



City of Westminster

Committee Agenda

Title: **Shareholder Committee**

Meeting Date: **Monday 6th December, 2021**

Time: **1.00 pm**

Venue: **Rooms 18.01 - 18.03 - 18th Floor, 64 Victoria Street, London, SW1E 6QP**

Members: **Councillors:**

Heather Acton
David Harvey

Rachael Robathan (Chairman)
Paul Swaddle



Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

If required, the Committee will resolve to exclude the press and public from the meeting should any specific item of business so require on the grounds that discussions may involve the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended). Some reports on the agenda may include confidential information which is exempt from publication. The Committee may need to discuss this information in private session before decisions are taken afterwards, in public session



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Amy Just (ajust@westminster.gov.uk).

Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Committee and Governance Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

- | | |
|--|------------------------|
| 1. WELCOME, TERMS OF REFERENCE AND MEMBERSHIP | (Pages 5 - 8) |
| <p>To note the purpose of the meeting, membership of the new committee and a minor amendment to the committee terms of reference following approval by Cabinet in July 2021.</p> | |
| 2. DECLARATIONS OF INTEREST | |
| <p>To receive and record declarations of interest.</p> | |
| 3. WESTMINSTER BUILDS MID-YEAR REPORT | (Pages 9 - 54) |
| <p>This report sets out the background to Westminster Builds and reports against the Business Plan agreed by Cabinet in July 2021.</p> | |
| 4. WESTMINSTER BUILDS - APPOINTMENT OF DIRECTOR | (Pages 55 - 56) |
| <p>This report seeks approval for the appointment of a Director to the Board of Westminster Builds, in the form of its two constituent companies.</p> | |
| 5. WESTMINSTER BUILDS - APPOINTMENT OF AUDITORS | (Pages 57 - 62) |
| <p>This report seeks approval for the appointment of a Auditors for Westminster Builds, in the form of its two constituent companies.</p> | |
| 6. WESTMINSTER COMMUNITY HOMES MID-YEAR REPORT | (Pages 63 - 84) |
| <p>This report sets out the mid-year performance of Westminster Community Homes.</p> | |
| 7. WESTMINSTER COMMUNITY HOMES - APPOINTMENT OF DIRECTOR | (Pages 85 - 86) |
| <p>This report seeks approval for the appointment of a Director to the Board of Westminster Community Homes.</p> | |

8. WESTCO MID-YEAR REPORT

**(Pages 87 -
106)**

This report sets out the mid-year performance of Westco.

9. FUTURE WORK PROGRAMME OF MEETINGS

To note that the committee will meet as follows:

- March 2022 to consider the business plans of each company for 2022/23
- May 2022 to consider end of year performance for each company for 2021/22 and any necessary amendments to business plans for 2022/23

10. ANY OTHER BUSINESS

**Stuart Love
Chief Executive
26 November 2021**

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WESTMINSTER SHAREHOLDER COMMITTEE

TERMS OF REFERENCE

1. OVERVIEW

- 1.1 The Shareholder Committee forms part of the overall governance arrangements for Westminster City Council ("**the Council**") in relation to companies and other legal entities which are wholly or partly owned or controlled by the Council (including where such control comes about indirectly, such as via a loan agreement) (each a "**Subsidiary**" and together the "**Subsidiaries**").

2. CONSTITUTION

- 2.1 The members of the Shareholder Committee will be set to 4 Cabinet Members consisting of:
- 2.1.1 the Leader (as Chair);
 - 2.1.2 Cabinet Member for Communities and Regeneration;
 - 2.1.3 Cabinet Member for Finance and Smart City; and
 - 2.1.4 Cabinet Member for Housing.
- 2.2 Each Shareholder Committee member may nominate an alternate Cabinet Member to attend a meeting in their place.
- 2.3 The Shareholder Committee will be supported by Council officers as required.
- 2.4 The Shareholder Committee will appoint the Leader as Chair of the Shareholder Committee. If the Chair is not present at the start of a meeting of the Shareholder Committee, those members present will appoint one of the members present to chair that meeting.
- 2.5 Additional advisors, who do not need to be officers or members of the Council, may be invited to attend the Shareholder Committee as required.

3. ROLE OF THE SHAREHOLDER COMMITTEE

- 3.1 The Shareholder Committee will have a role in ensuring proper governance of the Council's Subsidiaries, such role to include:
- 3.1.1 monitoring information from each Subsidiary, in particular on financial and other risks and escalating such risks within the Council as appropriate;
 - 3.1.2 exercising decisions relating to the Council's role as shareholder, member, owner, lender, or other position of significant control over the Subsidiary, where those decisions have been delegated to the Shareholder Committee; and
 - 3.1.3 making reports and recommendations to the Cabinet on areas outside of the Shareholder Committee's delegated authority.
- 3.2 It is expected that each Subsidiary will enter into a form of agreement with the Council (whether as owner, controller or lender) setting out the basis of the relationship between them (each a "**Memorandum of Agreement**").
- 3.3 A detailed description of the Shareholder Committee's role in relation to each Subsidiary will be set out in the relevant Memorandum of Agreement.
- 3.4 Authority to make decisions on behalf of the Council is delegated to the Shareholder Committee for each Subsidiary as follows:

3.4.1 The following decisions are delegated to the Shareholder Committee for all Subsidiaries:

| |
|--|
| Altering in any respect the articles of association of a Subsidiary (or any other governing document such as the Rules of a Community Benefit Society) |
| Altering the rights attaching to any of the shares in a Subsidiary |
| Permitting the registration of any person as a shareholder or member of a Subsidiary |
| Nominating directors to be appointed on the board of a Subsidiary and notifying a Subsidiary to remove directors from its board |
| Increasing the amount of a Subsidiary's issued share capital |
| Altering the name of any Subsidiary |
| Adopting, reviewing or amending a Subsidiary's Business Plan |
| Where a Subsidiary fails to produce a Business Plan as required by its Memorandum of Agreement, producing that Subsidiary's Business Plan |
| Directing the board of a Subsidiary to take or to refrain from taking a particular action |

3.4.2 Any Memorandum of Agreement entered into with a Subsidiary may identify additional decisions which are delegated by Cabinet to the Shareholder Committee in relation to that Subsidiary only.

3.5 Decisions which are not delegated to the Shareholder Committee in accordance with 3.4 above will be taken through the usual decision-making processes in accordance with the Council's governance and constitutional framework. This will include decisions relating to the issue of loan capital in relation to any Subsidiary and to any approvals relating to any intra-group loans.

4. **OPERATION OF THE SHAREHOLDER COMMITTEE**

4.1 The Shareholder Committee will meet three times per year, or more frequently if required.

4.2 The quorum for a meeting of the Shareholder Committee is a minimum of 2 members.

4.3 Meetings will be held in public or otherwise in line with the Council's democratic meeting protocol. There may be particular matters or agenda items which are required to be considered in private due to commercial confidentiality, and these will be handled in accordance with the Council's usual democratic protocol.

4.4 Minutes and agendas will be managed and published in accordance with the Council's usual democratic protocol.

4.5 The Shareholder Committee shall make its decisions as follows:

4.5.1 At meetings of its members by consensus of those present, unless any member of the Shareholder Committee requires a vote, in which event a majority decision will be taken with each member of the Shareholder Committee present having a single vote. Advisors and officers present to support the Shareholder Committee will not have a vote. The Chair of the meeting has a casting vote in the event that there is no clear majority; or

4.5.2 In cases of urgency, by a decision made by the Leader or by an alternate Cabinet Member nominated by the Leader.

- 4.5.3 Certain decisions, including the nomination of Directors, may be taken outside of meetings by signed resolution of a majority of Committee Members
- 4.6 After each meeting, the Chair shall approve the minutes and authorise the implementation of the Shareholder Committee's decisions, including where relevant the signature of any documents by appropriate Council signatories.
- 4.7 The Shareholder Committee will review the Terms of Reference annually and make any necessary recommendations to Cabinet.

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Shareholder Committee

| | |
|-------------------------------------|---|
| Meeting or Decision Maker: | Shareholder Committee |
| Date: | 6 December 2021 |
| Classification: | General Release – except exempt appendices |
| Title: | Westminster Builds – mid-year report |
| Wards Affected: | All |
| Company Affected: | Westminster Builds - Formally: <ul style="list-style-type: none">• Westminster Housing Investments Ltd - 11413846• Westminster Housing Developments Ltd - 11417174 |
| City for All/Policy Context: | Good governance of council-owned companies |
| Key Decision: | No |
| Report of: | Westminster Builds' Chair and Managing Director |

1. Executive Summary

- 1.1. This report being the first to the newly established Shareholder Committee sets out the background to Westminster Builds' (WB) formation, the company's objectives and benefits it brings to Westminster City Council.
- 1.2. Westminster Builds' Directors hold dual roles within the company and Council which helps ensure the purpose of the company remains closely aligned to the ambitions of the Council. This is reinforced by most of the staffing and resources required by the company coming from Council departments.
- 1.3. The company has had a successful year. Its joint venture at Luton Street continues to progress at pace, to a high quality, and achieving strong sales ahead of practical completion. The company is also on track to acquire a total of 71 homes in 2021/22 across Farm Street, Jubilee, Parsons North and West End Gate, in line with business plan assumptions.
- 1.4. The report sets out the company's governance arrangements, noting how they closely align to the Council's, and welcomes the establishment of the Shareholder Committee.
- 1.5. Following the conditional approval of WB's Business Plan for 2021/22, the Board is reviewing the company's future activity including the impact of the removal of out of borough activity and reassessment of the company as an effective tool for the Council to deliver its developments.

2. Recommendations

- 2.1. That the Shareholder Committee notes this report and to provide guidance to the WB Board on the governance queries outlined in paragraph 5.8.

3. WB Background

- 3.1. Westminster Builds (WB) was established following a Cabinet Report in December 2017, as a response to help deliver the Council's ambition to increase the supply of affordable housing within Westminster.
- 3.2. In June 2018 Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL) were incorporated at Companies House. Both WHIL and WHDL are now collectively known under the brand of 'Westminster Builds'. This single brand creates an identity that is distinct from the Council whilst remaining part of the Westminster family.
- 3.3. The Council has 100% of the ownership and control of Westminster Builds, as it is the sole shareholder of WHIL, which in turn is the parent company and sole

shareholder of WHDL. In this two-company structure, WHIL acts as the investment company, holding and renting completed properties for long term return and WHDL as the development vehicle, acquiring land and developing properties for a range of tenures. The structure also enables greater tax efficiency by separating activities which have different VAT treatment and could limit recoverability.

3.4. To date the Council has been the sole source of financing for the company, providing funding through a mix of interest-bearing debt and shareholder loans, which are interest free quasi-equity investments. This mix of funding ensures the Council retains liquidity and flexibility over its investment and does not tie up resources in the company which are later difficult to withdraw. The company, with the shareholder's approval, may seek alternative finance, however to date this has not been pursued or deemed necessary.

4. Westminster Builds' objectives and benefits to the Council

4.1. Westminster Builds was created in 2017. At the time the Council's development aspirations were facing restraint from the HRA borrowing cap and the resources available to the Council. The creation of a housing subsidiary offered an opportunity to extend the resources available to the Council and maintain delivery.

4.2. The 2017 cabinet report set the following objectives for Westminster Builds:

- Extend the Council's resources by working with the Council (where the Council's view is that other delivery partners are neither available nor appropriate) to deliver the regeneration and new build or acquisition opportunities identified by the Council.
- Operate on a commercial basis but offering new tenures and intermediate tenures to extend the range of provision available to Westminster residents
- Work to the scale and pace set by the Council.
- Work to the Council's quality standards to help ensure quality housing is provided for all income ranges.

4.3. Westminster Build's Board has built upon these objectives and identified the key benefits the company can offer to Westminster:

- The Council retains full control of the assets and benefits created by the company over time, either returned to the Council through dividends or bringing the assets of the company back in-house.
- WB can hold and operate homes which cannot be efficiently operated by the HRA or GF, including intermediate rent and market rent. This widens the range of tenures the Council can offer whilst retaining the long-term value of homes built within Westminster in the Council group.

- The company provides opportunities for the Council to take a more commercial, market facing approach on some schemes delivering a return to the company which the Council could use to subsidise strategic priorities or other Council services.
- The value generated by Westminster Builds can be used by the Council without restriction, e.g. it could fund adult social care, the wider capital programme or be reinvested into future developments.

5. Company Governance

5.1. While Westminster Builds consists of two companies it acts as one organisation, with a single board that meets bi-monthly. The Board comprises 4 directors who provide oversight, influence, and future direction for the company. These directors are appointed by the shareholder, as a reserved matter, and can be removed by the shareholder by notice. The current Board membership is:

- Cllr Jacqui Wilkinson (Chair)
- James Green (Interim MD)
- Stephen Muldoon (Finance Director)
- *Neil Wightman - pending appointment by the Shareholder Committee*

5.2. While the Board is responsible for the day to day running of the company and is the decision-making body, the shareholder retains ultimate control. At present, the company does not employ any staff or directors directly and so directors have dual roles in both the Council and the company. The dual role of each director in the company and Council helps ensure the purpose of the company remains closely aligned to the ambitions of the Council.

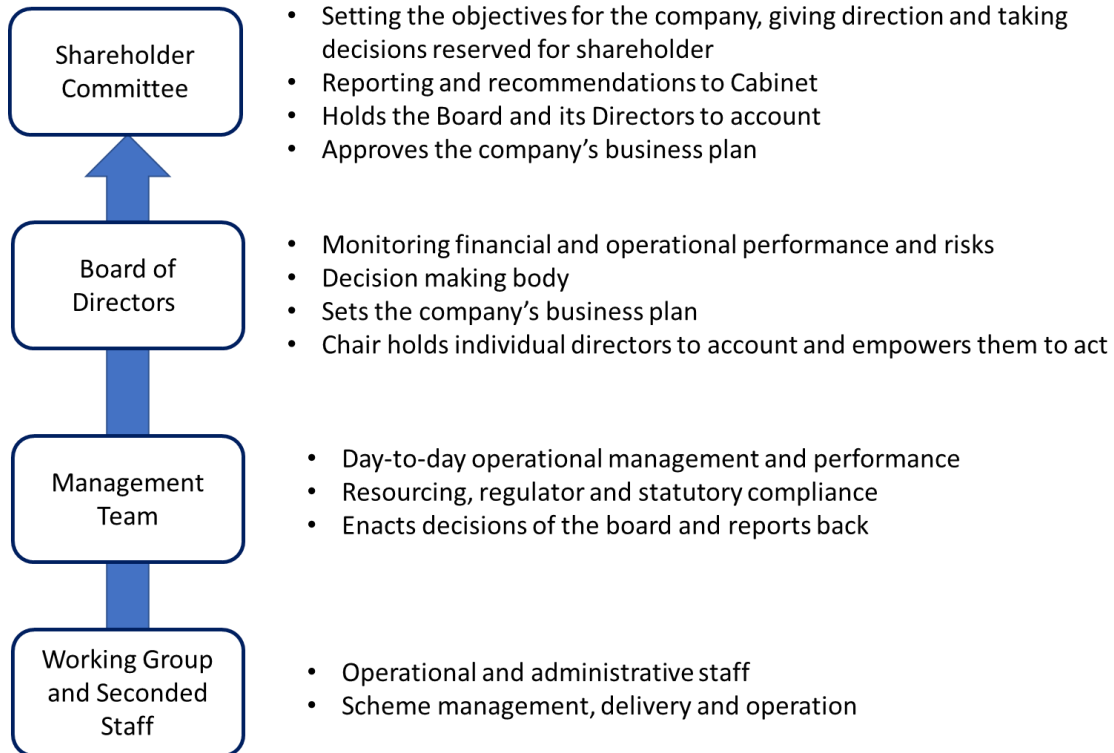
5.3. The Board, which meets at least every two months to receive reports, votes on resolutions and empowers and holds to account the individual directors. The Board sets the strategy of the company through its business plan, which is approved by the Shareholder Committee.

5.4. On a project level, the company has developed governance structures and processes which mirror the Council's own governance, to ensure its activities are adequately controlled. It is aligned with the Council's Capital Review Group and business case process to ensure the Council is fully informed of transactions between WB and WCC. All capital expenditure decisions are considered and voted upon by the directors with a quorum of three directors.

5.5. The shareholder's powers are established in the Articles of Association, which sets out the business of WB and the matters reserved for the shareholder. While this document sets the context for engagement between the Board and WCC, the Board welcomes the establishment of a Shareholder Committee and the proposed Memorandum of Agreement. The Board believes WB can only continue to be successful if it sustains a close and transparent relationship with the Council.

5.6. The diagram overleaf sets out the key bodies responsible for the strategic and operational management of the company

Diagram 1 – Governance Structure



5.7. WB was subject to a scheduled Internal Audit in May 2020 alongside the Council's other subsidiaries, which concluded that there was satisfactory assurance. Following Internal Audit's report WB worked carefully through its recommendations and has concluded 6 of the 7 actions for the company. The final action is to set up a formal and annual evaluation of the performance of the Board and individual Directors.

5.8. The following governance issues are outstanding and for progression by the Council, subject to steer and comment from the Shareholder Committee:

- Preparation and approval of a Memorandum of Agreement and Service Level Agreement between the Council and WB, which will need to incorporate the work done by WB on defining this relationship, the services required and how those services would be paid for by WB.
- Appointment of a director (subject of another agenda item) – Neil Wightman has been fulfilling this role. Internal Audit suggested that the appointment of a Non-Executive Director be considered also.

- The Terms of Reference of the Board, together with the Scheme of Delegation may need to be revisited as there is not currently a designated Managing Director.
- Internal Audit recommended that the Council should consider updating the Members' Code of Conduct to explicitly state that it also applies to Councillors on subsidiary boards.

6. Staffing and Services

6.1. WB has sought to minimise direct staffing and additional services in favour of using WCC's services where possible. This relationship is set out in individual schemes' service level agreements and management agreements. It is understood that the approval of the Memorandum of Agreement will enable the draft service-level agreement (SLA), which WB developed, to be signed. The SLA covers:

- Housing Management Services: Day to day property management and maintenance services
- Surveying Services: Development, Programme and Delivery Management.
- Accountancy Services: Property Finance and Business Accounting.
- Other services: For example, office space, IT, HR etc.

6.2. The agreement will define the level of service expected and the duties and responsibilities of both parties. In doing so, formalising the staffing and services relationship between WB and the Council. The SLA will be taken through both WB and WCC governance processes before coming to the Shareholder Committee for agreement in 2022.

6.3. From time to time, WB is required to make external appointments to provide independent oversight and constructive challenge to the running of the business. Key appointments include:

- Gowlings WLG – Legal
- Cooper Parry Group – Auditors
- TBC – Financial modelers (live procurement)

7. Operational Activities

7.1. The company has rapidly developed over the past 4 years, growing from a newly formed company with 4 exemplar schemes to a business with an ambitious programme of delivering 2,000 homes in its 2021/22 business plan. While the Board accepts the Council's decision not to take forward out of borough development at this time and welcomes a time of consolidation and focus on delivery of in-borough schemes, the Board is keen to celebrate the successes of the company achieved in a relatively short period of time. These are summarised below.

Developments:

- 7.2. Since entering into the Luton Street LLP with Linkcity, Westminster Builds, alongside the Council, has ensured the project delivers at pace and to a high standard. The sales programme has been successful, achieving the accolade of the best-selling London scheme during lockdown. It is anticipated that the 3 social rent townhouses at Fisherton Street will be complete in January 2022, with the remaining 169 homes including 59 affordable at the main site following in Summer 2022.
- 7.3. The LLP partnership with Linkcity has demonstrated the company's ability to work productively with developers and this has been recognised with nominations at the RESI awards for "Deal of the Year" and "Social Impact Initiative - Residential"
- 7.4. The company's intervention in Jubilee Phase 2 helped unlock a problematic site for the Council and which is now progressing towards completion in early 2022. The 19 homes will be rented at a discount to market rent increasing the number of affordable homes delivered by the scheme.
- 7.5. WB's team have been working closely with the project team on 300 Harrow Road and the project's Full Business Case was approved by CRG in the summer. The Council is currently undertaking a benefits analysis of transferring the scheme to WB versus building out directly. The scheme itself remains viable and work on site continues apace.

Acquisitions:

- 7.6. The first acquisition by the company at Farm Street required a significant shift from the theoretical to the practical and involved building the groundwork and setting the precedents for all future schemes to follow.
- 7.7. Following the acquisition of the 14 homes at the award-winning Farm Street, the company has acquired a further 37 homes at West End Gate and is in the process of finalising the purchase of 9 homes at Parsons North.
- 7.8. The homes at Farm Street are currently being advertised through Westminster Homeownership, with priority given to local residents. The scheme will be managed by Westminster Housing.
- 7.9. Marketing of 29 of the intermediate rent homes in Block B of West End Gate has commenced alongside the 79 social homes in Block B and D. The first social tenants decanted from Church Street have now moved in. As is expected on most

schemes, both tenures will be managed by Westminster Housing on behalf of the Council and WB. The remaining 8 intermediate homes in blocks E/F will finish construction next year.

- 7.10. Further details of the company's development and acquisition activities can be found in the Period 6 Project Update report to the Board in appendix 2 of this report.

Performance Against Business Plan:

- 7.11. WB is on track to have 71 homes under management by March 2022, in line with business plan assumptions. With further acquisitions continuing into 2022/23

- 7.12. The business plan assumed capital expenditure of £22.6m on 300 Harrow Road and Westmead, which are both currently progressing in the Council and have not yet transferred to WB. The business plan also assumed the company would have secured its first forward fund pipeline opportunity; however, this programme has been paused in line with the Council's wishes.

- 7.13. Details of Westminster Builds' current year financial performance against budget as at period 6 can be found in appendix 1 of this report.

- 7.14. WB is currently in start-up mode, during which time it is investing significant time and resource in creating the framework agreements and governance processes needed for investing in new developments, obtaining finance from the Council, setting up SLAs and management agreements and assessing the business cases of proposed schemes, as well as the general management and monitoring of company performance and activity. Until the company delivers its first completed scheme with profit, it will necessarily be incurring overheads which are not offset by recurring income and hence will be running at a deficit which the Council needs to support. Getting to a breakeven position on an annual basis will therefore take time.

- 7.15. At this stage of Westminster Builds' business plan it is highly reliant on debt financing from the Council's general fund to support its acquisition and development activities. As its asset base grows and its developments complete it will start to repay the loans with the aim of being debt free by 2060.

8. Forward Look and Next Steps:

- 8.1. The table below sets some of out the key activities of the company for the remainder of this and the next financial year

Table 2: Work Plan

| Westminster Builds Work Plan | |
|-------------------------------------|---|
| December | <ul style="list-style-type: none"> • Approve and submit the annual accounts and tax return • Approve legal and financial documents for the acquisition of intermediate homes at Parsons North |
| January | <ul style="list-style-type: none"> • Endorse Business Plan for recommending to Shareholder Committee • Review Operational Budget 2022/23 • Update on Torricon and WCC's Full Business Case • Agreement for Lease for Ebury Phase 1 • Finalisation of Arrangements at Jubilee Phase 2 |
| March | <ul style="list-style-type: none"> • Approve Budget and Operational Plan for 2022/23 |
| Q1+Q2 22/23 | <ul style="list-style-type: none"> • Luton Street practical completion and acquisition of Intermediate homes • Acquisition of Intermediate homes at Ashbridge |
| Q3+Q4 22/23 | <ul style="list-style-type: none"> • Acquisition of homes at Torricon |

9. Challenges

9.1. As previously noted, Westminster Builds was established in 2017. Since then, the landscape has changed, principally with the removal of the HRA borrowing cap in 2018 and the increasing financial challenges for the HRA and General Fund. It is therefore right and proper for the Board and Council officers to re-evaluate the principles of developing through Westminster Builds.

9.2. It is well established that Westminster Builds is an effective vehicle for holding and renting tenures of housing the Council cannot do efficiently, i.e. intermediate and market rent. By doing so through WB offers more flexibility and control than through Westminster Community Homes.

9.3. The approach to developing through Westminster Builds has evolved from the original business case. Schemes are expected to transfer to the company much later in their design and development, with the council retaining a high degree of control. This limits WB's ability to add value or drive a commercial return. Combined with the removal of pipeline and out of borough schemes, the development arm of Westminster Builds has moved towards acting as a special purpose vehicle (SPV) for the Council rather than a standalone development company.

9.4. As the Council operates a hybrid model, i.e. that it continues to develop schemes alongside Westminster Builds, those schemes earmarked for WB delivery will only transfer where it is beneficial to the Council to do so. The Council and WB are reviewing those schemes to ensure that is the case and that the Council secures value for money from these deals.

9.5. It is important to note that this pause to review does not impact on overall project viability. 300 Harrow Road, the most advanced prospective WB development scheme, remains viable and is currently under construction by Willmott Dixon.

9.6. The table below shows several considerations when developing through the Westminster Builds.

Table 3: WB Delivery cost benefit analysis

| Benefit | Cost |
|--|--|
| Transfers the sales risk from the Council to WB, insulating the HRA from the property market and providing certainty for business planning. | Additional complexity of the property and financial structure between WCC and WB increases costs, i.e. legal expenditure, and can create delays |
| Provides a treasury return (revenue) to the general fund through its margin on lending to the subsidiary at higher rates than achieved on surplus funds or borrowing from PWLB. | Potential corporation tax on profits and VAT liability (if the company is unable to form a VAT group with the Council) |
| Creates the opportunity to operate more commercially (e.g. through JV's) or utilise alternative finance sources without exposing the Council's balance sheet. | Initially, due to the limited capital invested in the company, the general fund will ultimately bear the sales and cost risk due to the Council's position as sole lender to WB |
| Over time any development surplus can be reinvested, reducing funds required from the Council to support key development schemes being undertaken by WB, or it can return to the Council to fund its services. | WB is less effective at delivering schemes with high levels of affordable units, as there is limited risk and often grant funding, reducing the value added by isolating risk in WB. |

10. Key Risks

10.1. The Board have undertaken a series of extensive risk workshops led by independent professional advisors, which resulted in a comprehensive risk register being included in its annual business plan and any decision taken. The Board regularly reviews the key risks to the company. Broadly these can be categorised as corporate risks, those relating to the operation and management of the

business, and project risks, which are specific to individual schemes or programmes. The Board maintains a much more detailed risk register which is periodically reviewed and updated but the table below identifies the key corporate risks of the company as well as risks that are present in all or the majority of projects in the company's business plan.

Table 4: Key Risks

| Risk | Mitigation | Risk rating |
|--|---|--------------------|
| Corporate Risks | | |
| Over time the company's objectives, future goals and vision may lose alignment with those of the Council expressed through Shareholder Committee | <p>Continuous and transparent discussions with Council officers and the Shareholder Committee. Regular reporting of progress and outcomes with decisions properly documented.</p> <p>Annual approval of the Company's business plan by the Shareholder Committee and reporting against business plan.</p> | |
| Lack of effective/robust governance from the Council | <p>Continued close alignment of the company's governance with the Council's existing framework to ensure scrutiny of decisions.</p> <p>Continuous communication for on-going projects and reports to WCC boards (i.e. GPH Board, CRG) and to the shareholder committee</p> <p>Maintaining primacy of the Council and shareholder in decision making</p> | |
| Insufficient resource to deliver both new homes and long-term management service. | <p>An SLA between the WB and the Council will define the level of service expected and the duties and responsibilities of both parties.</p> <p>Working with WCC to scope out future requirements, enabling the Council to build the capacity required for long term management</p> | |
| Business plan is not viable, or scheme/development risks are not well managed | The business plan will be supported by extensive modelling and sensitivity analysis around key assumptions, with the support of expert advice. Scheme proposals within the business plan will be subject to further scrutiny through the Board as well as WCC's Capital Review Group and approval processes. | |

| | | |
|---|--|--|
| Unforeseen risks experienced by other Local Authority companies | The WB Board receives regular updates on the issues coming out of the recent reports on the difficulties being experienced by some local authority companies, so that the lessons learnt from these experiences can be applied at Westminster. | |
| Project Risks | | |
| Increased project costs due to market factors | Brexit and Covid-19 have caused significant shocks to both the construction and housing market leading to increased build costs, risk of interest rate increases, and a slowdown in housing market. WB continue to evaluate the market with each project undergoing scenario and sensitive modelling in addition to having appropriate levels of contingency in place. | |
| Homes prove difficult to rent or sell | <p>Viability appraisals are supported by independent Red Book valuations and external advice from market experts to ensure schemes progress with homes priced and designed to suit the market.</p> <p>This engagement with market professionals continues throughout the development with external sales advice, marketing support and pricing reviewed constantly by the sales team, with a view to mitigate through bulk sales or conversions to rental if required.</p> | |

13. Carbon Impact

10.2. The carbon impact of individual capital schemes put forward for approval will be addressed as part of those specific reports at the appropriate time. It is the ambition of WB to create scheme designs which are highly sympathetic to the need to minimise the impact on the environment, and reduce and minimise carbon emissions, both in the design and construction of a site as well as how they influence residents' behaviour and lifestyle in a positive way.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

James Green, Director of Development and Director of Westminster Builds Tel: 07816 282059

Email: jgreen@westminster.gov.uk

Exempt Appendices –

- 1 - Financial Performance**
- 2 - P6 Monitoring Report to the WB Board**
- 3 - P6 Project Updates**

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Shareholder Committee

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| Meeting or Decision Maker: | Shareholder Committee |
| Date: | 6 December 2021 |
| Classification: | General Release |
| Title: | Appointment of Director |
| Wards Affected: | All |
| Company Affected: | Westminster Builds - Formally: <ul style="list-style-type: none">• Westminster Housing Investments Ltd - 11413846• Westminster Housing Developments Ltd - 11417174 |
| City for All/Policy Context: | Good governance of council-owned companies |
| Key Decision: | No |
| Report of: | Debbie Jackson, Executive Director of Growth, Planning and Housing |

1. Executive Summary

- 1.1 Following the resignation of the former Managing Director of Westminster Builds there is a vacancy on the Board of the company which requires filling.
- 1.2 The Shareholder Committee holds delegated authority to act on behalf of the Council for a number of key decisions, including the nominations of Directors to be appointed to the Board of a subsidiary.
- 1.3 The new appointee will become a regular Board member, not the Managing Director. The role of Managing Director will be left vacant pending a further resolution of the Shareholder Committee.

2. Recommendations

- 2.1 It is recommended that:
 - Neil Wightman, Director of Housing at Westminster City Council is appointed as a Board Member of Westminster Builds (in the form of the two companies noted above), subject to the provisions of the Companies Act 2006.
 - The secretary of the Company is instructed to make the necessary entries in the statutory books of the Company and to make the necessary filings at Companies House.

3. Reasons for Decision

- 3.1 The nominee's knowledge of the housing sector and their role in managing the council's housing stock will enhance the running of the company, particularly given that many of the properties developed by Westminster Builds will fall within the council's affordable housing portfolio.

4. Financial Implications

- 4.1 None – Directors are not remunerated or compensated for undertaking these roles.

5. Legal Implications

- 5.1 The authority for the Shareholder Committee to make appointments to the boards of the council's wholly owned companies was delegated by decision of Cabinet on 12 July 2021. Training will be provided to ensure conflicts of interest are understood and managed appropriately as well as the individual appointed is able to act in line with the responsibilities conferred on them under the Companies Act 2006.

6. Carbon Impact

- 6.1 There are no direct carbon implications from the appointment of an existing council employee to the Board of Westminster Builds.



Shareholder Committee

| | |
|-------------------------------------|---|
| Meeting or Decision Maker: | Shareholder Committee |
| Date: | 6 December 2021 |
| Classification: | General Release |
| Title: | Appointment of Auditors |
| Wards Affected: | All |
| Company Affected: | Westminster Builds - Formally: <ul style="list-style-type: none">• Westminster Housing Investments Ltd - 11413846• Westminster Housing Developments Ltd - 11417174 |
| City for All/Policy Context: | Good governance of council-owned companies |
| Key Decision: | No |
| Report of: | Debbie Jackson, Executive Director of Growth, Planning and Housing |

1. Executive Summary

- 1.1 Westminster Builds (WB) comprises two legal entities which are wholly owned and controlled by the Council – Westminster Housing Investments Limited and Westminster Housing Developments Ltd. To the extent that an audit is either required by legislation or requested at the Council's own direction, the entities require an auditor to be appointed.
- 1.2 An audit is an independent assessment of the true and fair statement of the annual accounts and of the financial standing and probity of the entity being audited. The approval of the appointment of the auditor is a responsibility of the newly formed Shareholder Committee in order to maintain independence from the Board of the company which oversees the operational activities which are subject to audit.
- 1.3 The auditor for WB for the financial year ending 31 March 2022 is proposed to be Cooper Parry Group Limited, who have undertaken the audit of WB for the financial years ending 31 March 2020 and 31 March 2021.

2. Recommendations

- 2.1 That the Shareholder Committee ratifies the appointment of Cooper Parry Group Limited to be the auditor for Westminster Housing Investments Limited and Westminster Housing Developments Limited for the year ended 31 March 2021.
- 2.2 That the Shareholder Committee approves the appointment of Cooper Parry Group Limited to be the auditor for Westminster Housing Investments Limited and Westminster Housing Developments Limited for the year ended 31 March 2022.

3. Reasons for Decision

- 3.1 The subsidiaries require an auditor to be appointed in order to satisfy the statutory requirement for audit and the Council's need for reassurance that the subsidiaries' financial reporting and controls meet the same high standard that the Council expects from its own operations.
- 3.2 The appointment of the auditor in advance of the coming year end ensures that the audit process can be planned and implemented smoothly in order that the deadlines for submission of final audited accounts to Companies House can be met.

4. Background, including Policy Context

- 4.1 Cooper Parry Group Limited are the auditors of the joint venture entity Luton Street Development Limited, in which Westminster Housing

Investments Limited has a 60% stake. The close involvement and complexity of the contracts which govern the deal mean that there is an advantage and efficiency in having the same auditor in place for the WB entities.

- 4.2 The audit of the 31 March 2021 accounts has completed with all matters arising addressed and the accounts have now been finalised for the WB Board to approve and file with Companies House. The Shareholder Committee, being newly formed, is requested to give retrospective approval to the appointment of the auditors for these accounts. The accounts will then be filed at Companies House before the deadline of 31 December 2021.
- 4.3 At the same time, the Committee is requested to approve the reappointment of Cooper Parry Group Limited as auditors for the impending 31 March 2022 year end accounts so that the upcoming audit can be planned and progress smoothly
- 4.4 There is no direct policy context other than that the entities are key in the delivery of affordable housing and major regeneration plans of the Council which support the objective of Vibrant Communities and will not be able to continue support this without auditors and audited accounts being in place.

5. Financial Implications

- 5.1 The appointment of auditors to the subsidiary companies should be approved by the Shareholder Committee.
- 5.2 Without audited accounts, the entities will be unable to submit their accounts to Companies House, tax returns to HMRC and will face fines and potentially being dissolved if these are not completed.

6. Legal Implications

- 6.1 An auditor of a private company must be appointed for each financial year of the company, unless the directors reasonably resolve otherwise on the grounds that audited accounts are unlikely to be required.
- 6.2 An auditor of a private company may only be (a) appointed by the members; (b) appointed by the directors; (c) deemed re-appointed; or (d) (in certain limited circumstances) appointed by the Secretary of State for Business, Energy, Innovation & Skills.
- 6.3 Given that the initial appointment of the Cooper Parry Group Limited was made by the directors of the respective companies, deemed re-appointment is not appropriate and the respective members of the companies (being the Council for WHIL; and WHIL for WHDL) need to consent in each case by way of an ordinary resolution to their appointment.

- 6.4 If this process is followed this year, the auditors will then be automatically re-appointed for following years provided no steps are taken to remove them, or unless they refuse to act.
- 6.5 Under the governance structure approved by Cabinet at their meeting on 12 July 2021, it is intended that a Memorandum of Understanding (MOU) is put in place between the Council and each of its subsidiaries. This MOU will set out, amongst other things, a number of decisions relating to the subsidiary that would need shareholder approval ("Reserved Matters"). The intention is for such Reserved Matters to be delegated to the Shareholder Committee to consider on behalf of the Council.
- 6.6 Currently, there is no MOU in place with the Westminster Builds entities, and so there is no legal requirement for the Shareholder Committee to approve these appointments as a Reserved Matter. However, it is in line with the proposed governance arrangements which are in the process of being established for the Shareholder Committee to consider this matter and to take a decision on the recommendation as set out in this report.
- 6.5 The responsibility to ensure that the auditors are appropriate appointees and to ensure that all appropriate measures are taken in relation to their appointment rests with the members of WHIL (i.e. the Council) and WHDL (i.e. WHIL) themselves. In each case, that will require the passing of a written resolution of the members of each company making the appointments. These will be circulated separately.

7. Carbon Impact

- 7.1 There are no carbon implications associated with this report.

8. Consultation

- 8.1 None required.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Steve Muldoon, Director of Commercial & Financial Management

APPENDICES

None

BACKGROUND PAPERS

- None

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Shareholder Committee

Meeting or Decision Maker: Shareholder Committee

Date: 6 December 2021

Classification: General Release

Title: Westminster Community Homes mid-year report

Wards Affected: All

Company Affected: Westminster Community Homes - IP030604

City for All/Policy Context: Good governance of council-owned companies

Key Decision: No

Report of: Steve Moore, Chief Executive of Westminster Community Homes

1. Executive Summary

- 1.1 This report being the first to the newly established Shareholder Committee sets out the background to Westminster Community Homes (WCH) formation and its specific governance arrangements as well as reporting on its operational and financial activities in 2021/22 to date.
- 1.2 WCH Board will be considering the future direction for WCH at its meeting in January 2022, resulting from future Affordable Housing Fund grants being severely restricted and the retirement of the existing CEX in 2022. This report seeks guidance from the Shareholder Committee on this matter to inform the WCH Board considerations.

2. Recommendations

- 2.1 The Shareholder Committee are asked to note this report and to provide guidance to WCH Board on the future direction for WCH as set out in para 6 of this report.

3. WCH Governance

- 3.1 WCH was set up by the City Council in December 2009 as a Co-Operative & Community Benefit Societies with charitable objectives and is register with the Financial Conduct Authority (FCA). It is a 'not for profit' body, where the shareholders' derive no financial benefit and their rights are significantly less than in ordinary companies. Through their charitable objectives, WCH have been able to obtain tax exemptions from HMRC as WCH operate as a company with charitable aims. In practice this means that WCH do not pay Corporation Tax, Capital Gains or Stamp Duty but do pay VAT.
- 3.2 WCH also became a Registered Provider in December 2010 which means that it is required to meet the regulatory standards of the Regulator of Social Housing.
- 3.3 In February 2018 the City Council and WCH Board agreed to change the company rules so that WCH would become “wholly controlled” by the City Council. The revised rules to put this change in place were approved by the FCA in May 2018.
- 3.4 WCH objectives are to carry out for the benefit of the community:
 - the provision of affordable housing for people who have housing need and appropriate associated facilities and amenities
 - any other charitable object that can be conducted from time to time by a Co-operative and Community Benefit Society.

To achieve its objectives WCH currently works with the City Council to increase the provision of affordable housing and other related activities which assist in the delivery of the City Council's strategic objectives.

3.5 Under the Co-Operative & Community Benefit Society rules there needs to be a minimum of three separate shareholders. WCH has three shareholders who are, WCC corporately, together with two persons appointed by WCC to act "on their behalf," whom WCC can remove by notice. Currently the two individuals are Dermot Moloney and James Green who are both WCH Board members and City Council employees.

3.6 The key influence and future direction of the company is provided through the Board. WCH Board comprises of five individuals all nominated by WCC who can also remove them by notice. The current Board membership is:

James Green (Chair)

Dermot Moloney

Tom Harding

Olivia Harris

Cllr. Susie Burbridge – pending appointment by the Shareholder Committee

3.7 The Board need to ensure that they balance their decisions carefully to ensure they meet WCH best interests and provide the right level of autonomy to comply with the rules and the requirements of the Regulator.

3.8 WCH and WCC have underpinned their relationship through the provision of an Intra Group Agreement (IGA) and a Nominations Agreement. The IGA sets out the decisions taken by the City Council as Parent and those taken by WCH Board. The Nominations Agreement provides the City Council with nomination rights to 100% of WCH properties in perpetuity.

3.9 Staffing and Services

3.9.1 The Role of the City Council

WCH has sought to minimise direct staffing in favour of using City Council Services where possible. These are provided to WCH on a contractual basis in the following areas:

- The City Council's Housing Team (Previously provided through CityWest Homes) provides day to day property management services.
- The City Council's Housing Team provides property maintenance services.

- The City Council's Finance Team provides accountancy services.

3.9.2 Staffing

WCH directly employ a total of five staff (4.66 Full time equivalent). Two members of full-time staff work exclusively on the acquisition of leasehold interests on the City Council Regeneration Areas (Church St and Ebury) under an agreement with the City Council to provide this service as their Agent. These roles are full integrated into the relevant City Council teams to ensure the process fully supports the overall aim of achieving vacant possession of the blocks identified for demolition. Discussions are underway with the City Council to agree new arrangements for the management of these two roles after the CEX who oversees this process retires in 2022.

3.9.3 External services

WCH contracts some external services covering the following areas:

- Legal advice
- Auditors
- Various consultants to support WCH development programme

4. WCH stock position and tenure

4.1 As at the end of October 2021, WCH had 529 units in management across the stock.

4.2 These are across the following tenure types:

| Tenure type | No. of units |
|--|--------------|
| Assured Tenancies | 290 |
| Assured Shorthold Tenancies | 121 |
| Temporary Accommodation (in borough) | 33 |
| Temporary Accommodation (out of borough) | 30 |
| Shared Ownership | 9 |
| Private tenancies | 46 |
| Total | 529 |

5. WCH programme 2021/22

5.1 WCH current programme comprises of the following core activities:

- Obtain funding approval from the City Council to complete the delivery of the WCH Development programme.

The Cabinet Member for Finance formally approved a combination of Affordable Housing Fund grants (AHF) funding (£3.773m) and WCC Loan (£2.700m) in July 2021

- Deliver the new build scheme at Victoria Wharf (Phase 2).

Following the completion of WCH award winning scheme at Victoria Wharf, WCH were able to acquire the adjoining land and obtain planning permission for a new development which will be linked to the first phase. Construction work is progressing well with a completion date slightly ahead of schedule in July 2022 to deliver 20 Intermediate Rented units

- Complete the purchase of 2A Bravington Road W9 for conversion into three units which form part of the planned 5-unit shared ownership programme. Tender and commence the works.

The property purchase was completed in April 2021. Works were successfully tendered and are proceeding well with completion scheduled for March 2022. WCH are currently looking for two more suitable units to complete this planned 5-unit programme.

- Submit the planning application for 581-587 Harrow Road W10.

Final technical reports are being obtained with the intention to submit this planning application in December 2021 for 25 Intermediate Rented units.

- Carry out Fire Risk Assessment surveys on WCH eight standalone blocks to ensure they fully comply with current and emerging fire regulations. To date six blocks have had intrusive inspections conducted and these have not revealed any high-risk issues. The works identified in each block are being prioritised for action. The final two blocks are scheduled for inspection in December 2021.
- Commence the “Refresh” project to ensure all WCH individual units are inspected internally and works undertaken to ensure they meet emerging fire regulations (front doors, smoke, heat, and carbon monoxide alarms), have a minimum EPC rating of C, and have any further works conducted to ensure they continue to meet WCH letting standard.

All WCH tenants have been advised about this project and provided with a home fire safety kit. Surveyors have now been put in place. The project will commence in December 2021 with priority given to the units WCH has owned for the longest period without being relet and those with the current lowest EPC ratings.

- Continue to negotiate the acquisition of leasehold interests in the Ebury and Church Street Regenerations Areas to deliver vacant possession of blocks identified for demolition

Church Street

Although leasehold interests across Sites B, C and Gayhurst House are still being acquired wherever possible, once they come onto the market, the focus is currently on-Site A.

On Site A, there were originally forty-seven lessees and to date thirty-three units have been acquired by either WCC or WCH.

Across Sites B, C and Gayhurst House there were originally a total of 114 lessee units and to date thirty units have been acquired.

Ebury

The regeneration of Ebury is taking place in three phases (1, 2a and 2b). Originally there were 140 leasehold interests and to date a total of 109 have been acquired by WCC or WCH. All the lessee interests were voluntarily acquired in Phase 1 without the City Council having to use Compulsory Purchase Powers. The blocks concerned have been demolished with construction due to start imminently. Of the remaining thirty-one cases, terms have been agreed in respect of eleven cases and these are proceeding with solicitors.

- Social Value
Deliver the programme of activities (as agreed by WCH Board) to fund the delivery of the following schemes:

Homework/Breakfast Clubs at six Westminster Primary Schools

Girls Youth Club in Church Street

Football coaching at Churchill Gardens

Farm trips for primary school children

Except for the farm trips and one primary school not being able to run their breakfast club, the rest of this year's programme is being delivered despite the challenging circumstances.

6. Financial update

- 6.1 The City Council provide, through the Finance Team, the day-to-day accounting services for WCH on a contractual basis including the provision of monthly management accounts, cash flows, preparation of accounts for annual audit and

assisting with the provision of budgets. The monthly accounts are presented at each WCH Board meeting.

- 6.2 The latest monthly accounts report has been attached to this report as Appendix A. These show that as at Period 7 (end of October 2021) the year-to-date position is a surplus of £302k which is £91k favourable to budget.

7. WCH – Future direction

7.1 Restricted future capital funding

- 7.1.1 Since its creation in December 2009, WCH has steadily added to its housing stock each year through a combination of some new build schemes but primarily the acquisition of existing units. Currently WCH has 529 units and five hundred of these units are within Westminster with thirty out of borough units.
- 7.1.2 The stock value for all properties (including development spend less depreciation) is £123.023m.
- 7.1.3 This growth of the WCH housing stock has been principally made possible by access to the City Council's AHF and WCC Loans along with GLA funding supplemented by WCH own resources generated by its own activities. The following table provides the breakdown of grants received to date:

| Source of grant funding | Amount |
|-------------------------|-----------|
| Affordable Housing Fund | £ 87.991m |
| GLA | £ 20.761m |
| Total | £108.752m |

- 7.1.4 The City Council has also provided loans to WCH to fund the acquisition and development of additional housing stock. As of 31 March 2021, a total of £8.222m was outstanding. Principal repayments are made in P12 each year. This year's payment will be £939k reducing the principal to £7.283m by 31st March 2022.
- 7.1.5 In addition to the above are the AHF grants of £3.773m and the new WCC loan facility of £2.700m approved by the Cabinet Member for Finance in July 2021 which will be drawn down shortly to fund the final phase of WCH development programme delivering fifty affordable units.
- 7.1.6 WCH have been advised that following the funding approved in July 2021 to complete WCH current development programme, the call on affordable housing grant is increasing, not least because of the Councils own development programme. There is therefore no guarantee that further funding will be readily available.

7.2 Retirement of WCH Chief Executive

WCH Chief Executive engaged in the setting up of WCH in 2009 and has been integrally involved throughout its existence and CEX for the last eight years. He has informed WCH Board that he intends to retire in 2022 following the completion of Victoria Wharf (phase 2) and the start on site of 581-587 Harrow Road W10 which completes the WCH development programme.

7.3 Future Direction

7.3.1 The restricted capital funding will result in a change of focus for WCH as it moves away from targeting the further growth of the housing stock. The change of leadership also provides WCH Board with an opportunity to review this role as part of the wider consideration of the future focus for WCH.

7.3.2 Following changes in legislation in 2018, when the City Council and WCH Board considered the options available for the future control of WCH, it was decided that the best option was to agree to make the necessary rule changes to move WCH to become wholly by the City Council instead of the option of removing City Council control and allowing WCH to operate as an independent Registered Provider. This decision was principally taken to ensure that the significant investment made by the City Council and the direct benefits provided to both parties through this relationship were not put at risk.

7.3.3 WCH objectives were purposely drawn up to enable it to undertake a wide range of charitable work and this provides the option for a different focus for WCH going forward which could involve, for example, providing further investment in Social Value schemes or providing support for one of the City Council's objectives such as the employment service. The decision on the future focus of WCH will determine how the current CEX role will be delivered in the future.

7.3.4 WCH Board will consider this at its next meeting in January 2022 and would welcome the City Council's guidance on this to inform their considerations.

If you have any queries about this report or wish to inspect any of the Background Papers, please contact:

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|--|
| <p><i>Steve Moore, CEX Westminster Community Homes Tel: 07971626389</i> <i>Email: smoore@westminster.gov.uk</i></p> |
|--|

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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2A Bravington Road, W9



External elevation



Roof rafter chimney repair



Ground floor partitions



Second floor ceiling joisting



Second floor utility cupboards



Fire stopping boarding to ceiling

Victoria Wharf (Phase 2)



External rear elevation of Victoria Wharf Phase 1 and Phase 2



Partitioning layouts



Third floor partitioning



Patio doors



Water proofing on main roof



City of Westminster

Shareholder Committee

| | |
|-------------------------------------|--|
| Meeting or Decision Maker: | Shareholder Committee |
| Date: | 6 December 2021 |
| Classification: | General Release |
| Title: | Appointment of Director |
| Wards Affected: | All |
| Company Affected: | Westminster Community Homes - IP030604 |
| City for All/Policy Context: | Good governance of council-owned companies |
| Key Decision: | No |
| Report of: | Debbie Jackson, Executive Director of Growth, Planning and Housing |

1. Executive Summary

- 1.1 Following the resignation of a previous board member due to a conflict of interest arising from a new role, there is a vacancy on the Board of the company which requires filling.
- 1.2 The Shareholder Committee holds delegated authority to act on behalf of the Council for a number of key decisions, including the nominations of Directors to be appointed to the Board of a subsidiary.
- 1.3 The nominee will be appointed to the Board but only until such time as the 2022 local elections take place, after which the role will be reconsidered.

2. Recommendations

- 2.1 It is recommended that:
 - Cllr Susie Burbridge, Deputy Cabinet Member for Housing at Westminster City Council is appointed as a Board Member of Westminster Community Homes until the 2022 local elections take place and subject to the provisions of the Companies Act 2006.
 - The secretary of the Company is instructed to make the necessary entries in the statutory books of the Company and to make the necessary filings at Companies House.

3. Reasons for Decision

- 3.1 The nominee's role as Deputy Cabinet Member and long-standing involvement in housing issues in the City of Westminster will enhance the running of the company.

4. Financial Implications

- 4.1 None – Directors are not remunerated or compensated for undertaking these roles.

5. Legal Implications

- 5.1 The authority for the Shareholder Committee to make appointments to the boards of the council's wholly owned companies was delegated by decision of Cabinet on 12 July 2021. Training will be provided to ensure conflicts of interest are understood and managed appropriately as well as the individual appointed is able to act in line with the responsibilities conferred on them under the Companies Act 2006.

6. Carbon Impact

- 6.1 There are no direct carbon implications from the appointment of an existing Westminster City Councillor to the Board of Westminster Community Homes.



Shareholder Committee

Meeting or Decision Maker: Shareholder Committee

Date: 6 December 2021

Classification: General Release

Title: Westco mid-year report

Wards Affected: All

Company Affected: Westco - 06462674

City for All/Policy Context: Good governance of council-owned companies

Key Decision: No

Report of: Cllr Tony Devenish, Westco Chairman
Ian Farrow, Westco Managing Director

1. Executive Summary

- 1.1. This report presents to Westminster City Council's (WCC) Shareholder Committee the financial and operational performance of Westco Communications (Westco), in the first half of the financial year 2021/2022. It also outlines forecast performance for the second half of the financial year based on assumptions made when writing this report in November 2021.

2. Recommendations

- 2.1. The Shareholder Committee are asked to note this report.

3. Background, Including Policy Context

- 3.1. Westco has operated as an agency since its constitution in 2007/8, selling marketing and communications expertise to the public sector. In that time, Westco has driven turnover in excess of £28m and contributed more than £1.7m back to WCC through its agreement with the Council for the provision of annual contribution out of the agency's profit. Since its launch, Westco has employed over 100 communications professionals, trained more than 800 public servants and developed more than 15 heads of communications providing WCC staff opportunities to further their careers and bring back experience to the council.
- 3.2. Westco has undertaken over 40 audits and reviews of public sector organisations' communications functions, including the Cabinet Office, placed over 50 interim professionals, and worked with Leaders and Chief Executives from local authorities of every political hue (see Appendix 3 for list of client authorities). To the best of our knowledge, Westco is the most successful local authority-owned marketing and communications agency in the UK and achieved industry recognition as such in 2016, winning the Chartered Institute of Marketing (CIM) Agency of the Year award.
- 3.3. Westco provides the following services:
 - 3.3.1. Communications consultancy, which includes audits of communications, narrative development, strategy, media training, board-level advice and guidance. (Estimated 10% of turnover).
 - 3.3.2. Interim/managed placement of communications professionals, such as heads of communications, media, internal communications, marketing and digital specialists. (Estimated 60% of turnover).

- 3.3.3. Digital marketing, including strategy, content, analytics and media buying via partnerships. (Estimated 10% of turnover).
- 3.3.4. Research and engagement, including qualitative and quantitative research services, evaluation, data visualisation, consultation, engagement and event management. (Estimated 7% of turnover).
- 3.3.5. Creative services, including branding, content and graphic design. (Estimated 13% of turnover).
- 3.3.6. Academy training, including thought leadership events, live online, pre-recorded and in-person training (see Appendix 4 for a list of thought leadership and training activities in 2021).
- 3.4. Westco has had a close working relationship with its parent body with strong representation over time on its board from Cabinet Members, Elected Members, Executive and Directors. The agency responded to an invitation from WCC to provide creative services and community engagement services at cost and below market value. Westco is now undergoing significant change as WCC drives more value by restructuring its communications and engagement functions and competitive tendering of marketing and creative campaigns (Creative Services Framework).

4. 2021/22 performance - April to September

- 4.1. For the financial year 2021/22 Westco set a turnover target of £3.8m and a break-even profitability target due to the forecast impact of the WCC Communications and Engagement restructure and the impact of the pandemic.
- 4.2. Table 1 below shows performance during the first 6 months of the financial year against targets.

Table 1 -2021/22 Performance up to end of September 2021

| Description | Target (half year) | Achieved | % variance |
|--------------------|---------------------------|-----------------|-------------------|
| Turnover | £1.9m | £2.18m | 14% |
| Profitability | Break even | £0.098m | n/a |
| New sales | £0.6m | £0.779m | 29.8% |

- 4.3. While the impact from the WCC restructure and the pandemic has been significant, increased turnover and profitability from new services launched in this financial year and improved performance on existing clients (see Appendix 3, list of clients) resulted in the agency exceeding its set targets. During the first half of the year, Westco generated a turnover of £2.179m exceeding by 14% its set turnover target. The agency also generated a profit of £97,867 exceeding its break-even target for this period.
- 4.4. During the first half of the 2021/22 financial year, Westco operated in a challenging environment due to the COVID-19 pandemic and the restructure of the communications department within WCC.
- 4.5. The pandemic severely affected Westco research and insight services as fieldwork ended abruptly from the first lockdown in March 2020 due to social distancing regulations and requirements. Our mainstay products pipeline, such as consultation and resident surveys, collapsed, and we had to pivot quickly to delivering online services. The agency successfully achieved with some notable projects, but the pipeline of external clients for online services did not replace the lost revenue. The pandemic resulted in a 92% reduction in research and insight services turnover compared to the 2019/20 financial year.
- 4.6. Creative services were also impacted by the pandemic, as public health took precedence over new business development. Westco prioritised design work for WCC to ensure our parent company had the resources needed. This included award-winning campaigns such as the 'Sight See Crowd Free' and 'Opening up the City'. As the work on the pandemic reduced, we have found a lag in building up other client work.
- 4.7. Although for both service areas the financial impact was severe, Westco took the decision not to apply for the government's furlough scheme in line with Cabinet Office guidance for public sector organisations (and those owned by public sector organisations) during the pandemic. The agency also took the decision not to make any redundancies during this time as we reviewed the changing landscape and protected our workforce.
- 4.8. As WCC restructures its communications and engagement services to meet financial challenges, Westco professional placements within the council has been reduced by 42%, and this is expected to reduce further.
- 4.9. To mitigate the impacts of the pandemic and WCC restructures, Westco proactively developed and launched three new service areas in the last year:
- 4.9.1. **Campaign Hub:** We developed digital marketing capabilities quickly to meet emerging needs in the sector, including media buying, through our partnership with the Council Advertising Network (CAN). This innovative

hub approach brings councils together to address common communications issues. Westco develops free campaign strategies, resources, pools budgets, develops media buying strategy and shares analytics on the effectiveness of digital marketing campaigns.

4.9.2. **Westco Works:** We increased our placement of expert communications specialists to external clients to support both emergency requirements (e.g., resources to support a council's response to the pandemic) and emerging areas of practice (e.g., digital experts).

4.9.3. **Westco Academy:** We increased the volume and standard of thought leadership, networking and training services to public and third sector communicators through the Westco Academy. More than 800 people attended Westco Academy events in 2021, as shown in Appendix 4

4.10. As outlined in Appendix 1 to this report, performance across these three areas exceeded financial and developmental targets allowing Westco to mitigate lost revenue and exceed its set targets for the first half of the financial year 2021/22.

5. Forecasted performance for the next six months

5.1. While performance in the first six months has been strong, Westco expects a challenging second half of the year due to the outlined reasons below.

5.2. In the second half of the year, the agency expects a further impact on its turnover and profitability from the review of community engagement services across WCC and the council's Creative Services Framework launch. Based on limited information, particularly in relation to the review of community engagement services, we expect most community engagement services to cease and creative services to reduce up to 40%. These changes will result in an overall reduction of 90% in services provided by Westco for WCC.

5.3. As we move from a pandemic to an endemic response, the agency also expects a reduction in COVID-19 related local authority campaigns. While the agency is already promoting our Campaign Hub offer with campaigns on other pressing issues such as social worker and foster carer recruitment, we expect a reduction in turnover and profitability in COVID-19 related work.

5.4. Profitability and turnover performance placing interim specialists in-house with existing and new clients, is expected to continue along similar lines as in the first half of the year. However, it is worth noting that sourcing interim specialists is becoming increasingly challenging due to increasing day rates and fewer professionals in the market. This potentially presents new opportunities to

WCC to offer strategic, interim developmental opportunities to its staff should this be consistent WCC's workforce development objectives.

6. Workforce development

6.1. Westco measures employee satisfaction and wellbeing through quarterly surveys on various topics based on industry best practices. Westco currently has a workforce of 49 people. The latest survey was completed in November 2021 by 33 employees and reported a very positive picture. Key performance indicators are set out below with the full report available on request.

6.2. 91% report that they enjoy working for Westco,

6.3. 91% reported that Westco respects individual differences, with all respondents reporting that they feel they are treated fairly and with respect at Westco

6.4. All respondents reported that they have a clear understanding of Westco values,

6.5. 97% have a clear understanding of Westco's objectives,

6.6. 97% have a clear understanding of Westco quality standards,

6.7. All respondents reported that their manager is open to their ideas,

6.8. 94% reported that they are able to access the right learning and development opportunities for their role.

6.9. While performance against most employee satisfaction and wellbeing indicators was strong, the survey identified areas of further development or challenge particularly around pay, benefits and work-pressure as the below results suggest.

- 46% feel that their pay adequately reflects performance,
- 40% feel that they are satisfied with the total benefits package/feel their pay is reasonable compared to others doing a similar job,
- 70% report they are comfortable with the pressure placed on them by their job,

6.10. In the next half of the financial year, Westco intends to discuss issues raised above within the agency and with WCC as a shareholder. Westco, like all

agencies within our sector, has a challenge over the next year to attract, retain and nurture the best communications specialists in the sector.

Key risks

- 6.11. Appendix 2 sets out the key risks identified for the remainder of the financial year. Each risk has been allocated an owner and is subject to a structured management process overseen by the agency's Managing Director.

Conclusion

- 6.12. Westco has performed strongly in the first half of the financial year exceeding expectations and targets across all financial, business and workforce development areas. Strong performance was driven by the successful design and rollout of new services that were quickly adopted by our target market. During this period, Westco has helped a significant number of local authorities and NHS organisations address challenges presented by the pandemic, such as increasing vaccination rates and encouraging mass testing where this was needed. The agency was able to recover lost income and profitability resulting from reduced work for Westminster City Council by generating more income from services provided to external clients.
- 6.13. While the first half of the year exceeded expectations, the agency recognizes that significant risks remain particularly from a further reduction in work commissioned by Westminster and reduction of pandemic management budgets across our client base. The agency forecasts that while profitability performance may reduce in the next 6 months, we will be able to maintain a profitable position by the end of the financial year which is above the forecast.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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Appendix 3 – Westco clients

Current clients

| Client | Description |
|----------------------------------|---|
| LB Havering (NOC – CON Leader) | Placement of Head of Communications, management and campaign resources |
| LB Richmond (LD) | Outsourced contract – Westco provides LB Richmond's Comms function (4+1 year contract) |
| LB Wandsworth (CON) | Placement of a Head of Communications and additional campaign resources |
| LB Hounslow (LAB) | Placement of Head of Communications, communications management resources and campaign services |
| Plymouth Council (CON) | Placement of strategic communications resources |
| Scarborough Council (LAB) | Placement of Head of Communications |
| Westco Health clients | Health Innovation Network placements |
| Transport for Greater Manchester | Communications review and senior Director p/t placement |
| LB Tower Hamlets (LAB) | Residents' survey (Research) |
| Programmatic advertising | <p>Programmatic advertising fees from behaviour change and other campaigns (Creative and advertising services)</p> <ul style="list-style-type: none"> • South West London CCG • Dorset County Council • Welwyn and Hatfield Council • Hertfordshire County Council • Milton Keynes Council • Stoke on Trent City Council • Luton borough Council • London borough of Hackney • London borough of Sutton • London borough of Tower Hamlets • London borough of Hounslow |

| | |
|---------------------------|---|
| | <ul style="list-style-type: none"> • London borough of Ealing • Broxtowe Borough Council • Ashfield Council • Nottinghamshire County Council • Plymouth City Council • Newark and Sherwood Council • London borough of Merton • Manchester City Council • Nottingham City Council • Gedling borough Council • London borough of Haringey • Rushcliffe Borough Council • Bedford Borough Council • North East London CCG |
| Royal Surrey NHS trust | Communications improvement project |
| Wakefield Council (LAB) | Residents' survey (Research) and interim placements |
| NHS South West London | Vaccination research services |
| LB Southwark Design (LAB) | Creative Services |
| PLACE | Creative services – website development |
| Premier League | Strategic communications and engagement services |
| British Red Cross | Internal Communications improvement project |

Past clients (last 4 years)

| Organisation |
|--|
| London borough of Sutton |
| Sutton Housing Partnership |
| London borough of Haringey |
| London borough of Waltham Forest |
| London borough of Kingston upon Thames |

| |
|------------------------------|
| Kent County Council |
| Oldham Council |
| Oxfordshire County Council |
| Peterborough Council |
| Derbyshire County Council |
| Health and Safety Executive |
| Rutland County Council |
| Ayrshire growth deal |
| Wolverhampton City Council |
| Tameside Borough Council |
| Kent Fire and Rescue service |
| Cabinet Office |

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Appendix 4 – thought leadership and training through the Westco Academy in 2021

| Date | Course Name | Registrations |
|------------------|--|---------------|
| 21 January 2021 | How to create high-quality video with just a smartphone (2-part course) | 15 |
| 10 February 2021 | Smarter Project Management: fundamental principles of project management | 12 |
| 18 February 2021 | Being a leader: a course for local government communicators | 18 |
| 23 February 2021 | Emergency Communication - 4-Part Training | 15 |
| 25 February 2021 | WEBINAR Are you getting what you need from your communication team? | 30 |
| 08 March 2021 | Westco Women's Network hosts an evening with... Women in Leadership | 27 |
| 18 March 2021 | Storytelling essentials | 21 |
| 23 March 2021 | Digital tactics to drive behaviour change | 30 |
| 13 April 2021 | WEBINAR The role of behaviour change in public service | 80 |
| 21 April 2021 | Research, Evaluation and Insight | 10 |
| 29 April 2021 | How to create high-quality video with just a smartphone (2-part course) | 5 |
| 29 April 2021 | WEBINAR Using foresight to think about the UK in 2030 | 42 |
| 17 May 2021 | Campaign Planning Masterclass Series using the 'ROSIE' Model: 5-Days | 15 |
| 03 June 2021 | Storytelling essentials | 8 |
| 10 June 2021 | Being a leader: a course for local government communicators | 8 |

| | | |
|-------------------|---|-----|
| 16 June 2021 | WEBINAR Virtual, Augmented and Mixed Reality Tech to Support Immersive Learning | 35 |
| 08 July 2021 | Digital and Social Media Marketing Masterclass for the Public Sector | 20 |
| 22 July 2021 | Using data analytics for better decision-making in the public sector | 15 |
| 29 July 2021 | WEBINAR Best Practice in Fostering, Marketing and Recruitment | 115 |
| 29 July 2021 | How to create high-quality video with just a smartphone (2-part course) | 8 |
| 18 August 2021 | Crisis Communications Masterclass | 16 |
| 16 September 2021 | Paid Digital Advertising for Public Sector | 9 |
| 22 September 2021 | Writing for different audiences | 6 |
| 23 September 2021 | Prioritising Work and Managing Time Like a Pro | 8 |
| 27 September 2021 | Consulting for Success From Account Management to Trusted Advisor (4-Day) | 6 |
| 04 October 2021 | Community Engagement – The Westco Model | 9 |
| 04 October 2021 | How to run a campaign in 5 days | 9 |
| 21 October 2021 | Leadership in local government communications | 34 |
| 03 November 2021 | Killer creative for behaviour change campaigns | 26 |
| 04 November 2021 | WEBINAR Emotional intelligence | 65 |
| 11 November 2021 | Research, Evaluation and Insight done right | 21 |

| | | |
|------------------|--|------------|
| 17 November 2021 | Storytelling Essentials | 24 |
| 18 November 2021 | Digital and social media marketing masterclass for the public sector | 20 |
| 24 November 2021 | Communications strategy and planning | 20 |
| | | 802 |

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