



City of Westminster

Shareholder Committee Report

Decision Maker:	Shareholder Committee
Date:	31 st October 2022
Classification:	For General Release save for Appendix 1 be declared as exempt from publication.
Title:	Westminster Builds – Mid Year Performance Report 2022/23
Wards Affected:	All
Fairer Westminster Summary:	Delivering more affordable housing
Key Decision:	No
Financial Summary:	<p>Westminster Builds is forecast to make a loss of £165k for the financial year 2022/23, a positive variance against its budgeted loss of £675k.</p> <p>The company remains a going concern and is expected to achieve a profit in 2023/24.</p>
Report of:	James Green, Managing Director

1. Executive Summary

- 1.1. In the first half of 2022/23 Westminster Builds has increased the number of intermediate homes it manages from 43 to 71, following the completion of Jubilee Phase 2 and Parsons North. 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 is forecast to make a loss of £165k in 2022/23, improving on its budget of a loss of £675k, which reflects savings in operational costs and overheads.
- 1.3. The company notes it will be impacted by the Genuinely Affordable Housing Cabinet report and work is underway to review the implications on the company's business plan, which will be presented in early 2023.

2. Recommendations

- 2.1. 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. The companies' Board consists of four directors, three of which are directors within the Council (Development, Housing and Finance) and one Member (currently vacant, formerly Deputy Cabinet Member for Regeneration). The Board is supported by Council officers and services as well as some external appointments (i.e. external legal).
- 3.3. The company actively started trading in 2019 when it intervened to safeguard the delivery of two projects: Luton Street and Jubilee Phase 2.
- 3.4. At Luton Street, a 171-home development in Church Street, the developer (Linkcity) had struggled to secure funding putting the project at risk of significant delay and additional cost. WB intervened to form a joint venture ensuring the delivery of 62 affordable homes.
- 3.5. Similarly at Jubilee Phase 2, the company acted to de-risk the development by forward funding 19 homes to ensure the project could continue without significant delay. Those 19 homes, originally intended as market sale, would now be let at London Living Rent, increasing the number of affordable homes on the project as well as securing construction of a new sports hall.
- 3.6. From 2021, WB commenced acquiring intermediate homes built by the Council's development programme. As of the end of September 2022 this includes homes at Farm Street, West End Gate, Parsons North as well as the 19 at Jubilee, 71 in total.

4. Company Activity

Developments



Luton Street – 171 Homes of which 62 Affordable

Developer: Linkcity in a joint venture with WHIL

Practical Completion: August 2022

Financing of £71m from the Council, of which £43m from WHIL. Forecast to be repaid by Jan '23



Jubilee Phase 2 – 54 homes

Developer: Ecoworld

Practical Completion: March 2022

WHIL forward funded 19 homes converted from market sale to London Living Rent

Acquisitions

Farm Street – 14 affordable Homes

Developer: Caudwell

Practical Completion: May 2021

WB acquired 14 Intermediate Rent



Parsons North – 60 Homes of which 19 affordable

Developer: Westminster
Contractor: Osbournes

Practical Completion: March 2022

WB acquired 9 intermediate rent

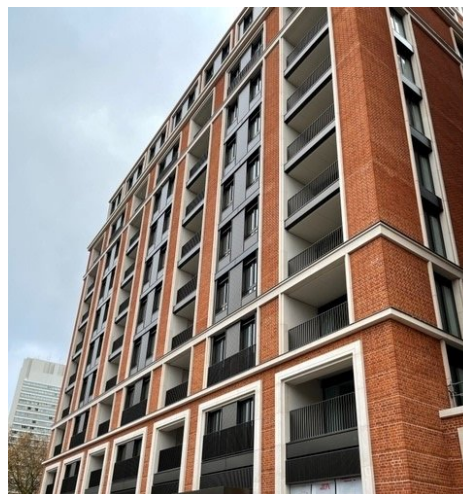


West End Gate – 216 affordable homes across two phases

Developer: Berkeley Homes

Practical Completion: Block B Nov 2021

WB purchased 29 intermediate rent from the Council (however 8 will be returned to social rent). A further 8 will be acquired at blocks E and F due to complete Q4 2022.



4.1. Aside from the 8 homes programmed to complete at West End Gate, there are no further acquisitions planned this financial year. Across the life of the business plan, a further 478 homes are earmarked to be sold by the Council to WB, however this is subject to change as projects are revised and tenure distributions may change.

4.2. Each future acquisition is subject to shareholder approval and governance.

5. Performance Report – P6 2022/23

5.1. At the start of 2022/23, the company owned 43 homes at Farm Street and West End Gate as well as 19 under construction at Jubilee. At P6, these homes have completed a further 9 have been acquired at Parsons North, bringing the total homes under management to 71.

5.2. Whilst the Council undertook its review of affordable housing, culminating in the Cabinet Report on 17th October 2022, several homes were kept empty pending decision on their tenure. These included 8 2-beds homes at West End Gate, which will return to the Council to be let at social rents, and 19 homes at Jubilee remaining in the company.

5.3. WB works closely with WCC Housing, who let and manage homes on the company's behalf. At the end of P6, 42 homes are let and occupied with 2 further tenancies

agreed. While the speed of lettings to date have been slower than expected, both parties are working closely to streamline the process for future projects. The extended voids however have impacted on the company's profit and loss statement.

5.4. The company's business plan budgeted a revenue loss of £675k in 2022/23, reflecting the company's position in its business cycle. In the growth phase, the company's overheads are defrayed across a smaller income base, leading to a loss. However, as the company's homes become fully let, WB will break even and move towards profit.

5.5. The table below shows the Profit and Loss (P&L) Statement of the company, its revenue position.

Table 1 – Profit and Loss (P&L)

	P6 Year to Date	Full Year		
		Forecast	Budget	Variance
Rental Income	131	569	982	(413)
Misc. Income	72	142	140	2
Total Income	203	711	1,122	(411)
Rental Expenditure	(59)	(221)	(380)	159
Overheads	(74)	(123)	(518)	395
Other Costs	-	-	(280)	280
Total Expenditure	(133)	(344)	(1,178)	834
Operating Surplus/ (Deficit)	70	367	(56)	424
Net Interest	(261)	(532)	(619)	86
Profit/(loss) before Tax	(190)	(165)	(675)	510

5.6. Westminster Builds is forecast to make a loss of £165k in 2022/23, an improvement on the budgeted position by £510k. A focus on reducing overhead costs and minimising corporate expenditure has enabled the company to improve its forecast outturn despite longer than expected voids on homes. WB has focused its resources on intermediate ownership, while its development activity has been paused as a result of the Genuinely Affordable Housing Cabinet paper.

5.7. The company is forecast to return to profit next financial year with the completion of sales at Luton Street and a full year of rental income. To meet its current obligations, the company has drawn £750k of working capital loans from the Council, which it intends to fully repay next financial year.

5.8. Future profits will either be retained to fund acquisitions of affordable homes, reducing WB's reliance on Council debt, or returned to the Council through a dividend, which can then be used to fund Council priorities.

5.9. The table below shows a summary of the company's balance sheet.

Balance Sheet	Sept '22	Mar '22
Fixed Assets	£22.4m	£20.1m
Current Assets	£29.8m	£35.7m
Total Assets	£52.2m	£55.8m
Non-Current Liabilities	(£46.3m)	(£55.9m)
Current Liabilities	(£6.3m)	(£0.2m)
Total Liabilities	(£52.6m)	(£56.1m)
Net Assets	(£0.5m)	(£0.3m)
Total Equity	(£0.5m)	(£0.3m)

5.10. The fixed assets consist of the 71 homes under management.

5.11. The joint venture (Luton Street Development LLP) with Linkcity achieved practical completion in August 2022. With off-plan sales completing at a rapid pace, the LLP has repaid £46m of senior loans which has allowed WB, in turn, to use its half of the repayments to repay its own Council's loan. This repayment has reduced current assets (WB's investment in the LLP) and non-current liabilities (borrowing from the Council).

5.12. Current liabilities reflect timing differences between repayments. At the end of P6 WB held £6m in the bank received from the LLP, due to be repaid to the Council. This repayment was processed in October.

6. Truly Affordable Housing

6.1. Westminster Builds continues to be closely aligned to the Council's strategic objectives and supports the Council's strategy to increase the delivery of much needed affordable housing in Westminster. While supportive of the Council's decision to create an additional 143 social rented homes by reducing private sale and intermediate rent homes, the Board recognises that this will impact on the Company's current Business Plan.

6.2. Westminster Builds' Board are confident that the company remains a going concern and the Council's investment to date has not been impacted. However, the Key Performance Indicators including returns on the Council investment will be affected by the change. To capture the impact the business plan will be updated and presented to a future Shareholder Committee.

6.3. The Board notes that the Council have appointed 31Ten to undertake a review of its housing supply, including the subsidiaries that support the Council's objectives. The recommendations of this review may impact Westminster Builds and how it interacts with the Council, including its governance. Therefore the company accepts that several outstanding actions should wait until the outcome of that review. These include appointment to the role of Chair of the Board and completion of the Memorandum of Understanding and Service Level Agreement between the Council and WB.

Appendices: Appendix 1 – Westminster Builds Management Accounts