

Shareholder Committee Report

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| Decision Makers: | <i>Shareholder Committee</i> |
| Date: | 24th July 2023 |
| Classification: | General release except for Appendix 1 which is exempt from disclosure as it contains information relating to the financial or business affairs of a particular person (including the authority holding that information) under paragraph 3 of Schedule 12A of the Local Government Act 1972. |
| Title: | Westminster Builds Business Update |
| Wards Affected: | All |
| Fairer Westminster Summary: | Providing more affordable housing |
| Key Decision: | No |
| Financial Summary: | Westminster Builds remains a going concern with planned acquisitions for 2023/24 bolstering the portfolio of intermediate homes to 98. The company hopes to introduce several efficiency measures for 2023/24, both operational and financial. |
| Report of: | James Green, Jake Bacchus, Neil Wightman – Westminster Builds Directors |

1. Executive Summary

1.1. Westminster Builds manages 63 intermediate rent homes at the end of May 2023, purchase from Council developments. The company has also

overseen, through its joint venture with Linkcity, the successful completion of Luton Street, a development of 171 homes including 62 affordable.

1.2. The company expects to manage 98 intermediate homes by the end of 2023/24

1.3. Accounts for 2022/23 are currently being audited and will be presented at the next Shareholder Committee.

1.4. The company is pursuing several workstreams in 2023/24 to improve efficiency and financial position.

2. Recommendations

2.1. That the Shareholder Committee are asked to note this report

3. WB Background

3.1. Westminster Builds (WB) is the trading name of two companies: Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL). The Council is the sole shareholder of WHIL, who in turn is the sole shareholder of WHDL. Therefore WB is wholly owned by the Council, who also provide 100% of the company's funding through a combination of shareholder loans, development and acquisition finance and a working capital loan

3.2. WB was set up in 2018 to help increase the delivery of affordable housing to those who live and work in Westminster but cannot afford the cost of housing appropriate to their needs. It gives the Council an additional option when considering how it best delivers the schemes planned within its capital programme. It enables the Council to embark on schemes which, for example, have a more commercial dynamic to them and to enter into joint ventures and other delivery vehicles, or to hold intermediate or market rental homes which are then not subject to secured tenancies or the right to buy.

4. Accounts Update for 2022/23

4.1. The final company accounts for 2022/23 are currently being audited which is progressing well and expected to conclude in June, allowing final accounts to be presented to the next Shareholder Committee in October 2023.

5. Update on Activities for 2023/24

5.1. The company has continued to deliver on its business plan commitments and is approaching 100% occupation rates across its intermediate rent portfolio, with 62 of 63 let.

5.2. Eight units at West End Gate have not been let – see 5.3 below.

- 5.3. The legal and financial processes are underway to transfer eight two bedroom homes at West End Gate back to the Housing Revenue Account to be used as social housing. This follows the recommendation of the Truly Affordable Housing cabinet paper in October 2022.
- 5.4. During 2023/24 WB is due to acquire eight one bedroom homes at West End Gate and 35 one bedroom homes at 300 Harrow Road. These will all be let at London Living Rent.
- 5.5. Each future acquisition is subject to shareholder approval and governance.
- 5.6. The position of company chair is currently vacant. The Board remains quorate, as three directors are currently appointed. The company would welcome the council support in the appointment of a chair. The absence of this position is hampering the ability to make decisions if all directors are not present at board meetings.
- 5.7. 31Ten's review of the Council's subsidiaries recommends the creation of a strategic oversight board, comprised of Senior Officers and Members, and a Housing Working Group, comprised of directors across all the Council's housing subsidiaries. The Board will therefore await the Shareholder's recommendation following the 31Ten report.
- 5.8. The Board has approved the incorporation of a new company within its group to help the Council secure GLA grant across its pipeline. This for-profit registered provider will allow homes built by the Council and managed by Westminster Builds to attract grant, in turn increasing the delivery of affordable housing across Westminster. The process to formalise this has commenced and information is being gathered to submit to the Regulator for Social Housing.
- 5.9. Westminster Builds welcomes the Council's draft memorandum of understanding between itself and its subsidiaries. This is being reviewed by WBs legal representatives and is hoped to be in place before the next Shareholder Committee in order to formalise ongoing arrangements.
- 5.10. Refocusing on a portfolio of intermediate rent heightens the need to control overhead costs. The company has undertaken a thorough review of running costs, resourcing requirements and the operation of the company considering a changing business plan.
- 5.11. The company will repay the working capital loan it took out in 2022/23 completely in 2023/24. This loan attracts a higher level of finance cost, so to avoid unnecessary interest charges, the company will always look to settle this debt with the council promptly where possible.

6. Performance Report – P2 2023/24

6.1. At the start of 2023/24, the company owned 63 properties. Properties acquired by site are:

| Scheme | Financial year completed | No. of units |
|-------------------------|--------------------------|--------------|
| Farm Street | 21/22 | 14 |
| West End Gate (Phase 1) | 21/22 | 21 |
| Jubilee | 22/23 | 19 |
| Parsons North | 22/23 | 9 |
| Total | | 63 |

6.2. WB works closely with WCC Housing who let and manage homes on the company's behalf. WCC Housing attend all WB Board Meetings and provide updates on occupancy levels, as well as any operational issues being encountered.

6.3. A workstream is underway with WCC Housing to identify key KPIs to report to the Board. This will allow WB to track and assess the impact of indicators such as void periods and rent arrears.

6.4. The company's business plan budgeted an operational loss of £0.255m in 2023/24. Table 1 shows the profit and loss position as at P2 and the expected full year position of a £0.107m loss, which is an improvement against business plan

6.5. It should be noted that the company is also due a profit of 60% from the LLP for of the sale of homes at the Luton Street development. The final amount of this profit and the taxation implications are still being calculated and discussed. The Business Plan assumed a return on investment of £12.390m

Table 1 – Operational Profit and Loss

| | P2 Year to Date | Full Year | | |
|-------------------------------------|-----------------|--------------|--------------|------------|
| | | Forecast | Budget | Variance |
| Rental Income | 138 | 1,115 | 937 | 178 |
| Misc. Income | 41 | 35 | - | 35 |
| Total Income | 179 | 1,150 | 937 | 213 |
| Administrative expenses | (36) | (357) | (394) | 37 |
| Total Expenditure | (36) | (357) | (394) | 37 |
| Operating Surplus/ (Deficit) | 70 | 793 | 543 | 250 |

| | | | | |
|-----------------------|------------|--------------|--------------|------------|
| Net Interest | (143) | (900) | (798) | (102) |
| Profit/(loss)* | 143 | (107) | (255) | 148 |

*Does not include profit from Luton Street LLP - TBD

- 6.6. Discussions are underway on how to best use this profit in the most financially efficient way. The Business Plan and council capital strategy assumed these would be retained within the company to help fund future developments and acquisitions, reducing the reliance on council debt.
- 6.7. The company is also considering other debt restructuring options to enable it to maintain its overriding commercial principles. Appendix 1 shows the loans currently outstanding and a demonstration that funds have been used for the outcomes for which they were originally given.
- 6.8. The planned activity demonstrates that the company remains financially viable over the medium term once it reaches a critical mass of units under management
- 6.9. However ensuring that the company overhead and financing is scaled and structured to meet the needs of the company and controlled where possible is key to that longer term viability. Further work is planned by the Board during 2023/24 to review and consider the resources and structures needed to support the company. Progress on these will be reported to the next Shareholder Committee as part of the mid-year review.

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

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Appendix 1 – Loan Schedule

