

i4B Business Plan

1.0 Introduction

- 1.1 i4B Holdings Ltd (i4B; the Company) was established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council (the Council).
- 1.2 The following document is i4B's 2020/21 Business Plan. The Business Plan outlines how the Company will grow and diversify its products and increase its contribution to the Council's ambition of creating a borough with "a future built for everyone, an economy fit for all".
- 1.3 The Business Plan takes the following format:
 - 2.0 Purpose of the Company
 - 3.0 Performance against overall purpose
 - 4.0 Progress Against the Company's 2019/20 Business Plan
 - 5.0 Context for 2020/21 Business Plan
 - 6.0 Proposals for 2020/21
 - 7.0 Appendices
 - A1 Closed Financial Appendix – Financial Implications of Proposals
 - A2 Risk Register
 - A3 Key Performance Indicators

2.0 Purpose of the Company

- 2.1 Between 2010 and 2015, homelessness doubled in Brent. This growth in homelessness was driven by the loss of private rented sector (PRS) tenancies due to affordability issues.
- 2.2 As a response to this challenge, on 14 March 2016, Brent Council's Cabinet approved the Council's Temporary Accommodation (TA) Reform Plan. The plan proposed that the Council set up a private company to acquire a large portfolio of affordable PRS accommodation for letting to homeless households.
- 2.3 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 TA costs.
- 2.4 The Company was allocated an initial PRS phase one loan of £109m to purchase 300 units of private rented sector accommodation by September 2019. The 2018/19 business plan increased this target to 600 units (of which 360 would be street properties) and allocated additional PRS phase two funding of £110.5m. The Company's core business plan anticipates a financial breakeven position over 30 years.
- 2.5 The Company is set up with the following requirements:
- The Company has discretion over the individual properties it acquires provided that:
 - They are in a suitable location for the Council to comply with its duty under the Homelessness Suitability of Accommodation Order 2011;
 - They are within the affordability and yield criteria set out in the Company investment plan and Capital financing agreement with the Council;
 - The rent income will be broadly equivalent to the relevant Local Housing Allowance.
 - The Board of i4B has limited discretion to let properties at discounted market rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the Company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholder.

3.0 Performance against Overall Purpose

- 3.1 Since 2016, i4B has performed well against its purpose. i4B has purchased PRS accommodation and let it to families in TA. i4B has also brought financial savings to the Council.
- 3.2 As of December 2019, i4B has purchased 258 private sector homes and switched the tenure to an affordable PRS product. All properties have been refurbished to a high standard. Table one provides a breakdown of i4B's portfolio and pipeline as of December 2019.

Table one – i4B Portfolio of December 2019

	1b (2b rate)	2b	3b	4b+	All
Purchased properties	32	95	87	44	258

- 3.4 i4B has housed 232 families and 574 children. The majority of these families were previously housed in unsuitable stage one TA.

Table two – Breakdown of families directed to i4B as of December 2019

Previous Accommodation	no. of families	no. of children
Direct to i4B	30	67
Women's Refuge	2	6
TA Stage one – B&B	178	430
TA Stage two – Leased	22	71
Total	232	574

- 3.5 The Council has also received financial benefits from i4B, mainly through reducing the use of TA. The Council saves £1,960 per i4B property purchased and let. However, i4B does incur costs to the Council. After i4B purchases 300 properties, the net saving to the Council per year will be circa £300k. This saving will increase as purchases increase.
- 3.6 The Council has also received the following one off financial benefits:
- PRS phase one loan: loan arrangement fee of £872k and non-utilisation charge of £330k
 - PRS phase two loan: loan arrangement fee of £884k and non-utilisation charge of £408k
- 3.7 However, purchasing has been slower than anticipated. The Company originally aimed to purchase 300 units of accommodation by September 2019. The reduced rate of acquisitions is due to market pressures and the low volume of properties on the market that meet i4B's financial criteria.
- 3.8 In 2019/20, i4B and Brent Council won the *Innovation in Finance* MJ Award.

4.0 Progress against the Company's 2019/20 Business Plan

4.1 In the 2019/20 Business 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 its capacity to do more for Brent. The strategic priorities outlined in the 2019/20 Business Plan were:

- 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;
- Work with the Shareholder to explore options for aligning with First Wave Housing Ltd.

4.2 The following summarises each of the priorities and reports on progress against these.

4.3 The PRS acquisition programme

4.3.1 Since its inception, the purchase of street properties has been the main business of i4B. In the 2019/20 Business Plan, the Shareholder agreed that whilst the Company's main focus would be growth and diversification, the purchase of PRS street properties would remain a core part of business.

4.3.2 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.

4.3.3 The pace of street property purchases has been slower than envisaged. It is anticipated the Company will have purchased 280 units by April 2020, 20 short of the 2019/20 target. The primary reasons for this are the low volume of properties on the market at a price the Company can pay and the dominance of leasehold properties in the market. This brings complexities such as lease terms, third party freehold ownership, and service charges.

4.3.4 The Company's financial model is highly sensitive to property price, service charges, works costs, and lease costs. 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.

4.3.5 The Company now has a better understanding of the market and the volume of properties it can realistically purchase. The rate of acquisitions is stable at around five per month. The Company is exploring ways it can proactively increase purchases.

4.3.6 Performance in other areas of the street property business is stable and at business plan targets. Refurbishment, letting, housing management, and rent collection performance are all broadly at business plan levels.

4.4 The provision of key worker accommodation

- 4.4.1 The key focus of the 2019/20 Business Plan was diversifying i4B's products. It was agreed with the Shareholder that one route of diversification would be the development of a key worker rent offer. This links to the Council's wider commitment to support other public sector organisations to recruit and retain employees in Brent.
- 4.4.2 The Business Plan identified an opportunity to work with the Council and a private developer to purchase a block of 153 units. These properties would then be let as key worker accommodation at 65% of market rent plus service charge.
- 4.4.3 Throughout 2019/20, i4B has worked with the Council and a private developer to advance this opportunity. 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.
- 4.4.4 In 2019/20 the Council's Housing Supply and Partnerships Team commissioned a piece of research to understand demand for key worker accommodation in Brent, how it should be targeted, and rent levels that are proportionate to salaries of key workers in Brent. i4B has worked closely with the Housing Supply and Partnerships Team throughout this research.

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

- 4.5.1 In 2019/20 the Shareholder agreed that i4B would work with the Council to deliver a large number of affordable units in Brent within a short period.
- 4.5.2 The Council aims to deliver 1,000 new units of affordable housing per year in Brent, through the various delivery routes, including i4B. In 2019/20, 265 units over six schemes were considered suitable for purchase by i4B. These schemes would be completed between 2020 and 2023.
- 4.5.3 Throughout 2019/20, the Council has worked on developing these opportunities. i4B has modelled the financial viability of the schemes. However, modelling has been limited as full costs are not available at this time.
- 4.5.4 The Company is working with the Council to understand the Council's 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 of social housing, may be in a better place to purchase and manage the stock.

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

- 4.6.1 The 2019/20 Business Plan outlined that the Company would increase acquisitions by working with registered providers and private sector developers. This would involve i4B entering into an agreement with partners to increase its capacity to deliver a large number of affordable units in borough within a short period.
- 4.6.2 Throughout 2019/20, i4B has been in contact with a number of registered providers and private developers to explore development opportunities. However, nothing has materialised into a viable opportunity.

4.7 Work with the Shareholder to explore options for aligning with First Wave Housing Ltd

- 4.7.1 The 2019/20 Business Plan outlined that the Shareholder would look at the optimum structure for Council-owned housing companies, including i4B Holdings Ltd and First Wave Housing Ltd (FWH). This would involve reviewing options for aligning the two companies.
- 4.7.2 In 2019/20, the Shareholder undertook this work. It was agreed that aligning the two companies was not viable due to the different structures of the companies.

5.0 Context for 2020/21 Business Plan

5.1 This section outlines the contextual factors that need to be considered and how they potentially affects i4B. These include, but are not limited to:

- the state of the housing market;
- the 2019 General Election;
- Brexit;
- current demand and housing need within Brent;
- the key risks the Company currently faces.

5.2 These factors have influenced the proposals outlined in section six.

5.3 The housing market

5.3.1 The volume of properties on the market is declining. Furthermore, the number of properties that met i4B's financial criteria is low. It is likely that purchasing will become increasingly difficult in 2020/21.

5.3.2 Analysis from Rightmove states that the number of homes for sale has fallen at the fastest rate in a decade.¹ This comes alongside surveys from Nationwide, suggesting that UK house price growth continues to slow, whilst the UK navigates political and economic uncertainty.² In June 2019, the annual house price change in Brent stood at -4.1%.

5.3.3 The London Borough of Brent Strategic Housing Market Update provided a comparison between the Brent housing market and the rest of Greater London. It noted that:

- The increase in lower quartile house prices over the previous five years has been less than for Greater London as a whole, though the lower quartile house price remains higher than for Greater London;
- Average monthly rents are lower than for Greater London as a whole;
- Affordability remains worse than for Greater London;
- Overcrowding remains an issue as it is higher than for Greater London;
- Housing delivery relative to stock has decreased, but remains higher than for Greater London.

5.3.4 In July 2019, The Brent Council Property Team carried out an analysis of the Brent property market using Zoopla. This revealed that in July 2018, there were 3,185 properties on the market in Brent, this dropped to 2,770 in July 2019, a reduction of 415 properties. Of this 2770, eight properties were suitable for i4B purchasing. It is worth noting that i4B purchases are typically identified through direct contact with agents, as opposed to using websites such as Zoopla.

5.4 2019 General Election

5.4.1 Following the December General Election, the United Kingdom now has a Conservative majority government.

¹ The Guardian, *Fall in UK House Prices*, <https://www.theguardian.com/business/2019/nov/18/fall-in-uk-house-prices-as-election-keeps-homes-off-the-market>

² BBC News, *UK House price growth low for a year, says Nationwide*, https://www.bbc.co.uk/news/business-50585528?intlink_from_url=https://www.bbc.co.uk/news/topics/cdl8n2edgj5t/housing-market&link_location=live-reporting-story

5.4.2 This change in Parliamentary arithmetic has implications for the housing sector. Housing policies promised in the 2019 Conservative manifesto include:

- The building of at least a million homes over the next five years;
- Offering more homes to local families, allowing councils to use developers' contributions through the planning process to discount homes by a third for local people, who otherwise could not afford to buy in the area;
- Extending the housing association Right to Buy pilot across the country;
- Continued rollout of Universal Credit;
- Continued commitment to the Conservative promise to end no-fault evictions.
- Reforms to leasehold purchases, including the implementation of a ban on the sale of new leasehold homes, and restricting ground rents to a peppercorn.
- 'Lifetime' deposits for the private rented sector.
- A Social Housing White Paper.

5.4.3 These policies have the potential to impact i4B's operations. The proposed reforms to leasehold purchases, in particular the restriction of ground rents to a peppercorn rate, has the potential to save i4B costs.

5.5 Brexit

5.5.1 The UK economy contracted by 0.2% in quarter two of 2019.³ This has been partially attributed to uncertainty around Brexit and the potential for the UK leaving the EU without a deal.

5.5.2 It is generally thought that Brexit will lead to a fall in housing prices. If the UK were to leave without a deal, the fall would be more dramatic. KPMG has predicted that house prices would fall by around 6% following a no-deal Brexit, but that they could drop by as much as 20% in a worst-case scenario. Any anticipated fall in house prices will allow i4B to purchase properties at lower prices.

5.5.3 i4B has ambitions to purchase new build accommodation. Brexit could lead to increased costs in this area. Tariffs will increase the cost of materials and therefore increase construction costs. Furthermore, there is already a shortage of building workers. Reduced EU migration will increase this shortage and thus adversely affect the speed and cost of housebuilding.

5.6 Demand and housing need in Brent

5.6.1 Since 2016, i4B has been housing Council homelessness nominees. Demand from the Housing Needs Service has been for i4B to purchase two and three bedroom properties in Brent. Table three gives a breakdown of all post Localism Act accepted households that are eligible for i4B stock.

³ Chartered Institute of Housing, *2019 UK Housing Review: Autumn Briefing Paper*.

Table three – Total number of households in all TA schemes (families & non-families)

Household Type	Number of Households in TA
One Bed	76
Two Bed	456
Three Bed	407
Four Bed	127
Five Bed +	43
Total	1109

- 5.6.2 i4B focuses its purchasing on housing families in unsuitable TA such as bed and breakfast and annex accommodation. A breakdown can be seen in Table four.

Table four – Total number of households in B&B and Annex TA (families & non-families)

Household Type	Households in B&B and Annex TA
One bed	39
Two bed	33
Three bed	28
Four bed +	11
Total	111

- 5.6.3 However, demand from Housing Needs is changing. The most difficult cohort of homeless families to accommodate are families who require adapted properties due to a disability. There are currently 14 difficult to house families in need of an adapted property.

- 5.6.4 The bespoke nature of i4B properties is one of the main values of i4B. Housing Needs has recommended that a focus of i4B's PRS Acquisition Programme should be increasing the supply of adapted properties.

5.7 Risk context

- 5.7.1 The Company presently faces a number of risks. There are three live issues. Firstly, the number of properties on the market that meet the Company's financial criteria is limited, this has reduced the rate of purchasing and therefore rental income. The second risk is that the period it takes to purchase properties is longer than the SLA target of 13 weeks. Again, this reduces the amount of rental income the Company receives. Finally, rent collection rates are not at business plan targets of 95%. Financial modelling has been amended to reflect these live issues.

- 5.7.2 Other key risks include:

- Performance declining in refurbishment times due to an inconsistent supply of properties; and
- Cash flow is insufficient to manage expenditure.

- 5.7.3 Mitigating measures are in place to help to minimise the impact of all risks. The full Company risk register can be seen in Appendix two.

6.0 Proposals for 2020/21

6.1 The Company has considered contextual factors, its performance, and its financial position, and recommends that the themes of growth and diversification identified in the 2019/20 Business Plan remain the correct priorities for 2020/21. Through growth and diversification, the Company can provide a wider range of affordable housing products to a greater cohort of Brent residents and therefore increase its contribution towards the Council's strategic theme of 'a future built for everyone, an economy fit for all'.

6.2 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.

6.3 The Company'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.

6.4 The Company anticipates the purchase of 280 street side properties by April 2020 using circa £101m of the £109m phase one loan. The remainder of the phase one loan will be used to purchase 20 street properties in 2020/21. The phase two loan of £110.5m will be used to fund the block purchase, new site development purchases, and additional street side property acquisitions.

6.5 The Company remains committed to increasing its portfolio to 600 units by 2024. This includes 360 street properties, 153 units of key worker accommodation, and 87 new build units.

6.6 The PRS Acquisition Programme

6.6.1 Summary: 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.

6.6.2 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 proposals.

6.6.3 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.

- 6.6.4 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).
- 6.6.5 The Board requests discretion to increase/decrease the amount of street properties purchased depending on the viability of new build schemes.
- 6.6.6 Throughout 2020/21, following the recommendations from Housing Needs outlined in paragraph 5.6.4, i4B will look to increase its stock of adapted properties in line with demand. 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.
- 6.6.7 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 when 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.

6.7 The provision of key worker accommodation

- 6.7.1 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.
- 6.7.2 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.
- 6.7.3 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.

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

- 6.8.1 Summary: The Company will work with the Council to explore investment opportunities on Council owned land.
- 6.8.2 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.
- 6.8.3 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 4.5.5, 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.
- 6.8.4 140 units over four schemes are considered suitable for purchase by i4B. As these 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.
- 6.8.5 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.

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

- 6.9.1 Summary: The Company will continue to work with the Council and private sector partners to explore investment opportunities that bring about benefits to the Council.
- 6.9.2 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.
- 6.9.3 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.

Appendix 1 – Closed Financial Appendix

Please refer to the i4B Closed Financial Appendix document.

Appendix 2 – Risk Register

Risk	Business plan assumption	Risk Type	Likelihood (/5)	Impact (/5)	Risk Score (/25)	Mitigation
<p>Business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions.</p>	<p>The business plan assumes a rent collection rate of 95% of rent for 2020/21 and then 98.5% from thereafter. It also assumes 2% bad debt. The potential consequences of this risk materialising is that the company's income is insufficient to cover its expenditure.</p>	<p>Financial</p>	<p>Live Issue</p>			<p>This remains a live issue. However, following weekly monitoring of rent reports, serving breach of contract notices, and a workshop to formulate an income collection action plan, rent collection has improved for seven consecutive months. It is now 94.19% in December 2019.</p> <p>The company is seeking to diversify its products to introduce new customers with different household income profiles than 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>The 2019/20 Business Plan states that rent collection should achieve 95% for the first year and 98% thereafter. The key worker block has an additional risk that the letting period will be lengthened to ensure the brand is maintained and potential customers can be vetted. Properties on schemes should be phased.</p>

<p>The pipeline of properties is slower than the SLA target</p>	<p>The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel.</p> <p>The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is its only source of funding.</p>	<p>Financial & achieving operational objectives</p>	<p>Live Issue</p>	<p>i4B is working with teams across the Council to improve performance. i4B has weekly meetings with property, legal, refurbishment, and housing needs to monitor performance.</p>
<p>There is an insufficient volume of properties on the market that meet i4B's financial criteria.</p>	<p>The programme assumes 360 by April 2021.</p> <p>The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is its only source of funding.</p>	<p>Financial & achieving operational objectives</p>	<p>Live Issue</p>	<p>i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.</p> <p>i4B is also looking at ways to increase property purchases. It is liaising with local RPs, putting out marketing to local property owners, and exploiting options to reduce costs.</p>

<p>Void periods exceed business plan.</p>	<p>The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property.</p> <p>The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.</p>	<p>Financial</p>	<p>1</p>	<p>3</p>	<p>3</p>	<p>i4B has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenants. i4B is working with the council to ensure purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. i4B will be disposing of lower yielding properties in the Home Counties, these properties usually sit void for longer than London properties.</p> <p>All future properties will be purchased in London where demand is higher.</p> <p>i4B has set up weekly calls with housing management contractors to ensure the re-let period for voids is minimised.</p>
<p>There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord</p>	<p>The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.</p> <p>Failure to comply with H&S requirements increase the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board.</p>	<p>Financial & reputational</p>	<p>1</p>	<p>5</p>	<p>5</p>	<p>Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring and KPI reports include some key aspects including gas, complaints and customer satisfaction.</p> <p>BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.</p> <p>BHM Property Services have a team that works solely on properties' compliance with regulations.</p> <p>BHM Property Services have carried out self-assessments looking at compliance with regulatory standards.</p>

<p>There is a risk that i4B is deemed to have failed a statutory requirement in its corporate role</p>	<p>The company must comply with regulatory and best practice requirements around its own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman.</p> <p>The consequences of other statutory failures may be fines and/or reputational damage to i4B.</p>	<p>Financial & Reputational</p>	<p>1</p>	<p>5</p>	<p>5</p>	<p>The Board is putting in place suitable policies and procedures to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements. Support for company governance is included within the company's core SLA with the Council.</p>
<p>The business plan does not diversify its products</p>	<p>The current business plan is primarily based on a Private Rented Sector (PRS) property owner model with permission to provide some market rent.</p> <p>The potential consequences of this risk materialising is the company may find its income and rent collection rate is more vulnerable to impacts of legislation including changes in housing benefit.</p>	<p>Financial & achieving operational objectives</p>	<p>1</p>	<p>1</p>	<p>1</p>	<p>i4B continues to seek to diversify its product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates in 2019/20.</p> <p>The financial plan relating to 300 units does not make any growth assumptions. As the current business is a going concern over 30 years, the risks relating to diversification are less critical. The key worker block will be added to i4B's portfolio from Q1 2020.</p>

<p>The cost to deliver i4B services exceeds business plan assumptions</p>	<p>There are a number of key assumptions built into the business plan and the setting of the Net Yield %. These cost assumptions include: housing management services; repair and maintenance; insurance; contracts and service level agreements; major refurbishment programmes; and debt finance arrangements. As the business grows, cost assumptions may change and new costs may be encountered. For example, Housing Management for 153 Key worker properties may be at a premium.</p> <p>There is a risk that property price inflation reduces the average yield and increases average purchase prices. The potential consequences of this risk is that the acquisition programme would slow down. The Company would also be weaker as there would be fewer properties to spread fixed costs between. The company's loan facility would continue to incur costs to the company.</p> <p>The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.</p>	<p>Financial</p>	<p>2</p>	<p>3</p>	<p>6</p> <p>A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce cost through contract management renegotiation, eliminating the cost where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher net yield margins on each property. The company is seeking to introduce additional products with higher yields to blend the overall yield, for example new build blocks purchased from the Council.</p> <p>Company budget and spend are reported and monitored at monthly Board meetings to ensure the Company is operating within budget.</p> <p>For the 153 key worker properties, housing management costs will be built into the purchase price. Economies of scale for repairs and housing management should be achieved as the business grows.</p> <p>i4B continue to purchase higher yielding street properties above 1.22%.</p> <p>Property price inflation is difficult to mitigate due to limited control of market conditions, however it will continue to be monitored closely. i4B's business operates on 300 properties at 1.22% net yield. All new build properties will be expected to achieve between 1.3% and 1.7% net yield in the long term. i4B are not obliged to purchase any new build units under its target new build yield.</p>
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<p>Interest rates increase impacting on new loans taken out by the Company</p>	<p>Interest rate risk exists from current time to all new property purchases until all property purchases have been complete under the current business plan. This means if PWLB rates increase, interest cost will increase on all new purchases made after the rate increase. Alternatively, if rates fall, interest on future purchases will fall.</p>	<p>Financial</p>	<p>4</p>	<p>2</p>	<p>8</p>	<p>The phase 2 loan and extended working capital requirement (to accommodate the key worker block purchase) have been modelled at 3.25% to reflect the higher PWLB rates expected in the next few years. This is 0.25% higher than the current rate to be prudent and provides contingency in the model.</p> <p>After a purchase is made, the PWLB rate for that capital drawdown is fixed over the period, therefore no further interest rate risk going forward.</p>
<p>LHA rates fall below business plan assumptions</p>	<p>The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum. The business plan assumes 600 LHA rates and 153 key worker rents.</p> <p>The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.</p>	<p>Financial</p>	<p>1</p>	<p>3</p>	<p>3</p>	<p>The 3% increase in LHA rates from 2018 and 2019 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital. Planned increase for 2020/21 business plan is a planned 2.6% on properties let at LHA rates.</p>

<p>Due to affordability the demand for the location of properties purchased varies from the business plan</p>	<p>The business plan assumes that: phase 1 – 220 properties purchased in Brent & Greater London, 80 in the Home Counties; phase 2 – up to 60 properties purchased in Brent and Greater London.</p> <p>If demand for the properties in Brent reduces i4B may have to purchase more Home Counties properties. Properties in Brent have performed better financially and have been easier to manage.</p>	<p>Financial & achieving operational objectives</p>	<p>1</p>	<p>2</p>	<p>2</p>	<p>These risks are managed through the yield and ensuring demand is high. The business plan anticipates all new homes will be in Brent. Therefore the more challenging out of Brent properties in terms of housing management and rent collection are already purchased and managed within the current risk levels. The scale of growth should act to reduce further the risks associated with out of borough lets.</p>
<p>The refurbishment period exceeds SLA target</p>	<p>The SLA has a target of 70 days for the first 100, 64 days for the 2nd 100 and 56 days for the 3rd 100 units.</p> <p>The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.</p>	<p>Financial & achieving operational objectives</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's refurbishment service. Quotes for works are provided to i4B prior to properties being purchased. i4B could encourage the council through the SLA to introduce additional refurbishment teams or processes. The programme of purchases could be slowed to keep pace with refurbishment capacity.</p> <p>Early issues with the Refurbishment process have been addressed and now performance is within the KPI.</p> <p>The risk likelihood has been increased, as refurbishment performance slipped in late 2019/20 due to the inconsistent flow of properties. As a result, the Council has changed void contractor. Weekly meetings are taking place.</p>

<p>The nominations process exceeds the SLA target.</p>	<p>The business plan assumes 90 days for the refurbishment and lettings process.</p> <p>The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.</p> <p>It is likely that the handover of new build schemes will cause challenges as to the number of suitable customers available immediately.</p>	<p>Financial & achieving operational objectives</p>	<p>3</p>	<p>3</p>	<p>6</p>	<p>The Board monitor nomination KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation.</p> <p>i4B no longer purchases hard to let Home Counties properties. All remaining properties will be purchased in Brent and Greater London. Therefore, lettings performance should improve.</p> <p>For new build schemes the company may need to develop alternative short term letting strategies to prevent voids prior to the first letting. The net yield calculator should also anticipate difficulties. Schemes should be managed to provide a steady a stream of properties and avoid too many units being handed over at any one time. New approaches required for nominations and lettings teams. The key worker block assumes a prudent estimate of 50% void for year 1.</p>
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<p>Company cash flow (capital and revenue) is insufficient to manage expenditure</p>	<p>i4B has commenced a large acquisition and refurbishment programme. The 2020/21 Business Plan outlines plans to increase the Company's portfolio to over 600 units in the next few years. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent.</p> <p>The potential consequences of this risk materialising is the company becomes insolvent.</p>	<p>Financial</p>	<p>2</p>	<p>5</p>	<p>10</p>	<p>i4B is monitoring SLA performance to deliver capital works and refurbishments within business plan requirements. i4B is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The Council has approved a cash flow facility of up to £4m and modelling is being undertaken to assess if this will be sufficient to meet i4B working capital requirements. i4B will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.</p> <p>The Shareholder has increased the cash flow facility to £4 million because Company losses have been forecasted to be higher than originally anticipated.</p> <p>A business modelling exercise was undertaken in late 2019 which confirmed that the Company finances were sound. Modelling on the key worker block has confirmed that if business plan assumptions are met then cash-flow will not be an issue.</p>
<p>There is a risk that there is a permanent downward adjustment of house prices</p>		<p>Financial</p>	<p>2</p>	<p>4</p>	<p>8</p>	<p>Difficult to mitigate as limited control of market conditions; i4B will continue to monitor closely.</p>

<p>There is a risk of Fraud to the company</p>	<p>The Company faces a range of fraud risks. Fraud could result in a loss of income and/or reputational damage to the company and the Council</p>	<p>Fraud</p>	<p>1</p>	<p>3</p>	<p>6</p>	<p>An internal audit into the fraud risks the company faces was carried out in 2018. Actions from the audit have since been implemented. The Board will review fraud risks on an annual basis.</p>
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Appendix 3 – Key Performance Indicators

KPI No	KPI	Measure	2020/21 Business Plan <i>Targets in weeks or calendar days</i>	Monitoring Period	KPI Owner
1	Net Property Yield.	Takes into account purchase price and LHA rate plus one off purchase costs and ongoing annual costs.	1.22%		
2	Average portfolio purchase price.	The average cost of a portfolio property including works, SDLT, fees and VAT.	£363,000	Monthly	i4B
3	Maximum equity share held by LB Brent.	The proportion of equity held by LB Brent in relation to the total loan provided to i4B.	23% (maximum)	Quarterly	LB Brent - Finance
4	Business modelling exercises undertaken	The number of business modelling exercises undertaken and reported to the Board.	6 per year (minimum)	Quarterly	LB Brent - Finance
5a	Property Negotiation – PRS panel to instructing legal	The average number of calendar days in the reporting period between PRS panel instruction to property instructing legal. Activity in this period includes the negotiation of property price and the vendor's acceptance of offer.	60	Monthly	LB Brent – Property

5b	Instructing Legal – Legal reporting to property	The average number of calendar days between property instructing legal to legal reporting to property. Activity included in this period includes legal due diligence and title reporting.	85	Monthly	LB Brent - Legal
5c	Legal reporting to property – DA approval agreed	The average number of calendar days between legal reporting to property to delegated approval agreed. Activity during this period includes delegated authority approval.	18	Monthly	LB Brent – Property
5d	DA approval – Keys handed to refurbishment	Period in calendar days between delegated authority approval to the purchase of the property including the period taken to provide keys/handover pack to refurbishment.	18	Monthly	LB Brent – Property
5e	Instruction to keys	Period in calendar days between property instructing legal to the purchase of the property including the period taken to provide keys/handover pack to refurbishment.	130	Monthly	LB Brent – Property Legal

6a	PRS acquisitions	Number of PRS street properties purchased by the property team.	280 by 31 st March 2019, 360 by 31 st March 2020	Monthly	LB Brent - Property
7	Acquisitions – location	The number of units in different locations as specified in the business plan.	220 Brent and Greater London by 2021.	Monthly	LB Brent – Property
8	Period between acquisition to property first being let.	Activity in this period includes property refurbishment and letting.	90	Monthly	LB Brent – Property
9	Refurbishment	Period in calendar days from receiving keys/handover pack from property to i4B receiving an electronic copy of a refurbishment handover checklist which is compliant with i4B requirements. This period includes quotes, works & certification.	66	Monthly	LB Brent – BHM
10a	Letting in-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	14	Monthly	LB Brent – Housing Needs
10b	Letting out-borough	Period in calendar days from notification of a fully compliant handover from i4B following refurbishment to the property first being let.	35	Monthly	LB Brent – Housing Needs

11	Number of lets in the period.	Number of new tenancy sign ups in the month.	In line with PRS Programme assumptions.	Monthly	LB Brent – Housing Needs
12	Number of property refusals by nominees leading to discharge of duty.	Customers approved by LB Brent as homeless who refused i4B accommodation and where the council formally discharged their duty.	No target.	Monthly	LB Brent – Housing Needs
13	Number of Voids	Any property not occupied by a tenant. Snapshot as of the last day in the month.	No target.	Monthly	i4B
14	Void loss	% of property void days as a proportion of 100% portfolio occupation.	1.5%	Quarterly	i4B
15	Bad Debt	Income written off by the i4B Board due to bad debt, in particular arrears.	2%	Quarterly	i4B
16	Rent Collection	Rent collected as a % of rent due. This is measured on a 4 weekly cycle in line with BACs payments to i4B.	98.5%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
17	Rent arrears action	Evictions.	No target	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
18	Customer Satisfaction	Annual Survey	80% satisfied with the condition of the property.	Annual	i4B

19	Customer Satisfaction	Annual Survey	80% satisfied with the management of the property.	Annual	i4B
20	Customer Satisfaction	Annual Survey	80% satisfied with the repairs service.	Annual	i4B
21	Customer Satisfaction	Survey Participation	1/3 of customers surveyed annually (minimum).	Annual	i4B
22	Complaints	Complaints resolved through management agents agreed procedures.	100% resolved	Quarterly	Housing Management Agents – Pinnacle, Mears, BHM
23	Ombudsman decisions upholding a complaint	A decision by a statutory body upholding a complaint made by a customer, contractor, employee or member of the public.	None	Quarterly	i4B
24	% of Portfolio properties home visited	3 property visits are required in the first year of a letting. 2 property visits are required for each subsequent year. % of property visits completed in relation to the properties under management.	100%	Annual	Housing Management Agents – Pinnacle, Mears, BHM.
25	% of Portfolio with valid CP12	Properties let with a valid CP12 gas certificate.	100%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM

26	% of Emergency Repairs completed within 24 hours	The % of all emergency repairs resolved within 24 hours measured each quarter. Qualifying repairs are contained in the housing management contracts.	100%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
27	% of Urgent Repairs completed within 7 days	The % of all urgent repairs resolved within 24 hours measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
28	% of Routine Repairs Completed within 28 days	The % of all routine repairs resolved within 24 hours measured each quarter. Qualifying repairs are contained in the housing management contracts.	95%	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
29	Average repair cost per property, per annum, including common areas.	The average cost of responsive repairs on the portfolio as charged by the housing management agent (excludes gas servicing).	£750 per annum	Monthly	Housing Management Agents – Pinnacle, Mears, BHM
30	Void period (repairs)	The period from the void contractor being notified of a void property to the receipt to the housing management agent of the keys, handover form and certificates.	28 days	Monthly	LB Brent – BHM

31	Average EPC rating	The average energy performance rating as featured on the EPC certificates. EPC certificates can be retained by 10 years or replaced by new certificates after major or energy works.	No property to be less than E. All properties to achieve C by 2030 (subject to confirmation by the board).	Quarterly	i4B – refurb and void standard
32	% of i4B portfolio let above LHA rate	Show as a % of i4B properties let at a weekly rental income higher than the LHA in the property locality.	No Target/Max 25%	Quarterly	i4B