside the Business Plan.

6.0 Financial Implications

6.1 i4B is forecast to break-even on a cumulative cash basis in 2036, an improved position of 12 years to the 2019/20 business plan. This is a result of the following:

- the net yield target of 1.2% on street properties providing higher contribution to costs over the 30 year period
- increased street properties to 360 (an additional 60 properties)
- the addition of the Wembley DMS block – forecast to provide higher annual profits from 2023/24 and improve cumulative cash breakeven by four years compared to street properties only.

6.2 i4B is forecast to make a £1m loss for the year in 2019/20 compared to a £0.8m loss in the 2019/20 business plan. This is due to the decision to purchase the Wembley DMS block with upfront costs and zero revenue until 2020/21. The loss is also driven by slower street property purchases in 2019/20 due to market conditions.

6.3 The Wembley DMS block initially increases losses to 2022/23 after which higher profits are forecast annually. Due to higher losses to 2022/23, the Business Plan requests an increase in the cash flow facility from £4m to £7m.

Table 1 – Summary of profit / (loss) forecast to 2024/25

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Street Properties Only						
Profit/(Loss) After Tax	(869,000)	(252,000)	280,000	(98,000)	29,000	178,000
Cumulative Retained Earnings Exd Revaluations	(3,886,000)	(4,138,000)	(3,858,000)	(3,956,000)	(3,927,000)	(3,749,000)
Including Wembley DMS						
Profit/(Loss) After Tax	(1,044,000)	(1,371,000)	(621,000)	(230,000)	162,000	331,000
Cumulative Retained Earnings Exd Revaluations	(4,061,000)	(5,432,000)	(6,053,000)	(6,283,000)	(6,121,000)	(5,790,000)
Difference						
Profit/(Loss) After Tax	(175,000)	(1,119,000)	(901,000)	(132,000)	133,000	153,000
Cumulative Retained Earnings Exd Revaluations	(175,000)	(1,294,000)	(2,195,000)	(2,327,000)	(2,194,000)	(2,041,000)

6.4 The Company requests that the Shareholder approve the below financial modelling. Based on current modelling, for the purchase of 360 street properties and the key worker Wembley DMS block:

- i4B's maximum cumulative loan will be £140m;
- i4B's maximum working capital will be £6.7m (£7m recommended for contingency);
- i4B will break even on an annual basis by 2023/24 and break even on an overall basis by 2035/36; and
- i4B's forecasted 30 year cumulative profit will be £11.4m.

7.0 Legal Implications

- 7.1 The adoption of the proposed Business Plan is a matter reserved to the Council as the sole shareholder in i4B Holdings Limited and the intention is to seek Cabinet approval in February 2020.
- 7.2 In the context of the various delivery routes referred to in the report and Business Plan, it should be noted that companies such as i4B, established and solely owned by a council parent, are regarded as “contracting authorities” in their own right for the purposes of the Procurement Regulations 2015 (“PCR”).
- 7.3 As a result, services or works over the relevant EU financial threshold that i4B commissions from another organisation, *even those commissioned from its own parent, or any the partnership arrangements as envisaged in this report* with the Council or other Registered Providers, potentially have to be competitively tendered, unless relevant exemptions available under the PCR apply.
- 7.4 The PCR provides a limited number of specific exemptions including those relating to the pure purchase of land, the purchase of land including existing buildings and other structures, the purchase of land covered with water, and of any estate, interest, easement, or rights in or over land.
- 7.5 i4B will need to be mindful of the need for procurement of development agreements where these are not purely land transactions.
- 7.6 The PCR and its tendering requirements will also apply to any i4B’s partnering proposals involving private capital participation.
- 7.7 It may be possible to structure those of i4B’s arrangements, described above, so as to avoid the application of the PCR altogether. However, to ensure this, legal advice will be required before any proposed arrangements between i4B and the Council or other third party are planned and implemented.
- 7.8 Insofar as any of the financial modelling referred to at para 2.7 represents sums derived from loan funding to i4B from Brent Council, Cabinet has already approved funding of £109m for Phase 1 of its housing delivery arrangements with i4B, a loan facility of up to £110.5m for Phase 2 and a £4m working capital loan in February 2019.
- 7.9 The Council has the statutory power to make loans and its loan to i4B is regarded as an “investment” under local government legislation. Such “investments” are subject to a statutory guidance on local government investments (“The Guidance”) issued under section 15(1) (a) of the Local Government Act 2003. The Guidance, last issued in 2018, defines those practices that a local authority is required to follow when making investment decisions which are based on based on the prudential framework set out in the Local Government Act 2003, the Prudential Code and the Treasury Management Code prepared by CIPFA. The Council should refer to these Guidelines in making the capital loan requested and agreeing drawdowns from the loan facility.
- 7.10 Again, insofar as any of the financial modelling referred to at para 2.7 represents sums derived from loan funding to i4B from Brent Council, State Aid may be a potential issue unless the loan is of a type that falls into the General

Block Exemption (GBER), or of a level that falls below a threshold (*de minimis*) amount or is made on market terms.

- 7.11 The Council and i4B need to ensure that any discretion given to i4B as referred to at Paras. 2.3.3, 4.5.4 and 4.5.5, as regards an increase or reduction of street properties and the disposal of lower yielding properties, is in keeping with any funding conditions to which they are subject.
- 7.12 It is noted that the properties will be let to key workers at 65% of market rate plus service charge. State aid issues can arise when a company is established and the Council resources are used to support it. One way of ensuring that state aid exemption apply in this case would be to ensure that when offering the accommodation at below market value would constitute “social housing for disadvantaged citizens” or “socially less advantaged groups” who due to solvency constraints are unable to obtain housing at market conditions.
- 7.13 i4B Holdings Limited is a wholly-owned local authority company, controlled by the Council, which was established to own and manage private rented sector (PRS) properties, in order to support the Council’s homelessness agenda.
- 7.14 Though i4B owns the out-of-Borough properties referred to in the Report, they ultimately serve the Council’s housing purposes.
- 7.15 The Council exercises a degree of control over disposal of these properties given the requirements of the Shareholder Agreement as to Council consent for disposal.
- 7.16 In exercise of that control, the Council ought to ensure that, the spirit and purpose of section 123 Local Government Act 1972, is complied with, so that any sale of i4B’s out-of-Borough land is for best consideration reasonably achievable by i4B.
- 7.17 Ensuring that i4B achieves full market value for each property sold, will also enable it to ensure that the Council and i4B are state-aid compliant.
- 7.18 This will ensure they have acted in accordance with the Market Economy Investor Principle (“MEIP”) because they will have acted like a private investor selling or leasing land or buildings in similar circumstances. Market value for these purposes is determined by placing the property for sale or lease on the open market and holding an unconditional bidding process.
- 7.19 The market valuation of the property should be independent, value must not be determined in-house services.
- 7.20 The public body must advertise the sale/lease in the national or international press for a period of two months or more, with the advertising sufficient to attract European or international interest. Alternatively, market value determined by one or more independent asset valuers
- 7.21 The buyer must also be free to decide how to use the land or buildings.

8.0 Equality Implications

- 8.1 N/A

9.0 Any other implications

9.1 N/A

10.0 Proposed Consultation with Ward Members and Stakeholders

10.1 N/A