

# Shareholder Committee Report

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| <b>Decision Makers:</b>   | Shareholder Committee   |
| <b>Date:</b>              | 27 <sup>th</sup> March 2023   |
| <b>Classification:</b>    | For General Release   |
| <b>Title:</b>             | Westminster Builds Registered Provider Status   |
| <b>Financial Summary:</b> | <p>The Council has secured £11.3m of GLA grant to fund intermediate homes which are required under the terms of the grant to be held in a registered provider (RP).</p> <p>The proposed incorporation of RP within Westminster Builds allows the Council to secure the grant with expected revenue expenditure of £40k.</p> |
| <b>Report of:</b>         | James Green, Director of Development and Director of Westminster Builds   |

## 1. Executive Summary

- 1.1. The Council have secured £11.3m of GLA grant to fund the construction of intermediate rent homes. These homes are currently intended to be acquired by Westminster Builds, however the terms of the grant require the homes to be held by a Registered Provider and, currently, Westminster Builds is not a Registered Provider.
- 1.2. The Westminster Builds' board resolved to incorporate a new company as a Registered Provider in its group to retain the flexibility of the current approach, secure the grant and provide Westminster City Council with the option to purchase and retain ownership of intermediate housing within this group.
- 1.3. As required under the Articles of Association, the Board requires approval of the shareholder to incorporate a new company. The establishment of

any new company is a retained responsibility of the Cabinet and is not delegated to the Shareholder Committee to act on behalf of the Council.

## **2. Recommendations**

2.1. That the Shareholder Committee recommend to Cabinet

2.1.1. The incorporation of new company within Westminster Builds' structure which will apply to become a Registered Provider and, subject to approval of the Regulator of Social Housing, hold Westminster Builds' affordable housing.

## **3. Reasons for Decision**

3.1. The Council has secured grant from the Greater London Assembly's (GLA) Affordable Homes programme across several development projects. This grant supports the funding required for the construction of social and intermediate rent homes.

3.2. The grant is conditional on funded homes being held by a Registered Provider which the Council qualifies as but Westminster Builds does not. As the Council's current approach is for social homes to be retained within the HRA and intermediate homes to be transferred to Westminster Builds, the Council cannot currently comply with the GLA's funding requirements and fully access the GLA grant.

3.3. While this has not prevented drawing down grant on homes under construction by the Council, a solution will need to be in place prior to the disposal and purchase of completed intermediate homes to Westminster Builds.

## **4. Background, including Policy Context**

4.1. The Council have bid in successive rounds for the GLA's Affordable Homes Programme grant which is linked to the construction of social and intermediate rent homes. The Council has been allocated grant across the 2016-21 and the 2021-26 programme as well as the Care and Specialist Supported Housing (CASSH) programme. Table 1 below illustrates the current GLA grant for intermediate housing allocation across the programme. The table also indicates the anticipated completion date for schemes and, therefore, the importance of an approved strategy.

**Table 1: Current GLA Grant allocation for intermediate housing across the Programme**

| Project                        | Intermediate Homes | Grant          | Forecast Practical Completion |
|--------------------------------|--------------------|----------------|-------------------------------|
| 300 Harrow Road                | 35                 | £1.01m         | November 2023                 |
| Luxborough                     | 7                  | £0.20m         | Summer 2024                   |
| Westmead                       | 31                 | £1.94m         | Summer 2025                   |
| Balmoral                       | 18                 | £1.13m         | 2026                          |
| Church Street                  | 43                 | £2.69m         | 2027                          |
| Lisson Grove                   | 9                  | £0.56m         | 2030                          |
| <b>Subtotal Named Projects</b> | <b>143</b>         | <b>£7.53m</b>  |                               |
| Indicative Bids                | 61                 | £3.81m         | Various                       |
| <b>Total</b>                   | <b>367</b>         | <b>£11.34m</b> |                               |

4.2. The Council's development programme assumes that intermediate rent homes built are transferred to the Council's subsidiary, Westminster Builds, as this arrangement provides more flexibility to meet the Council's objectives than retaining them in the Council or selling to another registered provider.

4.3. The most recent stream of GLA funding includes a requirement that residents are supported into homeownership within 10 years. Balmoral, scheduled to complete in 2026 is the first scheme which this will apply to. The Council is considering options for implementing this and will report on those separately.

4.4. While recent changes made in the Truly Affordable Housing Cabinet paper, October 2022, have reduced the number of intermediate homes being built by the Council, in favour of social rent, the Council has secured £11.3m of grant funding for intermediate homes across 367 homes.

## 5. Options

5.1. The Council have considered several options:

- Option 1 – No change & return the Grant

- Option 2 – Convert all intermediate rent homes to social rent
- Option 3 – Transfer intermediate homes to Westminster Community Homes
- Option 4 – Incorporate a Registered Provider within Westminster Builds

### **Option 1 – Return the Grant**

5.2. The Council could opt to refuse the grant on intermediate homes, returning drawn grant and relinquishing future allocations. This would allow the Council to continue disposing of the homes to Westminster Builds. However, it would have a detrimental impact on the Council's finances, particularly the HRA as the grant part funds the gap between the disposal value of intermediate homes, which depending on rent can typically range from £150k-£300k and the construction cost, averaging £750k per home across the programme. As identified in Table 1, total allocated grant of c.£11.3m would not be utilised with this option.

5.3. The Council could mitigate this in part by increasing intermediate rents to above London Living Rent. The higher rent would support a higher disposal price to Westminster Builds. However, this would be at odds with the Council's commitment to London Living Rent and would require an amended planning permission.

5.4. This option is therefore recommended to be discounted.

### **Option 2 – Convert to Social Rent**

5.5. The Council could choose to convert the intermediate homes to social rent instead. While social housing attracts higher grant rates, the GLA have to date been reluctant to provide additional grant where the Council has switched intermediate to social.

5.6. Social rents are lower than London Living Rent and would therefore worsen the viability of these schemes and increase the amount of borrowing required by the HRA, which is currently at capacity.

5.7. Most of the schemes with grant were considered as part of the Truly Affordable Housing review and remained as intermediate homes due to predominately being 1-bedroom homes of which are in high demand across the borough. In addition, the GLA are keen to see a programme of intermediate housing and funding support as part of Westminster's development plans.

5.8. Given the above, this option is also recommended to be discounted.

### **Option 3 - Transfer homes to Westminster Community Homes**

- 5.9. Westminster Community Homes (WCH) is an existing charitable registered provider in the Council's structure and grant funded intermediate homes could be transferred to WCH on a similar basis as Westminster Builds, satisfying the GLA's grant conditions.
- 5.10. However, the nature of WCH is such that the Council does not nor could ever control the assets of WCH. This means practically that surpluses from its charitable activities are retained in the company, and should the Council wish to reacquire the intermediate homes it could only do so via purchase. Conversely the Council can choose at any time to close Westminster Builds and take back all assets owned by the company.
- 5.11. While WCH can only use these surpluses to undertake its defined charitable activities it is a lot less flexible than holding the homes in Westminster Builds and effectively ties up the Council's capital in WCH.
- 5.12. Given the constraints of this option, this is not the preferred way forward.

### **Option 4 - Incorporate a Registered Provider (RP) within Westminster Builds**

- 5.13. Given the limitations of the other three options, incorporating a RP within Westminster Builds' structure is the recommended way forward.
- 5.14. Westminster Builds can create a "for-profit" RP. Despite the name, the intention of this RP is not to generate profit from housing but instead to maintain the Council's control over its assets and to have the freedom to allocate any surpluses generated back into the Council's housing programme.
- 5.15. Creating a "for-profit" RP would retain the flexibility of holding intermediate homes in Westminster Builds and allow the Council to continue to claim grant for those homes. It will have some initial costs, estimated at £40k for legal support, and an ongoing administrative burden, but this is expected to be significantly lower than the grant that would be forgone otherwise.
- 5.16. The Council have taken advice from Devonshires and met with Westminster Community Homes Chief Executive to explore the process and resource requirements required for incorporating a RP.

## **6. Incorporating a Registered Provider**

- 6.1. Before Westminster Builds could apply to become an RP, it would need to incorporate an additional company, separating its affordable homes from planned market homes and other activities, such as investment in Luton Street LLP and future projects such as Ebury.
- 6.2. The Articles of Association for Westminster Builds require approval of the shareholder to incorporate a new company.

- 6.3. The new company would be a subsidiary of Westminster Housing Investments Limited (WHIL) however a ring-fencing agreement would need to be put in place to provide assurance to the Regulator that the RP can operate freely and take decisions in its own best interest. This may include setting up a different board structure for the RP with independent members. However, WHIL, and in turn the Council, would have the power to appoint and remove those members at any time.
- 6.4. Once incorporated the company will apply to be registered with the regulator for social housing to receive RP status. The two-stage application normally takes around 6 to 9 months and requires the company to demonstrate that it meets the governance and financial viability standard and demonstrate it can sustain this going forward. As well as having in place management arrangements to demonstrate it can meet other regulatory standards. The estimated cost of undertaking the necessary work to achieve RP status is £40k, which includes registration fees and legal support required to complete the registration process.
- 6.5. As WB's RP would hold less than 1,000 homes it would qualify as a small RP and have a reduced level of administration and lower fees (£2,500 registration and an annual fee of £300). The ongoing administrative work would be resourced through the company secretary and project support from the Council's Regeneration and Development team.

## **7. Legal implications**

- 7.1. These are set out in the body of the report.
- 7.2. The incorporation of a new company is a matter for the Cabinet.

## **8. Financial implications**

- 8.1. These are set out in the body of the report.

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

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