City of Westminster

Shareholder Committee Report

Decision Makers:	*Shareholder Committee*
Date:	20 November 2024
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 23/24 Year End Update & 24/25 mid-year review.
Wards Affected:	All
Fairer Westminster Summary:	Fairer Housing – Delivering more truly affordable homes.
Key Decision:	No
Financial Summary:	The 2023/24 accounts have been audited and are available on Companies House. Westminster Builds remains a going concern with further planned acquisitions in 2024/25 bolstering the portfolio of intermediate homes to 108. The company made an operational profit of £0.437m in 2023/24.
Report of:	James Green, Zohaib Nizami and Gill Matthews– Westminster Builds Directors

1. Executive Summary

1.1. Westminster Builds managed 71 intermediate rent homes at the end of March 2023/24, purchased 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. In October 2024 the company directly acquired 30 homes at 300 Harrow Road by utilising profits from Luton Street sales. In the latter half of 24/25 a further 7 homes will be acquired at Luxborough using the existing debt/equity funding mechanism agreed between the company and the Council. Therefore, the company expects to manage 108 intermediate homes by the end of 2024/25.

1.3. Accounts for 2023/24 have been audited and due to be submitted to Companies House. These are summarised in section 4.

1.4. The company is continuing to pursue several workstreams in 2024/25 to improve efficiency and financial position, as well as a focus maximising funding sources and a review of the role of Westminster Housing Developments Ltd (WHDL) in the delivery of Ebury Phase 2.

2. Recommendations

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

3. WB Background & Policy Context.

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, which in turn is the sole shareholder of WHDL. Therefore, WB is wholly owned by the Council, who also provide the vast majority of the company's funding through a combination of shareholder loans, development and acquisition finance and a working capital loan when required.

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.

3.3. 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 and market rental homes in order to diversify the council portfolio of tenures. It can also be used to take pressure off the HRA by acting as a developer for schemes with a high proportion of affordable housing.

3.4. In the 6 years since incorporation, the Company has acquired 71 new intermediate homes for Westminster residents and 62 social rent homes at Luton Street via the

Joint Venture with Link City, all contributing to the delivery of the Fairer Housing pledge.

4. Final Accounts Update for 2023/24 vs Business Plan

4.1. The company accounts for 2024/25 were signed off by the company's external auditor Cooper Parry in July 2024 and by the WHIL Board on 8th October 2024.

4.2. In the last Shareholder Committee Report dated 22nd July 2024, it was reported that overall profit for the year would be £6.243m.

4.3. The final position reported in table 1 is £0.462m lower than reported in the draft accounts. This is due to a downward revision of the site valuation for Jubilee and West End Gate of £0.616m which led to reduction in the Tax on profit of £0.154m. A summary of the final profit and loss account for the year is presented below.

Table 1 – Draft and Final Account P&L Position

Profit and Loss	23/24 Draft accounts (£000's)	23/24 Final accounts (£000's)	Movement (£000's)
Rental Income	840	840	-
Misc Income	140	140	-
Total Income	**980**	**980**	**-**
Administrative expenses	(543)	(543)	-
Total expenditure	**(543)**	**(543)**	**-**
Operating surplus	**437**	**437**	**-**
Fair value movement in investment property	686	70	616
Income from Investments	7,650	7,650	-
Interest receivable and similar income	283	283	-
Interest payable and similar expenses	(683)	(683)	-
Profit before tax	**8,373**	**7,757**	**616**
Tax on profit	(2,130)	(1,976)	(154)
Profit after tax	**6,243**	**5,781**	**462**

4.4. The company returned an operating profit of **£0.437m**. The Business Plan for 2023/24 projected a profit of **£0.380m**. Key variance reason is the extension of the development management fee received from the LLP due to the delay in finalising sales.

4.5. Fair value movements in investment property of **£0.070m** is an accounting adjustment to reflect the overall increase in WHIL property values in 2023/24 from 2022/23.

4.6. Income from Investments of **£7.650m** is the in-year cash profit received from the Luton Street Sales. This cash was used to purchase the 30 homes at 300 Harrow Road in Q2 24/25.

4.7. Interest receivable of **£0.283m** is the bank interest received in 23/24.

4.8. Acquisition loans provided by WCC are the key driver behind the net interest cost of **£0.683m**.

4.9. Corporation Tax of **£1.976m** has been paid to HMRC. This is largely due to the accounting and cash profit from the Luton Street scheme.

5. Update on Key Activities for 2024/25

5.1. The company has continued to deliver on its business plan commitments and has 100% occupation rates across its intermediate rent portfolio, with 72 of 72 homes let, including 8 newly transferred homes at West End Gate.

5.2. The company has also acquired 30 one-bedroom homes at 300 Harrow Road in Q2 of 2024/25. These homes will all be let at London Living Rent. The company purchased these debt free, using internal funds, meaning 100% of the profit is retained, with no principal or interest payments due to WCC. These are expected to be fully let by the end of November 2024.

5.3. Debt free purchase was made possible by the profits generated from the Joint Venture at Luton Street, highlighting the potential of developing schemes with a private sale element in Westminster Builds in the future.

5.4. The Company has also repaid the final tranche of equity due on the Luton Street Development. No further repayments are now due on this scheme.

5.5. The Business Plan assumes the delivery of Ebury Phase 2 through Westminster Builds. A detailed piece of work is currently being undertaken to analyse different delivery routes, with a formal decision being taken before the end of 2024. An Outline Business Case is currently in draft form. There is no impact on programme delivery timescales, as the main construction contract is not being awarded until Autumn 2025, however, it is important to finalise the intended delivery route well before that so appropriate governance, particularly around any development loans required, can be put in place if Westminster Builds is the chosen route.

5.6. The Shareholder Committee approved a report in March 2023 stating the need for a new registered provider in WB’s structure to secure GLA grant for the Council and company. 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 first stage of the application process is complete and all queries from the Housing Regulator have been addressed. The second stage is due to commence shortly.

5.7. The 2024/25 Business Plan highlighted the ability to now analyse costs and income by site in more detail now homes have been under ownership for more than a year. Each site maintains its own individual P&L in the management accounts, this enables operational costs to be tightly controlled and mitigations taken quickly if there are issues on a particular site. These will be presented for review at the next regular Shareholder Committee.

5.8. The company will continue to make principal and interest payments on its loans taken from WCC. Appendix 1 shows the loans currently outstanding and a demonstration that funds have been used for the outcomes for which they were originally given.

5.9. Currently, WHIL is only making interest payments on all acquisition loans. From financial year 2025/26, principal loan repayments will start to become due on the first sites acquired by WHIL. This makes the individual site P&Ls even more important in monitoring the viability of each acquisition in the long term.

6. Performance Report – P6 2024/25

6.1. As at P6 of 2024/25, the company owned 101 properties, which is an increase of 38 homes from March 2024. Properties acquired by site are:

Table 2 – Homes in portfolio

Scheme	Financial year completed	No. of homes
Farm Street	21/22	14
West End Gate (Phase 1)	21/22	21
Jubilee	22/23	19
Parsons North	22/23	9
West End Gate (Phase 2	24/25	8
300 Harrow Road	24/25	30
Total		**101**

6.2. The company has continued to work 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. The Board are proactive in assisting to resolve these to ensure occupancy levels are kept at a maximum.

6.3. There is a lot of positive interest in the Intermediate Rental properties on offer. Since letting commenced in December 2021, 72 properties have been let and occupied by the same residents. The rental levels, location and high specification of build make the properties very popular within the community. Numerous key workers and Westminster residents have benefitted. The first round of 2-year renewals were recently processed and all eligible tenants renewed.

6.4. The company's business plan budgeted an operational profit of **£0.039m** in 2024/25.

6.5. Table 3 below shows the profit and loss position as at P6 and the expected full year position of a **£0.277m** profit (excluding return on investment), which is an improvement against business plan of **£0.238m**.

6.6. This is due to lower interest payments due to direct acquisitions at 300 Harrow Road and higher bank interest received on held equity balances (now paid back – refer to 5.4), which was not included in the original business plan projections.

Table 3 – Operational Profit and Loss – P6 24/25

P6 Management Accounts	P6 year to date	24/25 Forecast	24/25 Business Plan	Variance to BP
Rental Income	417	1,244	1,068	176
Miscellaneous Income	70	70	-	70
Bank Interest	229	267	-	267
Total Income	**716**	**1,581**	**1,068**	**513**
Administrative expenses	(423)	(647)	(351)	(296)
Total expenditure	**(423)**	**(647)**	**(351)**	**(296)**
Operating surplus/(deficit)	**293**	**934**	**717**	**217**
Net Interest	(317)	(657)	(678)	(21)
Profit/(loss)	**(24)**	**277**	**39**	**238**
Return on Investment	**1,830**	**4,830**	**4,350**	**480**
Profit/(loss) before tax	**1,806**	**5,107**	**4,389**	**718**

6.7. Significant variances within the P+L are:

- Rental income is £0.176m above business plan projections due to London Living Rent uplift from the GLA for new schemes being slightly higher than BP estimates.

- Administrative expenses are £0.296m higher mainly due to historic service charges being recognised in year. Significant work has been completed to reflect all service charges incurred with progress made with external providers and WCC to correct WHIL service charge billing. Future Business Plans will now be able to project service charges more accurately.

6.8. It should be noted that the company is also due a final tranche of profit from the LLP for of the sale of homes at the Luton Street development. There are currently 6 homes remaining to be sold and the LLP are confident of sale by December 31st, 2024. The LLP forecast £4.830m of 24/25 WHIL profit (60% of total profit as per LLP agreement) and £1.830m has been received so far in 24/25.

6.9. The Business Plan and the Council's capital strategy give flexibility for the company to retain profit to help fund future developments and acquisitions in this way, which will lead to improved performance and increased profit, and consequently, less reliance on Council borrowing.

6.10. The planned activity demonstrates that the company remains financially viable, and a going concern, over the medium term once it reaches a critical mass of units under management. The company is also exploring further opportunities to acquire completed homes both from WCC and external providers to deliver its obligation to the Council in support of its Fairer Housing priority.

6.11. As of 30th September, WHIL had total interest-bearing debt of **£12.043m** of which **£11.047m** was acquisition loans owed to WCC. Total Assets at the same date were **£49.2m**. This gives a debt to asset ratio of 25%, i.e. every £1 of asset value is funded by 25p of debt.

6.12. These ratios should always be considered in comparison to similar companies in the same industry to ascertain when there should be concerns. The industry average for Housing Associations is currently around 45%, so WHIL is considerably lower and in a good position.

6.13. Although WHIL is much smaller than a lot of other comparators, with much fewer assets on the balance sheet, this ratio must still be closely monitored to avoid over-financing by WCC who are currently the only providers of debt.

6.14. Additionally, each acquisition is assessed before being approved to ensure the company is not taking on a loss-making scheme which would require the council to inject more debt just to ensure WHIL remains a going concern

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

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