

 Brent	Audit and Standards Advisory Committee 26 May 2020
	Report from the Chair of i4B Holdings Ltd
Report on i4B Holdings Ltd	

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	One Appendix 1 Risk Register
Background Papers:	N/A
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1.0. Purpose of the Report

- 1.1. This report provides the Audit and Standards Advisory Committee (The Committee, ASAC) with an update on i4B Holdings Ltd's (i4B) recent performance, audit arrangements, and risk register.

2.0. Recommendation(s)

- 2.1. The SAC is asked to note:

- Current performance.
- The update to the i4B risk register.
- The update on recent i4B audits, and progress towards implementing previous audit recommendations.
- The impact of Covid-19 on i4B's operations and business objectives.

3.0. Background

- 3.1. 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).
- 3.2. 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.
- 3.3. i4B's 2020/21 business plan was agreed by the Shareholder in February 2020. The business plan incorporates the following as i4B's strategic priorities for 2020/21:
- 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.

4.0. Benefits of i4B

4.1. Social Benefits

- 4.1.1. As of April 2020, 254 Brent families, including 623 children, have been housed in i4B properties, the breakdown for which is below.

Table 1: Breakdown of families directed to i4B as of April 2020.

Previous Accommodation	no. of families	no. of children
Direct to i4B	40	96
Women's Refuge	2	6
TA Stage one – B&B	188	446
TA Stage two – Leased	24	75
Total	254	623

- 4.1.2. All of the Company's private rented homes comply with a good standard of quality and management. Properties are refurbished to a high standard. i4B guarantees households moving into the PRS properties that they will be well maintained, safe, and secure. This compares favourably with market PRS

accommodation which is generally of a lower standard. Also, with i4B as their landlord, tenants are safe from practices such as revenge evictions.

4.2. Financial Benefits

4.2.1. The Council receives financial benefits from i4B, mainly through reducing the use of temporary accommodation and supporting homeless families. 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.

4.2.2. 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

5.0. i4B 2020/21 Business Plan

5.1. The Company's Business Plan was agreed by Cabinet on 10 February 2020. Below is a summary of the Company's strategic priorities and proposals for 2020/21.

5.2. The Company's strategic priorities as set out in the 2020/21 Business Plan 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.

5.3. The Company's business plan anticipated 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. i4B 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.

5.4. Phase two loan funding has been 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. Further detail on the key worker block purchase can be found in section 6.0.

- 5.5. The Company will work with the Council to explore investment opportunities on Council owned land. 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, and will continue to do so in 2020/21.
- 5.6. The Company will continue to work with the Council and private sector partners to explore investment opportunities that bring about benefits to the Council. 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.

6.0. Key Worker Housing - Quintain Block Purchase

- 6.1. The 2019/20 Business Plan agreed that the Company progress the purchase of a block of 153 units for the provision of key worker accommodation. This purchase of the key worker block was completed on 20th February 2020. The block provides 153 units of 1 and 2 bedroom apartments for key workers. These will be let at 65% of market rate plus service charge.
- 6.2. There are a number of benefits that i4B and the Council will receive from the purchase of the key worker accommodation. These include:
- Attracting key workers to the Council.
 - Retention of key workers.
 - An increase in the amount of discounted market rented housing stock in the borough.
 - Potential increase in value of the block over time.
 - Diversification of i4B's business plan.
- 6.3. Upon completion the following key dates were given. Arcadis, i4B's employer's agent, is tracking progress on i4B's behalf.
- 20th February 2020 – Completion of purchase.
 - 2nd March 2020 – Client and Developer meeting between Quintain and i4B officers.
 - 20th May 2020 – Deadline for collateral warranties.
 - 1st March 2020 to completion – Snagging inspections every Tuesday.
 - 31st August 2020 – Planned practical completion.
 - 5th October 2020 – Practical Completion of the gardens serving block 3.
 - 5th October 2020 – End of defects rectification period.

6.4. Officers have started the process of the initial marketing work. This is being done in conjunction with Network Homes.

6.5. The Council's CMT has also signed off on the key worker nomination policy. i4B officers are now working with colleagues from around the Council to finalise the CCG and NHS roles which will be added to the priority list

6.6. Risk Management

6.6.1. As a result of Covid-19, the building contractor, Wates, has served a notice on Quintain stating that practical completion of the project (due in October 2020) has been delayed. The construction project is progressing, albeit at a slower rate.

6.6.2. i4B is waiting for further information about the length of the delay of the construction project, and is liaising with Quintain on this issue. It is hoped that any delay due to the slow down on site will be mitigated by the fact Wates were up to 4 weeks ahead of schedule on the build.

6.6.3. The Quintain model includes a 6 month contingency on build completion. The model also assumes that only 33 properties will be let by the end of the Financial Year 2020/21. This is around £93k of rental income which is not material and will be offset by actual stamp duty paid. The model assumes that after this, 6 units will be let per month until full capacity is reached in circa November 2022. At this stage, delays due to the current crisis will not impact the model/finances materially if they remain within 6 to 9 months. If the block does not receive income for the whole of the Financial Year 2020/21, this will not materially impact financial performance in terms of losses or extra working capital required.

7.0. Performance

7.1. Performance measurement for i4B is based on: acquisitions, conveyancing of properties, and on the housing management of the three contractors (Mears, Pinnacle, and Brent Housing Management).

7.2. As of i4B's last report to the Committee, the Company had 228 properties in its portfolio, purchased at an average cost of £356,637. 213 of these properties were let. As of the end of March 2020, i4B's portfolio has increased to 276 properties, purchased at an average cost of £356k. The target acquisition cost is £363k. 254 of these properties have been let. The rate of purchases has been slower than originally forecast due to a lack of properties available on the market that meet i4B's financial criteria.

- 7.3. As of the end of March 2020, i4B has 38 properties in negotiation and valuation, 21 properties in conveyancing, 10 properties in the delegated authority (final approval) stage, and 2 properties awaiting contract exchange.
- 7.4. The cumulative rent collection rate at the end of March 2020 is 95.09%. This has increased from 92.80% as of i4B's last report to the Committee. The 2019/20 financial year collection rate was 97.12%. This is in line with the business plan assumption of 95% but short of the business plan target of 98.5%.

8.0. Financial Performance

- 8.1. Income was expected to be down on the original budget set out in January 2019, with fewer properties purchased during the year. However, purchases maintained throughout the year, resulting in income coming in closer to budget, due to strong performance in Q2 and Q3.
- 8.2. The loss for the year is £293k, an adverse variance of £107k to budget.
- 8.3. Operating profit is £346k favourable to budget driven by less operating expenditure of £371k.
- 8.4. The increased loss for the year to budget is driven by interest cost and finance charges for the Quintain block, which came to just over £800k and was not included in the original budget. Without Quintain charges, interest cost would be £2.3m compared to budget of £2.6m, a favourable variance of £300k due to using equity for the street purchases.
- 8.5. All phase 1 equity of £21.8m has now been issued.

8.6. Table 2: Full Year Actual vs Budget FY 2019/20

Full year 2019/20	Budget	Actual	Variance	
	£000	£000	£000	%
Rental Income	3,620	3,595	(25)	(1)
Less: Operating Expense				
Fixed SLA	640	631	9	1
Maintenance	180	249	(69)	(38)
Utilities	7	3	3	52
Service Charges	190	176	14	7
Council Tax	44	33	10	23
Long term maintenance	0	0	-	
Insurance	50	10	40	81
Audit Fees	0	32	(32)	
Professional Services	340	205	135	40
Contributions to Provisions	260	0	260	100
Total operating expense	1,710	1,339	371	22
Net Operating Income	1,910	2,256	346	18
Interest & Finance Charges	2,690	3,144	(454)	(17)
Revaluation Gain	(595)	(595)	-	-
Net Operating Profit / (Loss)	(185)	(293)	(107)	(58)

9.0. Risk Register

9.1. The Company's Risk Register can be found in Appendix 1.

9.2. Since the last meeting with the Committee in September 2019, the following risks have been added:

- Risk 20: New risk added in January 2020, to separate the risk of purchases being slower and the risk of a slowdown in the housing market.

There is an insufficient volume of properties on the market that meet i4B's financial criteria.

9.3. Risk descriptions and mitigations have also been amended throughout the risk register to reflect the impact of Covid-19 on the business. Risks that have increased in likelihood due to Covid-19 include:

- Risk 4: Business plan rent collection rates are not achieved and bad debt exceeds business plan assumptions.
- Risk 5: Void periods exceed business plan.
- Risk 15: The pipeline of properties is slower than the SLA target.
- Risk 18: The refurbishment period exceeds the SLA target.
- Risk 19: The nominations process exceeds the SLA target.
- Risk 20: There is an insufficient volume of properties on the market that meet i4B's financial criteria.
- Risk 21: Company cash flow is insufficient to manage expenditure.

9.4. The Company is taking a safety-first approach to ensure the wellbeing of all parties. i4B has written to tenants to outline some of the measures that the Company will be taking as a result of Covid-19. These measures include:

- Postponing all scheduled deep cleans and window cleaning programmes.
- Ensuring that all employees and contractors follow government advice in relation to hygiene and social distancing.
- Prioritisation of emergency and urgent repairs.
- Encouraging households to remain vigilant to fire risks whilst spending more time at home.
- Encouraging tenants to contact i4B if they are facing financial difficulties.

9.5. The following risks are live issues and are being monitored as such:

- The pipeline of properties is slower than the SLA target.

- There is an insufficient volume of properties on the market that meet i4B's financial criteria.

10.0. Audit Update: Property Acquisitions Audit

10.1. An audit was carried out in September 2019 into i4B's property purchasing. The focus of this audit was to provide assurance on the key controls in place in relation to the sub-processes listed below:

- Property Acquisitions Strategy
- Performance Management and Management Information
- Property Sourcing
- Reporting

10.2. The audit identified a number of examples of good practice. Two high, and one low risk issues were identified. They were:

- 1) A discrepancy between data on CRM Dynamics and manual spreadsheets.
- 2) One property was agreed to be acquired outside of the documented acquisition and approval process.
- 3) A lack of formal evidence of the performance checklist control.

10.3. The audit's follow up report was issued in April 2020. Details of the audit's recommendations and actions taken are detailed in Table 3.

Table 3: Internal Audit Follow Up Review.

Recommendation	Actions Taken	Status and Due Date
1. Acquisition Data	<p>A reconciliation between manual spreadsheets, CRM Dynamics, and Northgate has been carried out. This revealed some discrepancies between the systems, which i4B officers are now working towards resolving.</p> <p>The i4B Management Team are working towards using CRM Dynamics as the sole database for property information.</p>	<p>Partially Implemented.</p> <p>Revised target date: 30th September 2020.</p>

2. Property Sourcing	Other than the unique circumstances that led to the purchase of the Brent Community Law Centre building, the documented acquisitions approval process is strictly adhered to.	Implemented Target date: December 2019.
3. Performance Checklist	A request has been logged with Dynamics to add a Performance Checklist tick box to the system, to prompt the team to go through the checklist and provide an audit trail.	Partially Implemented. Revised target date: 30 th September 2020.