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City of Westminster

Committee Agenda

Title:	**Cabinet**
Meeting Date:	**Monday 12th July, 2021**
Time:	**6.30 pm**
Venue:	**Rooms 18.01 - 18.03 - 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:**

Rachael Robathan (Chairman)
Heather Acton
Timothy Barnes
Melvyn Caplan
Matthew Green
David Harvey
Tim Mitchell
Paul Swaddle

In line with legislation and continuing Covid-19 precautions, Committee members will attend the meeting in person at Westminster City Hall. The Committee will be a hybrid Meeting and will be live broadcast via Microsoft Teams.

The Council must have due regard to safe social distancing measures as advised by the government and therefore the meeting room capacity for personal attendance will be capped. Members of the public and press are therefore encouraged to view the meeting virtually using the link to the live meeting.

For those who wish to attend in person admission to the public gallery is by a pass, issued from the ground floor reception from 6.00pm. If you have a disability and require any special assistance please contact the Officer (details listed below) in advance of the meeting.

If you require any further information, please contact Gemma Stanton, Cabinet Manager.

Email: gstanton@westminster.gov.uk; Tel: 07890380139
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 Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

Stuart Love
Chief Executive
2 July 2021

CITY OF WESTMINSTER

MINUTES

Cabinet

MINUTES OF PROCEEDINGS

Minutes of a virtual meeting of the **Cabinet** held on **Monday 19th April, 2021.**

Members Present: Councillors Rachael Robathan (Chairman), Heather Acton, Timothy Barnes, Melvyn Caplan, Matthew Green, David Harvey, Tim Mitchell and Paul Swaddle, OBE

1 MEMBERSHIP

1.1 It was noted that there were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no Declarations of Interest.

3 MINUTES

3.1 **RESOLVED:** The Leader, with the consent of the Members present, signed the minutes of the meeting held on 15 February 2021 as a true and correct record of the proceedings.

4 OXFORD STREET DISTRICT – PROJECT UPDATE

4.1 Councillor Melvyn Caplan, Cabinet Member for City Management, introduced the item. He explained that the update delivered on a previous commitment to provide Cabinet with an update on the Oxford Street District (OSD) Project.

4.2 Councillor Caplan advised that the council had been successful in progressing a range of strategic projects during the pandemic. This included the Oxford Street District Scheme. Delivery of the first phase of the Oxford Street temporary public realm improvement scheme had been progressed in time for hospitality and retail reopening on the 12 April 2021 following the easing of the national lockdown. The temporary public realm improvements include widening footways and an extensive increase in greening. He stated that another key delivery for 2021 is Marble Arch Hill which is expected to open in the summer.

4.3 Debbie Jackson, Executive Director Growth, Planning and Housing, addressed the committee. She explained how project plans for the OSD had been reviewed to address the rapidly changing retail environment and the new challenges as well as opportunities posed by the Covid-19 pandemic with some actions brought forward to 2021.

4.4 Councillor Matthew Green, Cabinet Member for Business, Licensing and Planning, outlined the business case for improving the retail experience in the OSD to meet the challenges of competing with online retail and how this had become even more pressing since the outbreak of the pandemic. He also referred to the importance of providing a mix of ‘must-visit’ activities to complement the retail offer. These included a range of cultural experiences and highlighted the work that had just begun to deliver the Soho Photography Quarter as an example.

4.5 Councillor Acton, Cabinet Member for Communities and Regeneration, highlighted the environmental benefits being delivered through the scheme which would help to deliver on the council’s commitment to cleaner air. She also set out how the project will seamlessly integrate smart-city solutions to enhance the overall experience of the district. She advised that good progress was being made with feasibility work underway for various waste, mobility, freight and other smart solutions for the district.

4.6 Councillor Barnes, Cabinet Member for Young People and Learning, referred to the fact that the council’s investment in the OSD was encouraging businesses and other organisations to both move into the area as well as to undertake major refurbishment of buildings which would deliver additional jobs.

4.7 **RESOLVED:** Cabinet endorsed the Oxford Street District (OSD) framework and delivery plans for 2021, acknowledging the significant progress made over the past 6 months.

5 CHILDREN’S SERVICES UPDATE ON KEY ISSUES AND DEVELOPMENTS

5.1 Councillor Tim Barnes, Cabinet Member for Young People and Learning, introduced the item which was intended to provide an update on activity and progress on Children’s Services commitments set out under the Vibrant Communities Strand of City for All.

5.2 Sarah Newman, Executive Director Bi Borough Children Services, gave a PowerPoint presentation on the recent practice developments in Children’s Services and updated Members on progress of important current projects. The presentation covered key issues and developments over the last 12 months setting out what had been done, what was achieved for Westminster children and families, and up and coming challenges.

5.3 Councillor David Harvey, Cabinet Member for Housing, congratulated officers in Children’s Services for their excellent work during the pandemic. He commented on the particular challenges for children during the pandemic especially those living in small flats including those living in social housing. He highlighted how the council had provided packages and activities to children through the holiday periods and worked with City Lions and cultural centres to mitigate the limitations posed by the pandemic.

5.4 Councillor Barnes highlighted the range of indoor and outdoor activities that had and would be provided to promote well-being amongst children, improve their social skills and to provide parents and carers with a break.

5.5 **RESOLVED:** That the updated be noted.

The Meeting ended at 7.24 pm

CHAIRMAN: ______________________ **DATE** ___________________

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City of Westminster

CABINET

Decision Maker:	Cabinet
Date:	12 July 2021
Classification:	Open
Title:	Financial Planning - 2022/23 to 2024/25
Wards Affected:	All
Key Decision:	Yes
Financial Summary:	This report sets out the financial framework for the budget setting cycle and medium term financial planning for this year
Report of	Gerald Almeroth, Executive Director – Finance and Resources

1. Executive Summary

1.1. This report outlines the Council's updated financial position over the next three years and provides the financial framework for the Council to deliver its key policy objectives set out in its *City for All* strategy. The Covid-19 pandemic continues to be the dominant feature on the Council's financial planning which has impacted both the Council's local service delivery priorities and also the macro-economic landscape which will impact the Council's future funding position. At the time of this report, the UK remains under a phase of the national lockdown conditions. The speed of economic recovery following full relaxation of any remaining restrictions remains uncertain.

1.2. This report updates the medium-term budget assumptions approved at Full Council in March 2021 and extends it a further year to 2024/25. The funding position for local government is still undetermined at this point and will be impacted by several central government policy initiatives due over the coming calendar year including the Comprehensive Spending Review and the Fair Funding Review. The financial position has been updated and provides an indicative position for planning purposes and shows a budget gap of £10.9m in 2022/23, rising to £51.3m by 2024/25.

2. Recommendations

2.1. To note the revised medium-term financial planning forecast to 2024/25 and to agree the budget process approach as set out in the report.

3. Reason for Decision

3.1. The preparation of the budget and three-year medium-term financial plan is the first stage of the annual business planning cycle for the forthcoming financial year 2022/23. There is a statutory requirement to set a balanced budget and submit budget returns to the Ministry of Housing, Communities and Local Government (MHCLG). Approval of the revenue estimates constitutes authority for the incurring of expenditure in accordance with approved policies.

4. National Context

4.1. The Covid-19 pandemic has had a significant public health and financial impact on the Council and the City of Westminster since the initial national lockdown announced on 23 March 2020. Over that period the Council has focused its efforts to protect the most vulnerable residents in the City and support businesses.

4.2. The financial impact across Westminster has been considerable, with many businesses remaining closed or needing to adhere to strict reopening criteria as the UK emerges from the remaining lockdown phases. Throughout the last year, many businesses in the City have received business rates support mainly in the retail, hospitality and leisure sectors, where c£1bn of reliefs were provided. Furthermore, the Council distributed more than £200m in additional grants to eligible businesses to support them through this difficult time.

4.3. The Office of Budget Responsibility (OBR) estimates public sector borrowing to have totalled £299bn in 2020/21, roughly double the amount at the height of the financial crisis in 2009/10 and an increase of £246bn on 2019/20. This is partly tax yield being reduced, but also the costs of government direct support, including the job retention (furlough) scheme which continues to support 3.4m employees, having peaked at 5.1m in January 2021. The furlough scheme begins to taper from 1 July and is currently planned to cease after 30 September 2021.

4.4. National economic output fell by almost 10% in 2020/21 and impacted Westminster's income levels significantly. While this was offset through the Government's SFC compensation scheme, the risks remain, and expectations are that areas such as the West End will take at a couple of years to return to pre-pandemic levels in line with government's predictions.

4.5. The impact of increased public sector borrowing on the future of local government funding allocations remains uncertain. In the March Budget, the Chancellor signalled a reduction in public spending for unprotected departments of £2.6bn (3%) in 2022/23.

4.6. The government is planning a Comprehensive Spending Review over the summer, which will provide the envelope for medium term spending plans over the next three years aligned to government policy. It is hoped that this will lead to a multi-year finance settlement for local government. Additionally, the Ministry of Housing, Communities and Local Government (MHCLG) is set to continue with its Fair Funding Review which seeks to reset the formula that drives core funding across authorities, based on need and resources. The timing of implementation is uncertain but remains officially planned for 2022/23 and therefore assumptions in the plans have been made for this impact.

4.7. Government have also signalled that they will report back in the Autumn on the fundamental review of business rates, business rates reset within the finance system as well as Adult Social Care funding.

5. City for All

5.1. Due to the impacts of Covid-19 the Council adapted the City for All strategy for 2021/22 to incorporate economic recovery and tackling health inequalities. As part of this, it created a new, fourth pillar to the strategy named “Thriving Economy”. This outlines a programme of economic recovery work benefitting residents and businesses, complementing the existing “Greener & Cleaner”, “Vibrant Communities,” and “Smart City” pillars.

5.2. The key outcomes we want to achieve through City for All and its four pillars are:

- An economy that supports businesses and communities through employment, training and leisure opportunities
- A net zero carbon Council by 2030 and a net zero carbon city by 2040
- An inclusive place, reduced inequalities, care provided to those who need it the most
- Improved service provision and value for money using modern technology

6. Medium Term Financial Plan: 2021/22 to 2023/24

6.1. The MTFP approved at Full Council on 3 March 2021 outlined a total budget gap up to 2023/24 of £43.1m. This is summarised in the table below:

	2021/22	2022/23	2023/24	TOTAL
Annual Budget Gap	0.000	22.374	20.706	43.080

6.2. The £43m budget gap is inclusive of £31.8m savings to 2023/24 which were approved by Full Council in March 2021. The updated budget gap assumes that these savings will be delivered in full. Work on these savings needs to continue to throughout the year the meet the budget gap.

7. Update: Current Financial Position

7.1. The General Fund outturn position for 2020/21 was a net outturn of £3.8m (2.1%) overspend against an approved budget of £180m. The Council used its general reserve balance to absorb the final year-end position. It should be noted that this was a favourable position compared to earlier forecasts due to use of Covid specific grants.

7.2. The current forecast for 2021/22 is a balanced position against the budget. This takes account of ongoing government support for the impact of the pandemic this year, however this remains difficult to accurately predict given recent extensions of the phases for lifting restrictions of lockdown.

7.3. Within the net forecast position is the £9m Covid-19 general grant. The Council also holds specific government grants and contributions which it will continue to use to reduce any future pressures as the country exits lockdown and the Council supports the businesses in Westminster to reopened fully in line with government public health guidance.

7.4. At period 2 the Council anticipates a £1.2m adverse variance against its income budgets. This variance remains after the last budget cycle adjusted income budgets by £24m in 2021/22 to reflect the Government’s forecasts on economic recovery.

7.5. Income volatility remains one of the biggest risks both this year and over the medium-term as it is expected that footfall will remain significantly lower than pre-pandemic levels. The government extended its sales, fees and charges income compensation scheme (whereby government reimburses c75% of income losses after the first 5%) only to the end of June, so currently the Council will be required to absorb any income losses from July onwards, which has been built into the plans. Local government groups are requesting that this is extended further though.

7.6. The Council holds £59m in unallocated General Fund reserves, which may be utilised to fund any net overspend this financial year which is not covered by Government financial support. The Council does hold Covid-specific funding, retained from Government financial support provided last financial year, that it will seek to utilise before any unallocated reserves are used.

8. Medium Term Financial Plan: 2022/23 to 2024/25

8.1. The assumptions in the medium-term financial plans have been reviewed up to 2024/25 and the revised position is outlined in the table below. The budget gap is estimated to be £51.3m up to 2024/25, which represents 7.8% of the Council's gross core 2021/22 budget

	2022/23 over 2021/22 £'m	2023/24 over 2022/23 £'m	2024/25 over 2023/24 £'m	Total
Funding Gap - as agreed by Full Council	22.374	20.706	0.000	43.080
Core Funding Losses	0.100	0.800	9.100	10.000
New Homes Bonus - continuation of scheme	0.000	(1.440)	(1.440)	(2.880)
Council Tax Prior Year Deficit	0.160	0.000	0.000	0.160
Council Tax Base Growth	0.000	0.000	(0.876)	(0.876)
Corporate and Service Pressures additional year	0.000	0.000	13.500	13.500
Total	**22.633**	**20.066**	**20.284**	**62.983**
<u>Other Adjustments</u>				
Concessionary fares	(1.700)	0.000	0.000	(1.700)
Final pension deficit payment	(10.000)	0.000	0.000	(10.000)
Total	**(11.700)**	**0.000**	**0.000**	**(11.700)**
Grand Total	**10.933**	**20.066**	**20.284**	**51.283**
Annual Gross Budget (£m)				**658.00**
Total gap as a % of annual gross budget				**7.8%**

8.2. The 2022/23 budget gap has reduced by £11.7m, while 2023/24 has reduced by c£0.7m. The refreshed MTFP shows a £8.2m increase in the budget gap over its three-year horizon and now totals £51.3m.

8.3. Reasons for the changes in the 2022/23 and 2023/24 budget gap are outlined below:

- Changes in core funding assumptions increase the gap by c£1m over two years;
- A reduction following an improved estimated position of £1.4m for New Homes Bonus (NHB) funding. Originally estimated to be fully abolished, a recent MHCLG consultation means that it is now expected that NHB will continue;
- A forecast deficit in Council Tax of £0.16m due to Covid which is expected to phase out over the MTFP timeframe;
- A £1.7m reduction in annual cost of concessionary fares payable to TfL following reduction in usage over the last year;
- The Council has committed to pre-pay its pension deficit in 2021/22, which will reduce ongoing salary on-costs by £10m per annum.

8.4. The annual MTFP refresh also includes extending it for a further year to 2024/25. This estimates an annual structural deficit of £20.3m arising from a further year in core funding losses, inflationary pressures, corporate and capital financing increases, partially offset by small increases in income from council tax base growth and New Homes Bonus.

8.5. The MTFP maintains its income modelling assumptions in line with Government forecasts of economic recovery and may revise those assumptions as the UK exits the remaining phases of lockdown.

8.6. As stated in the March budget report, options for reducing the Pension Fund deficit have been explored and it is now proposed to make a one-off payment of £80m as a cash contribution to increase the funding level of the Council's share of Pension Fund from 86% to 100%. This will reduce the interest cost payable over the long term as well as generate a saving in the revenue budget for deficit repayments from 2022/23 onwards. The accounting treatment of this has been agreed with the Council's external auditor.

8.7. The Council's reserves are considered robust to counter any risks in the budget over the three-year period. As well as maintaining reserve levels to mitigate risks, the Council also maintains reserves to assist in its City for All objectives – such as Climate Change and Smart City specific reserves – and invests reserves into projects that will deliver ongoing savings to reduce the budget gap. Drawdown of reserves to finance any expenditure relating to these objectives will be subject to the approval of the s151 officer as per the financial regulations.

9. Approach to identifying new savings and implementing current proposals

9.1. With respect to new savings, Executive Directors and their teams will be working collaboratively to identify opportunities for delivering both near term efficiencies and medium-term transformational change. Efficiencies in the near term are expected to include a focus on demand management interventions, greater automation, more use of data and intelligence to help identify new opportunities for efficiency, and continued property asset rationalisation. Transformational change will include digital innovation across services, use of advanced and predictive analytics to support deeper automation and operational targeting, prevention-based service redesign, and a highly collaborative approach across the organisation and its partners to find cost-reduction solutions whilst still delivering key outcomes. Invest-to-save opportunities will be encouraged as part of the approach for both revenue and capital.

9.2. Delivery of existing savings commitments remains a key priority to ensure the Medium Term Financial Plan does not become an even greater challenge. We have tightened up the monitoring of our delivery portfolio, to ensure strategic alignment and value for money. These commitments are regularly monitored with available support from teams with relevant expertise to help overcome any barriers to delivery.

10. Capital Strategy Review

10.1. The pandemic has impacted the Council’s capital programme delivery timeframes and these delays have been reported in the Council’s capital 2020/21 outturn. Continuing lockdown restrictions and social distancing measure meant that some projects would complete later than planned.

10.2. Rolling capital programmes that ordinarily attract external funding face uncertainty in the immediate future as that funding may not be forthcoming. The Council will continue to seek opportunities to obtain external funding to continue to deliver against its *City for All* objectives. One example is the recent success in obtaining a £13m grant from the Department for Business, Energy and Industrial Strategy (BEIS) to support delivery of the Council’s decarbonisation strategy for its corporate property assets.

10.3. Despite the challenges caused by the pandemic, the Council has retained ambition in its capital programme; £1.6bn over 15 years, including investing in delivery of affordable homes and major public realm schemes across the City.

10.4. The capital programme is financed in a number of ways, including through an increasing amount of revenue borrowing, towards which the MTFP allocates funding. Any increases in the net capital programme budget would require additional revenue savings to finance it which therefore acts as a limiting factor for the size of the programme.

11. HRA Business Plan

11.1. The HRA Business Plan approved at Full Council on 3 March 2021, presented an overall balanced HRA budget position. The 2021/22 budgeted position is for a £0.855m deficit in year, though this in-year position improves in the short to medium term, with surplus positions forecast in 2024/25 and 2025/26.

11.2. Although the HRA Business Plan presents a balanced position currently, there are several areas that need to be considered for future budgeting that will result in financial pressures on the HRA and which are being reviewed in line with the budget timetable. These include dealing with the impact of national policy changes such as with the Fire Safety Bill, and the Building Safety Bill, as well as local aspirations in areas such as regeneration and development, as well as improving the HRA's contribution towards Westminster's carbon reduction commitment. These priorities will be considered whilst also delivering the business as usual requirement to deliver services to our residents and ensure that their homes are maintained to an appropriate standard.

11.3. Whilst work will need to be undertaken to refine the anticipated costs of these various pressures, the HRA will need to identify savings in its expenditure budgets, whilst also looking to maximise income streams where possible.

12. Timelines

12.1. The broad timeline of this year's budget setting cycle is outlined in the table below:

Group	Month	Comments
Cabinet	12 July 2021	Financial planning report – review assumptions, set out initial three-year budget gap and agree savings approach
ELT	July to September 2021	ELT, directors and officers to review and identify saving options – ELT savings sign-off
Budget and Performance Scrutiny Task Group	Late January 2022	Scrutiny of the MTP and saving options put forward.
Cabinet	15 February 2022	Agree and approve the 2021/22 budget and three-year MTP
Full Council	2 March 2022	Agree and approve the 2021/22 budget and three-year MTP

13. Legal Implications

13.1. This report is submitted to the Cabinet in accordance with the Finance procedure rules. Cabinet is asked to note the revised medium term financial forecast to 2024/25 and to agree the budget process approach as set out in the report.

13.2. The function of calculating the City Council's budget requirement and the City Council's element of the Council Tax, and the function of setting the Council Tax, are the responsibility of the full Council. The function of preparing estimates and calculations for submission to the full Council is the responsibility of the Cabinet.

13.3. The report sets out a timetable to agree and approve the overall 2022/23 budget and three-year MTFP and to agree and approve the 2022/23 budget and three-year MTFP.

13.4. Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

13.5. The Council has a statutory duty to have regard to the report of the Chief Finance Officer on these issues when making decisions about its budget calculations.

13.6. Some savings proposals may only be delivered after specific statutory or other legal procedures have been followed and/or consultation taken place. Where consultation is required, the Council cannot rule out the possibility that they may change their minds on the proposal because of the responses to a consultation, and further reports to Cabinet or cabinet member (as appropriate) may be required.

13.7. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act.

13.8. If General Fund Reserves are used to support the budget they will need to be reimbursed at the earliest opportunity to provide the necessary, margin of safety in future years

14. Consultations

14.1. No specific consultations resulting from this report. However, individual savings proposals could be required to go through a consultation process.

If you have any queries about this report or wish to inspect any of the background papers please contact:

Jake Bacchus, Director of Corporate Finance

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BACKGROUND PAPERS

- Medium-Term Financial Plan 2021/22 to 2023/24 (Cabinet, 15 February 2021)

City of Westminster

Cabinet

Decision Maker:	**Cabinet**
Date:	**12 July 2021**
Classification:	**Open**
Title:	**2020/21 Outturn and Statement of Accounts**
Wards Affected:	**ALL**
Key Decision:	**Yes – on the forward plan**
Financial Summary:	**The report summarises the Council's 2020/21 year-end financial position and requests approval for unspent 2020/21 capital budgets to be reprofiled into future years – as per section 8.**
Report of:	**Gerald Almeroth, Executive Director – Finance & Resources**

1. Background

1.1. This report presents the Council's 2020/21 outturn position for revenue and capital for the General Fund (GF) and Housing Revenue Account (HRA). As well as a summary of the pension fund and the Council's treasury management for the year.

1.2. The report also includes as summary of the 2020/21 draft accounts that have been submitted for external audit. The audit of the draft accounts began on 28 June 2021 and are anticipated to be signed off and approved at Audit and Performance Committee in September 2021.

2. Executive Summary

2.1. The General Fund (GF) revenue position is a net outturn of £3.8m (2.1%) overspend against an approved budget of £180m. This compares to a P9 overspend forecast of between £10-20m. This improvement was primarily due to some additional application of specific Covid grants, a release of funding from the insurance reserve and some smaller improvements in income. The Council has used its general reserve balance to absorb this final year-end position.

The Council has built up its general reserve position over a number of years to allow it to manage any unforeseen circumstances particularly for any economic shock. While the 2020/21 revenue overspend reduces the Council's general reserve to £59.5m, this accounts for 6% of the total balance.

2.2. It has always been acknowledged that the Council is particularly sensitive to recessions due to its reliance on fees and charges, but the current level of general reserves remains robust which should enable it to withstand any short-term volatility while the UK moves through the roadmap out of lockdown. Reserves will be important to ensure the Council can maintain resources for its services over the medium term as the national and local economic conditions remain uncertain over this period.

2.3. The HRA outturn is a surplus of £2m against a budgeted deficit of £4.3m. Further details of the variations are given later in this report.

2.4. The general fund capital outturn is a gross expenditure variance of £122m against a budget of £257m. The HRA capital outturn is an expenditure variance of £68m, against a budget of £207m.

3. Recommendations

3.1. That Cabinet note the summary of the draft 2020/21 statement of accounts subject to the public inspection period and the audit currently underway.

3.2. That Cabinet notes the Council's outturn position for 2020/21.

3.3. That Cabinet approves slippage from the 2020/21 capital programme into future years.

4. Background to 2020/21 Outturn Position

4.1. Over the course of 2020/21, the Council has been agile in responding to the pandemic, ensuring that the most vulnerable are protected and that businesses received support as quickly as possible. Since the first lockdown in March 2020 the Council has:

- supported vulnerable communities and those shielding in line with government regulations, through the creation of Westminster Connects – which has supported 27,000 residents with the help of over 4,000 volunteers;
- supported rough sleepers off the streets;
- led on the pan London Mortality Management Group (MMG);

- supported our care homes and care home providers throughout the pandemic;
- supported the City's schools through the various Covid-19 restrictions;
- created new community forums to engage with key stakeholders, and;
- paid Government grants and reliefs to businesses throughout the year.

4.2. The financial impact of the pandemic on Westminster has been considerable whereby the Council has:

- Incurred additional costs supporting the most vulnerable people in our communities;
- Been negatively impacted by reduced activity in the City which has led to significant reductions in income from sales, fees and charges, and;
- Needed to review and delay saving proposals that are no longer considered deliverable.

5. Government's Financial Support

5.1. The financial support the Government has provided is summarised in appendix 1. The total general Covid-19 funding received by the Council in 2020/21 is £29.3m, excluding any amounts due from the income compensation scheme. In addition to various other grants there is also passported funding to support residents and businesses.

5.2. The Government continued to reimburse authorities for 75% of Covid-related income losses in 2020/21 (after the first 5% of losses is absorbed by local authorities). To qualify, income losses must be related to the delivery of services. The compensation scheme excludes commercial and rental income. The Council is estimated to receive £28m for 2020/21 (with £15.4m already received), reducing the overspend in this year's outturn and is higher than previously expected.

5.3. The Government's financial support so far can be categorised into the following areas:

- grant funding, both general and specific, for local authorities to cover expenditure and income losses arising from the pandemic;
- grant funding provided to local authorities as intermediary that then needs to be passed on to businesses and individuals;
- grants funding to help with Test & Trace, contain outbreak management and local enforcement, and;
- cashflow support for local authorities, including the deferral of certain payments to Government and the bringing forward of grants.

5.4. The level of Government support is summarised as follows:

- Support for businesses - £1.2bn
- General support - £57m
- Support for Test and Trace and Local Enforcement - £11m
- Other Specific Grants - £5.5m
- Support for Care Providers - £3.4m
- Support for residents - £2.7m

6. Revenue Budget

General Fund

6.1. The table below summarises the year end revenue position:

ELT	2020/21 Net Budget £m	2020/21 Net Outturn £m	2020/21 Net Variance £m
Adults Services	54.550	55.823	1.273
Public Health	(1.029)	(1.029)	0.000
Children's Services	41.800	44.030	2.229
Environment & City Management	(3.380)	34.278	37.658
Growth, Planning & Housing	24.440	29.676	5.236
Finance and Resources	19.208	18.632	(0.576)
Innovation & Change	6.006	8.324	2.318
Chief Executive and People Services	8.408	7.855	(0.553)
Corporate Items*	29.973	(13.760)	(43.733)
Total	**179.977**	**183.829**	**3.851**

*Corporate Items includes non-specific grants and compensation i.e. general Covid grant and Sales, Fees and Charges compensation.

6.2. In gross terms the outturn can be summarised as follows:

Item	£m
Gross Variance	61.068
General Covid Grant	(29.210)
SFC Compensation	(28.007)
Net Variance	**3.851**

6.3. The gross variance for the year of £61m is broadly within the range anticipated during the year with approximately £50m due to income losses and the remainder from additional expenditure in response to the pandemic.

6.4. The final position means the Council will be required to drawdown £3.8m from its unallocated reserves – reducing the balance to £59.5m. This is positive compared to early estimates this year and leaves the Council's general fund reserve in a relatively healthy position. This enables the Council to weather the impact of any further restrictions and/or possible medium-term ongoing impact on Council budgets resulting from the pandemic.

Income

6.5. The biggest impact on the Council's 2020/21 position has been due to reductions in income. The year-end variance based on the largest income streams is £49.1m. However, a number of income losses have been mitigated by the Government's 75% Sales, Fees and Charges (SFC) compensation scheme through which the Council received £28m in 2020/21.

6.6. A summary of the Council's top income variances can be found in the table below:

ELT	Major Income Streams with Losses	Full Year Budget £m	Full Year Actuals £m	Full Year Variance £m
Environment and City Management	Parking - Paid for Parking	39.866	30.456	9.410
Environment and City Management	Parking - PCNs	19.912	12.473	7.439
Environment and City Management	Parking - suspensions and dispensations	23.092	18.643	4.449
Environment and City Management	Parking - Resident Permits	4.471	4.491	(0.021)
Environment and City Management	Commercial Waste	18.199	7.684	10.515
Environment and City Management	Licensing (top two income streams)	3.650	1.641	2.009
Environment and City Management	Road Management	8.810	8.644	0.166
Environment and City Management	Community Services	5.974	0.113	5.861
Children's Services	Registrars	2.302	1.261	1.041
Growth, Planning & Housing	Planning	7.336	4.867	2.469
Innovation and Change	City Promotions, Events and Filming	4.704	0.830	3.874
Other Corporate Directorates	Local Land Charges	1.794	1.105	0.689
Finance and Resources	Property Income - General Fund	30.333	30.946	(0.613)
Finance and Resources	Court costs recovery income	1.908	0.000	1.908
	Total	**172.349**	**123.155**	**49.194**

6.7. While the compensation scheme has extended into the first quarter of 2021/22, income losses represent a significant risk to the Council's finances in the near future as they are dependent on footfall and activity returning to the City.

Business Rates and Council Tax (Collection Fund)

6.8. Council Tax and Business Rates are the Council's largest income sources and the Council has a responsibility to collect on behalf of the GLA and government. It collects and recognises in its account the following:

- Gross Council Tax (including GLA share): £98m
- Gross Business Rates (after retail relief given by government during COVID): £1.4bn

6.9. However, the Council only retains £185m of this income (Council Tax £60m & NNDR £120.5m) for its own use. If there is a reduced business rates income as witnessed through Covid the maximum the council will lose is £6.8m, protected by Government, reducing our recognised income from £120.5m to £113.7m.

6.10. The Council was compensated during 2020/21 for the business rates reliefs provided to businesses following the first lockdown. This compensation (known as s31 grant) is to cover losses in the Collection Fund but is recognised in the General Fund upon receipt. However, due to accounting regulations Collection Fund losses are realised the year after they occur. Therefore, this will increase earmarked reserves by £361m in 2020/21, but this reserve will then be used in 2021/22 to cover the corresponding Collection Fund loss.

6.11. The collection of business rates and council tax has been impacted by the Covid-19 outbreak as residents and businesses face an uncertain financial situation. The restriction on courts has in effect suspended recovery action for unpaid bills and reduced cash receipts. The 2020/21 council tax collection rate for the year is 91.1% which is 5.6% lower than last year.

Expenditure

6.12. As the Council redirected its services towards supporting the City during the pandemic, most expenditure variances were Covid-related. The key expenditure variances are summarised as follows:

- In Adults Services, there was additional spend of £0.987m mainly on PPE, increased staffing and support for the provider market. Furthermore, financial savings of £0.725m were deferred into financial year 2021-22. However, business-as-usual activities resulted in a £0.439m underspend, thereby mitigating the overall pressure;

- Children's Services experienced Covid-related additional expenditure regarding short breaks for children and social care across Families Services. There was also a BAU overspend of £2.2m due to increased numbers of Unaccompanied Asylum-Seeking Children (UASC) care leavers, a cohort which attracts lower Home Office funding than UASC Looked After Children.

- Temporary Accommodation (TA) reports a net £1.9m overspend. As at the end of March 2021 there were 2,770 tenancies but it should be noted that this is a slight reduction compared to the same time last year. The TA reduction strategy seeks to address this on-going pressure.

- Rough Sleeping incurred gross costs of £1.5m during the year supporting rough sleeps off the streets. However, this was largely offset by specific government grant funding, resulting in a net overspend of £0.100m

2020/21 Savings

6.13. In March 2020 (prior to the pandemic) Full Council approved savings of £18.9m to be delivered in 2020/21. However, the impact of the pandemic has meant that a number of these savings have been delayed or are no longer considered deliverable.

6.14. A total of £5.6m of savings which were due in 2020/21 were not delivered due to the pandemic. This represents approximately a third of all savings – therefore two thirds of savings were still delivered.

6.15. The majority of these undelivered savings were related to income from the Council's leisure management contract, growth in property income and outdoor media advertising.

6.16. As part of the Council's Medium-Term Financial Plan approved by Full Council in March of this year, the pressures from these undeliverable/delayed savings were included in 2021/22 budget.

Housing Revenue Account (HRA)

6.17. The HRA outturn is a surplus of £2m against a budgeted deficit of £4.3m, a variance of £6.3m.

6.18. The main variances contributing to this underspend are:

- £3.3m extra service charge income from leaseholders,
- £1.2m staffing underspends across Housing Management and Repairs Management
- £1.4m lower than budgeted support service charges
- £2.2m lower interest charges to the HRA, and
- £1.3m one-off benefit from the Council's insurance fund.

6.19. These underspends are partially offset by pressures across the HRA, the main ones being:

- £2.1m lower rent and tenant service charge income than budgeted due to voids, primarily those linked to regeneration schemes,
- £0.4m lower income from non-dwelling rents,
- £1m more expenditure on the commercial portfolio than budgeted

7. Capital

General Fund Capital Programme

7.1. The table below summarises the General Fund capital outturn position for 2020/21. In total the general fund capital programme has gross expenditure slippage of approximately £122m. The majority of slippage is related to the following reasons:

- Acquisitions not becoming available
- Covid-19 related delays
- External factors – e.g. Crossrail
- Delays in internal decisions
- On site issues and delays

ELT	2020/21 Expenditure Budget £m	2020/21 Income Budget £m	2020/21 Net Budget £m	2020/21 Expenditure Outturn £m	2020/21 Income Outturn £m	2020/21 Net Outturn £m	2020/21 Expenditure Variance £m	2020/21 Income Variance £m	2020/21 Net Variance £m
Adult's Services	1.251	(1.251)	0.000	0.830	(0.830)	0.000	(1.168)	1.168	0.000
Children's Services	20.998	(15.181)	5.817	9.294	(6.898)	2.396	(11.704)	8.283	(3.421)
Growth, Planning & Housing	76.273	(22.853)	53.420	38.484	(7.752)	30.732	(37.789)	15.101	(22.688)
Environment & City Management	81.567	(39.885)	41.682	52.069	(25.756)	26.313	(29.498)	14.129	(15.369)
Finance and Resources	31.672	0.000	31.672	14.210	(0.390)	13.820	(17.462)	(0.390)	(17.852)
Westminster Builds	45.521	0.000	45.521	21.169	(4.256)	16.913	(24.352)	(4.256)	(28.608)
Total for Council	**257.282**	**(79.170)**	**178.112**	**135.309**	**(45.135)**	**90.174**	**(121.973)**	**34.035**	**(87.938)**

7.2. The Council's capital programme was approved by Council in March 2020, with an expenditure budget of £257m (including slippage from the previous year). The delivery of schemes and capacity for planning projects were significantly affected by the pandemic and the response to it, further details follow in this report.

7.3. Although the level of slippage is significant, there were also several projects that spent within a reasonable tolerance of the original budget. These included the following projects - LED Lighting Rollout, Lisson Grove Refurbishment, Corporate Property Landlord Responsibilities, Footway Programme Maintenance and the LED Lighting Rollout.

7.4. The table below summarises the projects with the largest variance to budget. Fifteen projects contribute towards two thirds of the total slippage for the year:

Project	**Variance to Budget £m**	**Comments**
Westminster Builds	(15.425)	Acquisitions from Council developed schemes have not taken place this financial year and reflects £7.6m of underspend. The remaining underspend relates to the company's pipeline programme, the impact of Covid-19 and the Jubilee acquisitions budget. The pipeline programme is live, but no suitable sites have been identified yet and therefore the budget has slipped.
Temporary Accommodation Acquisitions	(14.765)	Due to Covid-19 no activity took place on two of the Council's acquisition programmes.
St Marylebone Bridge Special School	(9.403)	There was a delay in the start date of construction caused by issues of disconnecting gas and electrics, amplified by Covid-19.
Luton Street	(8.926)	A new plan was agreed with the Limited Liability Partnership (LLP) after the budget was set and some element of delay was caused by Covid restrictions and uncertainty at the start of the first lockdown.
Ceremonial Streetscape	(4.433)	A revised programme of works has identified that some of the largest schemes will start in 2021/22 rather than the earlier planned start dates as legal agreements have not yet been secured with landowners.

Huguenot House - Strategic Acquisition	(4.000)	There has been a reduced level of acquisitions compared to what was originally anticipated.
Oxford Street District	(4.399)	The original budget of £10.5m was based on a delivery programme which has since been re-prioritised. As a result, some work packages which were expected to be delivered in 2020/21 have been moved to future years, with the focus for 2020/21 being on the economic recovery of the District. Some work packages have entered the implementation stage, including the Showcase Scheme and Ramillies Place.
Place Shaping's Enterprise Programme	(4.017)	The majority of the budget was to cover works to create Enterprise Space along the Grand Union Canal. These works have been delayed as the land is required for Crossrail works by Network Rail. Discussions are ongoing with them over the best course of action going forward. Other smaller pots of funding were due to be utilised on schemes such as Somerset House, but these discussions have been postponed due to the pandemic. Additionally, the Street Markets Wi-Fi scheme has also underspent this year as there was a delay in getting the procurement process started.
Piccadilly Underpass	(3.529)	There have been discussions about the design costs which has delayed the scheme this year. As a result, any planned start date will not be until 2021/22 at the earliest.
Church St Green Spine Project	(3.518)	The programme was revised early on in 2020/21 after delays in planning the scheme. Final expenditure was more than forecast at P10 because utility companies billed earlier than anticipated.
Queensway Streetscape	(3.314)	When reconciling the overall scheme costs to date, it was identified some costs had already been paid for in previous or will be invoiced in future stages of the scheme when works have been completed.
TfL Local Improvement Plan Scheme & Cycle Schemes	(3.089)	As a result of the Covid-19 pandemic TFL Reduction in TFL LIP funding and cycling funded compared to what was built into the budget.
Total	**(78.818)**	

Housing Revenue Account – Capital

7.5. The HRA capital budget and outturn position is summarised in the table below:

HRA Capital Programme	Revised Budget £m	Outturn position £m	Budget Variance £m
Housing Planned Maintenance	54.057	31.309	(22.748)
Housing Regeneration	112.727	80.547	(32.180)
Other Projects	40.639	27.750	(12.889)
Total	**207.423**	**139.607**	**(67.816)**

7.6. The HRA outturn reports an underspend of £67.816m. This is mainly due to the continued Covid-19 restrictions and lockdown, particularly on projects that are in community engagement stages. The impact of Covid-19 has caused delays to project completion and prevented access to properties in line with the Government guidelines. The schemes have been re-profiled into future years, however there was some pick up in the final months of the year on some regeneration projects that were already on site.

7.7. The main variances on individual projects are set out in the tables below:

Regeneration Project	Variance £m	Comments
Church Street Acquisitions	(11.414)	Underspend caused by impact of Covid-19 on the property market. The team saw a reduced number of units that could be acquired this financial year due to restrictions and guidelines on Covid-19.
Ebury Acquisitions	(10.170)	The out-turn position has been affected in a similar way to the Church Street project, in that Covid-19 has resulted in a reduction in the number of units that could be acquired.
Cosway	(8.194)	Re-profiling of the scheme into future years as contractors revised their work schedule to incorporate social distancing and the Government guidelines.
Small Sites (Infill)	(5.561)	All the small sites have been reprofiled into future years as some of the sites had procurement issues which caused delays.
Ashbridge	(4.711)	The discovery of asbestos at this site delayed the start on site date.
Total	**(40.049)**	

8. Capital Slippage

8.1. The tables below outline the reprofiling of capital slippage from 2020/21 into future years. Officers will monitor slippage during the year to inform the upcoming capital budget monitoring cycle

ELT Area	Slippage from 20.21 to 21.22	Slippage to 20.21 from 21.22	Slippage from 20.21 to 22.23	Slippage from 20.21 to Other Future Years	Total Slippage	(Under)/Over spends	Total 20.21 Outturn Variance
Adult's Services	(1,169)	0	0	0	(1,169)	0	(1,169)
Children's Services	(13,203)	21	(318)	0	(13,500)	1,795	(11,705)
Environment & City Management	(15,503)	4,902	(13,873)	0	(24,474)	(5,027)	(29,501)
Finance and Resources	(7,704)	393	(8,447)	0	(15,758)	0	(15,758)
Growth, Planning & Housing	(22,461)	3,196	(18,855)	(100)	(38,220)	429	(37,791)
Westminster Housing Investments Limited	(15,425)	0	0	(8,926)	(24,351)	0	(24,351)
FCR	(1,257)	0	0	0	(1,257)	0	(1,257)
	(76,722)	**8,512**	**(41,493)**	**(9,026)**	**(118,729)**	**(2,803)**	**(121,532)**

8.2. The HRA re-profiling is summarised below:

ELT	Slippage from 20.21 to 21.22	Slippage to 20.21 from 21.22	Slippage from 20.21 to 22.23	Slippage to 20.21 from 22.23	Slippage from 20.21 to Other Future Years	Slippage to 20.21 from Other Future Years	Total Slippage
HRA -Planned Miantenance	(648)	14,738	(11,115)	72	(26,794)	1,000	(22,747)
HRA -Regeneration	(49)	0	(38,023)	5,892	0	0	(32,180)
HRA - Other Project	0	2,820	(21,253)	5,544	0	0	(12,889)
	(696)	**17,558**	**(70,391)**	**11,508**	**(26,794)**	**1,000**	**(67,816)**

9. Treasury

Investments

9.1. As at 31 March 2021, net cash invested was £127.2m, a decrease of £280.3m on the position at 31 March 2020 as shown below:

	31 March 2021 (£m)	31 March 2020 (£m)
Total Borrowing	(206.1)	(221.2)
Total Cash Invested	333.3	628.7
Net Cash Invested	**127.2**	**407.5**

9.2. The Council's Annual Investment Strategy which forms part of the Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by the Council on 4 March 2020. The Council's policy objective is the prudent investment of balances to achieve optimum returns on investments, subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

9.3. The table below provides a breakdown of investments, together with comparisons for the previous financial year end.

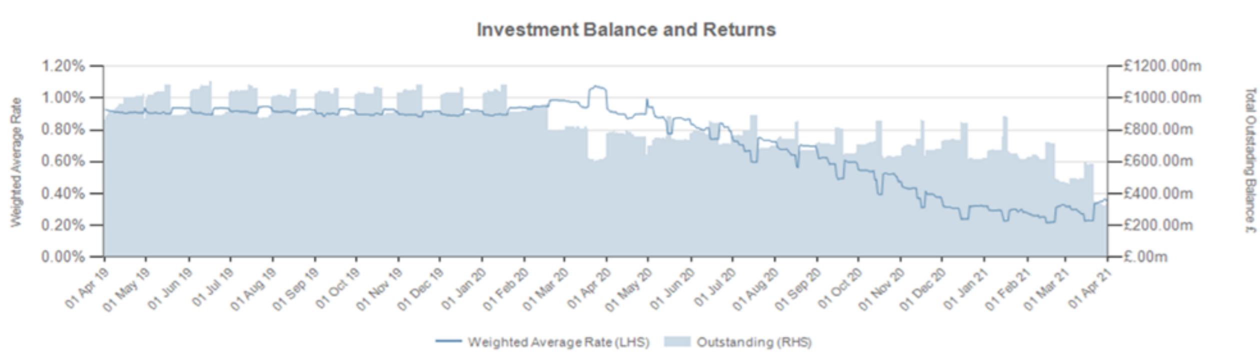
	Investment Balance 31 March 2021 (£m)	Investment Balance 31 March 2020 (£m)	Movement (£m)
Money Market Funds	77.8	30.1	47.7
Notice Accounts	20.0	18.6	1.4
Term Deposits	235.5	580.0	-344.5
Total:	**333.3**	**628.7**	**-295.4**

9.4. Liquid balances are managed through Money Market Funds, providing same day liquidity. Cash has been invested in less liquid instruments, particularly term deposits. The average level of funds available for investment in 2020/21 was £695.1m.

9.5. Daily investment balances have steadily decreased from £628.7m at 31 March 2020 to £333.3m at 31 March 2021.

9.6. On 4 August 2016, the Bank of England reduced the bank rate to 0.25%, staying at this level until 2 November 2017 when there was an interest rate increase to 0.50%. On 2 August 2018, there was another rate rise to 0.75% where it stayed until 11 March 2020 when it reduced to 0.25%. This was followed by a second decrease on 19 March 2020 to 0.10%. The bank rate has remained at 0.10% throughout 2020/21.

9.7. Surplus cash for investment and the weighted average rate has reduced. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Council's capital programme. Investment returns which had been low during 2019/20, reduced further during 2020/21 to near zero or even into negative territory, though the Council avoided placing any investments at a negative rate in the year.



9.8. All investment/overdraft limits specified in the 2020/21 investment strategy have been complied with except for one instance of cash received after close of banking business

- £8.490m on 4th May 2020.

9.9. The table below shows the forecast investment income to be achieved in the year: budget versus actual and the variance. The Council's budgeted investment return for 2020/21 was £5.743m, and performance for the year is £0.526m below budget.

Year 2020/21	Budget £000	Actual £000	Variance £000
Investment Income	5,743	5,217	-526

Borrowing

9.10. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital expenditure activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

9.11. At £206.1m, the Council's borrowing at 31 March 2021 was within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the estimated CFR for 2020/21 of £934m. The final CFR for 2020/21 was £892m.

9.12. During 2020/21, the Council maintained an under-borrowed position of £686m. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on the placing of treasury investments also needed to be considered.

9.13. The table below shows the details around the Council's external borrowing as at 31 March 2021, split between the General Fund and HRA.

Total Borrowing	31 March 2020 (£m)	31 March 2021 (£m)
HRA	196.0	181.0
General Fund	25.2	25.1
Total Borrowing	**221.2**	**206.1**

9.14. The breakdown of the existing loans is shown below:

Borrowing Type	Loan Balance 31 March 2020 (£m)	Loan Balance 31 March 2021 (£m)	Movement (£m)
PWLB	151.0	136.0	-15.0
LOBO	70.0	70.0	0.0
Mortgage Annuity	0.2	0.1	-0.1
Total:	**221.2**	**206.1**	**-15.1**

9.15. During 2020/21, the Council repaid £15.045m of loans using investment balances. These consisted of a £15m PWLB long term loan issued in December 2000 and £0.045m principal of mortgage annuity loans.

Forward Borrowing

9.16. As anticipated in the TMSS 2020/21, the Council took no additional borrowing for the financial year due to the high level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA). The monitoring process includes the setting of various trigger points, the breaking of which will require officer consideration of borrowing requirements and market conditions.

9.17. Due to the overall financial position and the underlying need to borrow for capital purposes, it is prudent for the Council to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need, whilst maintaining some forward flexibility as projects may or may not proceed within the expected timeframes.

9.18. In the financial year 2019/20, the Council arranged forward borrowing loans totalling £400m. These loans have enabled the Council to agree competitive rates in advance of need which eliminates the “cost of carry”, that is, the difference between loan interest cost and the rate of return on cash investments.

9.19. An analysis of these loans can be found in the table below.

Counterparty	Amount (£m)	Start Date	Maturity Date	Rate (%)	Profile
Phoenix Group	37.5	15 March 2022	15 March 2062	2.706	Annuity
Barings LLC	150.0	15 August 2022	15 August 2052	1.970	Maturity
Phoenix Group	12.5	15 March 2023	15 March 2066	2.751	Annuity
Rothesay Life Plc	200.0	08 May 2023	08 May 2063	2.887	Equal Instalment of Principal
Weighted average interest rate				**2.579**	

10. Draft Statement of Accounts 2020/21

<u>Balance Sheet</u>

10.1. The balance sheet in the table below shows the Council has net assets of £2.598bn. A decrease of £77.2m in comparison to 2019/20.

31 March 2020		Note	31 March 2021
£'000			**£'000**
	ASSETS		
	<u>Non-current</u>		
2,677,424	Property, plant and equipment	Note 18c	2,781,226
44,578	Heritage assets	Note 19	44,578
499,382	Investment property	Note 20	467,386
1,313	Intangible assets		2,861
88,104	Long-term investments	Note 21a	47,261
70,623	Long-term debtors	Note 27	89,957
3,381,424	**Total long-term assets**		**3,433,269**
	<u>Current</u>		
543,945	Short-term investments	Note 21a	237,853
116	Inventories		130
97,970	Short-term debtors	Note 27	560,869
35,522	Cash and other cash equivalents	Note 22	80,402
-	Assets held for sale		2,202
677,553	**Current assets**		**881,456**

31 March 2020		Note	31 March 2021
£'000			**£'000**
	LIABILITIES		
(16,828)	Short-term borrowing		(7,128)
(349,341)	Short-term creditors	Note 28	(556,886)
(687)	Short-term provisions	Note 29	(971)
(11,484)	Revenue receipts in advance	Note 13	(10,643)
(378,340)	**Total current liabilities**		**(575,628)**
	Long term		
(52)	Long-term creditors	Note 28	(7,317)
(72,299)	Long-term provisions	Note 29	(108,988)
(206,143)	Long-term borrowing		(200,696)
(642,316)	Other long-term liabilities	Note 30	(722,126)
(84,541)	Capital receipts in advance	Note 13	(101,890)
(1,005,351)	**Long-term liabilities**		**(1,141,017)**
2,675,286	**Net assets**		**2,598,080**
(831,306)	Total Usable Reserves		(1,241,678)
(1,843,980)	Total Unusable Reserves	Note 16	(1,356,402)
(2,675,286)	**Total Reserves**		**(2,598,080)**

10.2. There has been a significant increase in current liabilities, mainly relating to £197.1m of s31 grants made by Government to the Council. These need to be paid back to CLG in line with Collection Fund accounting.

10.3. The draft statement of accounts carries an additional £444m in earmarked reserves. This is due to the receipt of s31 grant which compensated authorities for business rates reliefs given during the Covid pandemic. This reserve will be discharged against any Covid-related business rates deficits in 2021/22 in line with accounting regulations.

10.4. Current assets have increased by £203.9m including a £462m increase in short-term debtors. £400.3m of which is due to the large WCC share of the collection fund deficit and year end arrears. This is offset by £306.1m decrease in short-term investments, due to fewer funds available.

10.5. Despite of an overall decrease in the net assets, there is an increase in long term assets which have increased by £51.8m resulting from property plant and equipment assets increasing by £103.8m, this reflects the expenditure outlined in the Council's ambitions capital programme.

10.6. This decrease in net asset position is further enhanced by an increase in long term liabilities – due to an increase in the Council's pension liability and long-term provisions.

Comprehensive Income and Expenditure Statement and Movement in Reserves Statement (MiRS)

10.7. Local government accounting requires the production of a comprehensive income and expenditure statement and movement in reserves statements, using International Financial Accounting Standards (IFRS). The movement in reserves statement is designed to adjust for technical transactions such as depreciation which does not impact the bottom line of local authority accounts.

10.8. A reconciliation of the CIES with budget monitoring is shown below.

	General Fund Balance £m	Housing Revenue Account £m	Total £m
Surplus of Provision of Services (CIES)	35,446	(23,286)	12,160
Technical Accounting Adjustments (MiRS)	(501,634)	23,077	(478,557)
Use of Earmarked Reserves	470,068	(1,808)	468,260
Net surplus Against Budget	3,880	(2,017)	1,863

10.9. The technical accounting adjustments consist of movements for:

- Neutralisation of depreciation
- Revaluation gain/losses for the Council's property portfolio
- The transfer of capital grants to be capital grants reserve
- Revenue expenditure funded from capital under statute
- Adjustments to the pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charge to council tax

Cash Flow Statement

10.10. There was a £44.880m increase in the Council's cash and cash equivalents (investments that mature in no more than three days) rising to £80.402m.

2019/20		Note	2020/21
£'000			**£'000**
(57,085)	Net (surplus)/deficit on the provision of services		12,160
(62,759)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	Note 32	(201,332)
138,880	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	Note 32	122,059
19,036	**Net Cash Flows from Operating Activities**		**(67,113)**
36,825	**Net Cash Flows from Investing Activities**	Note 33	**(233,787)**
(41,479)	**Net Cash Flows from Financing Activities**	Note 34	**256,020**
14,382	**Net (increase)/decrease in cash and cash equivalents**		**(44,880)**
49,904	Cash and cash equivalents at the beginning of the reporting period		**35,522**
35,522	**Cash and cash equivalents at the end of the reporting period**		**80,402**

10.11. The increase in the Council's cash position is mainly due to current need for cash liquidity, due to current financial climate, which is obtained through investments in Money Market Funds which are instant access.

Objections

10.12. At the time of writing the auditors have not received any objections in relation to the 2020/21 statement of accounts.

11. Conclusion

11.1. The impact of Covid-19 has had a significant impact on the complex operations of the Council. However, financial support throughout the year in the form of grants and compensation has mitigated much of the financial risk in 2020/21 and leaves the Council in a healthy position to mitigate any financial risks in the short- to medium-term future.

12. Financial Implications

12.1. The content of this report is financial in nature.

13. Legal Implications

13.1. There are no legal implications arising from this report.

If you have any queries about this report or wish to inspect any of the background papers please contact:

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jbacchus@westminster.gov.uk; 07811 723047

Background papers

The 2020/21 draft statement of accounts can be found at the following link:

2020 to 2021 annual accounts | Westminster City Council

Appendix 1 – Government Grants 2020/21

Scheme	National Funding	WCC Share	Purpose
General Support for Councils			
General Support	£4,600m	£29.3m	Un-ringfenced funding to help councils respond to the pandemic. Four tranches of payments have been made by Government.
New Burdens Grants	Unknown	£0.246m	New burdens funding to help with the administration cost of processing the grants
New Burdens Allocation	Unknown	£0.038m	New Burdens Payments for Council Tax Hardship Fund and Business Rate Reliefs.
High Street Funds	£50m	£0.233m	Reopening High Streets Safely Fund
Sales, Fees and charges scheme	Unknown	£28.007m	Councils may claim 75p in the pound after absorbing the first 5% of losses against budget on reduced income from sales, fees and charges.
Support for Test & Trace and Local Enforcement			
Local Authority compliance and enforcement grants	£30m	£0.192m	This is to support the council with the enforcement of Covid-19 restrictions or to encourage individuals within the borough to comply with the measures.
Contain Outbreak Management Fund	Unknown	£6.310m	Set of payments for local authorities to help support and maintain proactive containment and intervention measures. Circa £2m of funding will be used in 2021-22.
Track and Trace	£300m	£2.890m	Funding to support the test and trace service and to implement outbreak control plans.
Payments for Community Test Funding	Unknown	£1.737m	Funding to support asymptomatic community testing in the City. Rolling forward from previous year.
Other Specific Purpose Grants for Councils			
Support programme for extremely clinically vulnerable.	£32m	£0.309m	New guidance for clinically vulnerable residents at second lockdown has led Government to pledge over £32m funding for local councils in support.

Scheme	National Funding	WCC Share	Purpose
Covid Winter Grant Scheme	£170m	£0.776m	Covid Winter Grant Scheme used to support children, families and the most vulnerable over winter during the second wave of the pandemic.
Local authority Emergency Assistance Grant for Food and Essential Supplies	£63m	£0.284m	Help people struggling to afford food and other essentials
Emergency Support for Rough Sleepers	£3.2m	£0.250m	Funding to help rough sleepers self-isolate during the pandemic.
Next Steps Accommodation Programme	£105m	£1.721m	For interim accommodation and support for the 15,000 vulnerable people accommodated during the pandemic.
Protect Programme: the next step in winter rough sleeping plan	£15m	£1.000m	The £15 million funding is on top of the £91.5 million allocated to 274 councils in September to fund their individual plans for rough sleepers over the coming months.
Rough Sleeping Drug and Alcohol Treatment Grant Scheme 2020-21	Unknown	£1.125m	To provide additional support to people who are experiencing or have recently experienced rough sleeping. Rolling forward from previous year.
Support for Care Providers			
Infection Control (2 Tranches)	£1,146m	£2.576m	Infection Control in care homes. 75% of the funding must be passed straight to care homes within our geographical area – even if the Council does not have a contract with them. Councils can decide how to allocate the remaining 25% based on needs, but it must be used for infection control.
Social Care Funding - Increased Care Home Testing	£149m	£0.148m	To support increased care home testing of residents and staff.

Scheme	National Funding	WCC Share	Purpose
Social Care Funding - for local authorities to boost staffing levels	£120m	£0.662m	This funding has been provided for local authorities to boost staffing levels. In particular: - Provide additional care staff where shortages arise - Support administrative tasks so experienced and skilled staff can focus on providing care - Help existing staff to take additional hours as overtime or help with covering childcare costs.
Support for Businesses and Council Taxpayers (Council distributes)			
Council tax Hardship Fund	£500m	£2.2m	Help residents with council tax payments by £150. The council has supported 1,413 households so far and is considering other schemes to support residents and fully utilise the fund.
Test and Trace Support Grants	£70.53m	£0.538m	This is to be paid to residents who need financial support when self-isolating due to either being infected or potentially being infected.
Business Rates Retail Relief	£10,000m	£945m	Retail relief given to businesses and fully supported by the Government. The relief is expected to be more than the grant paid but more funding will be paid by central Government to recognise the additional relief.
Small Businesses	£12,000m	£98.555m	Grants paid to businesses of £10k or £25k each depending on their rateable value. The Council has paid out all the funding it has received and paid approximately 5,612 businesses.
Discretionary Local Authorities Grants	£617m	£4.840m	Additional to the above £12bn to help businesses who did not benefit from the first round of business grants.
Additional Restrictions Support Grant allocations	Unknown	£7.547m	Additional Grants to support local restrictions for lockdown period dating 5th November to 2nd December and a top-up to this fund for the national lockdown commencing 5th January.

Scheme	National Funding	WCC Share	Purpose
Local Restrictions Support Grants (Open)	Unknown	£7.208m	Two Grants to support the nation's economy and its businesses in response to Coronavirus and specifically for businesses that were still open but have been severely impacted by Local Covid Alert Levels and restrictions during 1st August to 4th November 2020 and 2nd December to 18th December.
Local Restrictions Support Grants (Closed) Addendum	Unknown	£103.012m	Grants to support local businesses closed by restrictions for lockdown period dating 5th November to 2nd December, for tier restrictions entered into on 2nd December and under the national lockdown from 5th January onwards.
Closed Business Lockdown Grant (January)	Unknown	£65.565m	The Closed Businesses Lockdown Payment will be in addition to LRSG (Closed) Addendum: 5th January onwards scheme payments. Funding to deliver a one-off payment for businesses that have been required to close from 5th January 2021 due to the introduction of national restrictions. This funding is not retrospective.
Christmas Support Payment for wet-led pubs	Unknown	£0.250m	To support the nation's economy and its businesses in response to Covid-19.
Cashflow support			
Deferred Rates	£2,600m	£192m	The deferral of local authority Q1 payments of the Central Share of retained business rates until the second half of the financial year.
Advance payment of reliefs	£1,800m	£90m	Up-front payment of business rates reliefs

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Appendix 2 - GF Capital Reprofiling			
Project Name	**Reprofiling from 20.21 to 21.22 £000**	**B/fwd spend to 20.21 from 21.22 £000**	**Reprofiling to future years**
BARNEY & FLOREY	169		
FRAMEWORKI- UPGRADE TO MOSAIC	419		
PEOPLE FIRST WEBSITE	21		
HEALTH INTEGRATION	163		
MOBILE WORKING	70		
LUPUS STREET	327		
TOTAL ADULTS SERVICES	1,169	0	0
ST GEORGE'S SCHOOL EXPANSION	150		
PORTMAN - BOILER&DISTRIBUTION		(21)	
REMODELLINGOFEARLYHELP/CHILDREN	130		
HALLFIELD SITE IMPROVEMENTS	817		
ST MARYLEBONE BRIDGE SPECIAL SCH	9,403		
REACTIVE CAPITALISED MAINTENANCE WORKS	237		
SOCIAL CARE SYSTEM REPROCUREMENT	544		
ROBINSFIELD ASD PROVISION	10		
HALLFIELD OUTREACH	245		
HALLFIELD ASD	112		
MILLBANK- WINDMILL ASD PROVISION	211		
QUEEN ELIZABETH II ASD CLASS BUILD PROVI	250		
EDWARD WILSON ASD AND INTERNAL BLD RESTR	50		
LOANABLE LIBRARY TABLETS SOLUTION	40		
OLD MARYLEBONE TOWN HALL ROLLING REDEC P	9		
LIBRAIRES 6 YEAR DECOR PROGRAMME	845		
LIBRARIES IT/SMART OPEN	150		318
TOTAL CHILDREN'S SERVICES	13,203	(21)	318
PRG-REPLACEMEN CHILD'S PLAY GRND	29		
SPORTS&LEISUR-CONDITIONSURVEY&MA	639		
ACTIVEWESTMINSTER PROJECT	380		
PRG - BLUEBELL GLADE WORKS	23		
WESTBOURNE GREEN SKATE PARK&MUGA	41		
WILBERFORCE MULTI USE GAME AREAS	77		
PADDINGTON GREEN SCHOOL MUGA	113		
HEALTH & WELLBEING PROJECTS	849		
NEWPORT PLACE			397
PLANNED PREVENTATIVE MAINTEN&STR		(367)	
ABELL AND CLELAND PUBLIC REALM	374		343
ANTI SKID SURFACING	134		
CARRIAGEWAY PROGRAMME MAINTENANC	226		
ELIZABETH ST/BUCKINGHAM PALACE	516		
FOOTWAY PROGRAMME MAINTENANCE	205		
DRAINAGE IMPROVEMENT PROGRAMME	63		
LIGHTING-CHERISHED COLUMN REPLAC	21		
LIGHTING IMPROVEMENTS		(857)	
REGULATORY SIGN REPLACEMENT	80		
PROTECT PAINTCOATING LAMP COLUMN	8		
WATERLOO BRIDGE	415		
HANOVER SQUARE PUBLIC REALM		(1,709)	
PICCADILLY UNDERPASS			3,505
LED LIGHTING ROLLOUT	51		
TRAFFIC SIG MODERNISATI&PEDESTR		(16)	
VEHICLE ACTIVATED SIGNS	62		
CEREMONIAL STREETSCAPE			3,620
BERKELEY SQ NRTH SIDE PUB REALM	442		
TRIAL 20MPH SCHEME	203		
COVENT GARDEN HVM			2,095
NORTH WHARF GARDENS SITE II	186		

LIGHTING-GAS VALVE SAFETY CONNEC	232		
VILLIERS STREET PUBLIC REALM	96		
THAYER/MANDEVILLE STREET	37		
PENFOLD STREET, CHURCH STREET	37		
PLAYGROUNDS MINOR WORKS	54		
PARKS&OPEN SPACES INFRASTRUCTURE	16		
RECYCLING CONTAINERS AND BINS	35		
OPEN SPACES STRATEGY	108		
COMMERCIAL WASTE CONTAINERS			52
CCTV - CRIME & DISORDER	140		
DISABLED FACILITIES GRANT	332		
STATE EVENT OPERATION PLAN	100		
RIDING HSE ST PEDESTRIANISATION	379		
TACHBROOK MARKET ELECTRIC UPDATE	164		
GOLDEN JUBILEE FOOTBRIDGE IMPROVEMENTS	12		
ISOLATED PITCHES ELECTRICS	478		
PARKS AND GARDENS LIGHTING	138		
ST GEORGES DRIVE & WARWICK WAY PEDESTRI	369		
STREET TREES – NEW PLANTING	43		
GREAT SCOTLAND YARD	18		
LSS COVENTRY STREET/HAYMAKET		(142)	
CARLTON VALE & RANDOLPH AVE	97		
OLD COMPTON ST GREEK ST&FRITH ST	94		
PADDINGTON ENVIRONMENTAL AND PLACE PLAN	393		
MINOR WORKS PROGRAMME 19/20	417		
KNIGHTSBRIDGE & TREVOR GATE	130		
PORTMAN SQUARE FOOTWAYS	82		
PLANNED PREVENTATIVE MAINTENANCE (PPM)	516		
ROYAL ALBERT HALL HOSTILE VEHICLE MGT PR	730		
PORCHESTER MAIN POOL REFURBISHMENT	344		
BURLINGTON GARDENS PUBLIC REALM IMPROVEM	567		
WESTMINSTER CEREMONIAL STREETSCAPE PH 2	352		
BUCKINGHAM GATE RED ROUTE AND COACH MGT		(66)	
STREET CLEANSING ZERO EMISSIONS	1,209		1,500
LSS HORSEFERRY RD & ELVERTON & MEDWAY ST	3		
LSS WELLINGTON & EXETER STREET	32		
SCHOOL TRAVEL PLAN ENGINEERING PROGRAMME	534		
ROYAL OPERA HOUSE HVM, HIGHWY PM (P724)			750
WELLINGTON HOTEL (P689)	50		
HIGHWAYS INNOVATION	655		
WATERLOO BRIDGE STREETSCAPE	94		
HIGH SPEED RAIL 2	50		
ELECTRIC VEHICLE CHARGING		(563)	
GROSVENOR SQUARE PR SCHEME			377
PARKING - BUSINESS PROCESSING AND TECHNO			250
FUTURE CITY MANAGEMENT	639		
HIGHWAYS BUILDOUTS FOR TREES	459		
TREE PRESERVATION REPLACEMENT PROGRAMME	14		
PUBLIC CONVENIENCES RENOVATION PROGRAMME			984
WCC FREIGHT AND SERVICING PLAN AND ACTIO	7		
LSS PALL MALL/WATERLOO PLACE	38		
LSS GREAT MARTIN ST & GREAT NEWPORT ST	40		
LSS NORTHUMBERLAND PLACE EMBANKMENT	32		
CYCLE PARKING 2021/22		(15)	
LOCAL SAFETY SCHEMES - VARIOUS		(94)	
PLANNED PREVENTATIVE MAINTENANCE (PPM) - HIGHWAYS		(99)	
PROTECTIVE MEASURES		(974)	
TOTAL ENVIRONMENT AND CITY MANAGEMENT	15,503	(4,902)	13,873
CLOUD MOVE	500		

OUTDOOR MEDIA PHASE 2	650		
WEBSITE RE-PLATFORM	123		
IT INFORMATION SECURITY MANAGEMENT	60		
SMART CITIES	150		
DIGITAL TRANSFORMATION	1,768		
BUSINESS INTELLIGENCE AND DATA ANALYTICS	91		
CAPITAL CONTINGENCY			2,370
CAPITALISED SALARY COSTS		(56)	
COSWAY STREET	453		
ENERGY MONITOR & TARGET	588		
FORWARD MANAGEMENT PLAN	300		
LANDLORD RESPONSIBILITIES		(337)	
MANDELA WAY UPGRADE	311		
MIN ENERGY EFFICIENCY STD (MEES)	224		
CORONERS COURT IMPROVEMENTS	846		
LISSON GROVE REFURBISHMENT	186		
SEYMOUR LEISURE CENTRE			103
INVESTMENT PORTFOLIO ASSET MANAGEMENT	454		
INVESTMENT PORTFOLIO INCOME SECURITY	1,000		
HUGUENOT HOUSE REDEVELOPMENT			597
LEISURE REVIEW - DEVELOPMENT			1,377
STRATEGIC ACQUISITN-HUGUENOT HSE			4,000
TOTAL FINANCE AND RESOURCES	7,704	(393)	8,447
AFFORDABLE HOUSING FUND BUDGET	1,353		
CHURCH ST GREEN SPINE PUBLIC REALM	3,518		
TEMP ACCOMMODATION ACQUISITIONS		(439)	
TA PURCHASE IBB		(796)	
TARGETED HSG PUR SCH OOB FOR VULNE HOUSE			11,000
20 IN-BOROUGH ACQUISITIONS FOR TA	5,000		
HOUSING SERVICE DIGITISATION	229		
FARM STREET	10		
LISSON GROVE PROGRAMME	2,213		
LUXBOROUGH DEVELOPMENT		(102)	
MOBERLY SPORTS CENTRE REDEVELOP	1,428		
HARROW ROAD PLACE SHAPING SCHEME	648		713
OPEN SPACES AND GREENER PLACES	200		
WEP - CONNECT WMINSTER-BROADBAND	293		
ENTERPRISE			4,017
STREET MARKETS STRATEGY INFRASTRUCTURE I	69		
OXFORD STREET DISTRICT	3,118		
STRAND/ALDWYCH		(442)	
SOHO PLACE PLAN			985
CHURCH ST GOOD GROWTH FUND	1,864		
CHURCH ST REGENERATION HUB	255		
CHURCH STREET ACQUISITIONS		(1,417)	
PADDINGTON PLACE PLAN			1,381
WEP - GENERAL	789		
WECH OPEN SPACE	68		
THAMES RIVERFRONT	991		662
VICTORIA PLACE PLAN	415		
THE LODGE			97
GREENING IMPROVEMENTS TO HALL PLACE			100
TOTAL GROWTH, PLANNING AND HOUSING	22,461	(3,196)	18,955
LUTON STREET			8,926
WESTMINSTER HSG INVESTMENT LIMITED (WHIL	15,425		
TOTAL WESTMINSTER BUILDS	15,425	0	8,926
NETWORK&TELEPHONY TRANSFORMATION	507		
TECHNOLOGY REFRESH	750		
TOTAL FLEXIBLE USE OF CAPITAL RECEIPTS	1,257	0	0

TOTAL REPROFILING	**76,722**	**(8,512)**	**50,519**

Appendix 3 - HRA Capital Reprofiling

PROJECT	Reprofiling from 20.21 to 21.22 £000	B/fwd spend to 20.21 from 21.22 £000	Reprofiling from 20.21 to 22.23 £000	B/fwd spend to 20.21 from 22.23 £000	Reprofiling from 20.21 to Other Future Years £000	B/fwd spend to 20.21 from Future Years £000	Total Reprofiling £000
O.T ADAPTIONS		72		72			143
ASSET MANAGEMENT & CONDENSATION	(299)						(299)
CLIMATE WORKS							0
DOMESTIC HEATING AND HOT WATER			(130)		(390)		(519)
ELECTRICAL SERVICES					(664)		(664)
FIRE PRECAUTIONS (FST)	(348)		(329)		(979)		(1,656)
FIRE PRECAUTION -MAJOR WORK		154	(3,178)		(1,935)	1,000	(3,959)
LIFTS			(213)		(851)		(1,064)
MAJOR WORKS		7,351	(2,864)		(18,123)		(13,636)
MECHANICAL SERVICES			(188)		(452)		(639)
MINOR WORKS			(61)		(770)		(831)
PDHU		6,972	(4,341)		(2,631)		0
VOIDS		189	189				377
TOTAL PLANNED MAINTENANCE	(648)	14,738	(11,115)	72	(26,794)	1,000	(22,747)
CHURCH STREET PHASE 2			0	1,558			1,558
CHURCH STREET PHASE 2 ACQUISITIONS			(11,414)				(11,414)
LISSON ARCHES			(251)				(251)
LUTON STREET				3,584			3,584
PARSONS NORTH				397			397
COSWAY			(8,194)				(8,194)
ASHBRIDGE			(4,711)				(4,711)
EDGWARE ROAD/ALMACANTAR				108			108
ASHMILL STREET			(781)				(781)
CARLTON DENE				234			234
BRUNEL			(2,503)				(2,503)
EBURY				12			12
EBURY ACQUISITIONS			(10,170)				(10,170)
TOLLGATE GARDENS	(49)						(49)
TOTAL REGENERATION	(49)	0	(38,023)	5,892	0	0	(32,180)
INFILLS			(5,561)				(5,561)
SELF FINANCING		2,820					2,820
WARWICK COMMUNITY HALL (WOC)				5,544			5,544
CHURCHILL GARDENS(PIMILICO OR DARWIN HOUSE)			(131)				(131)
BAYSWATER			(1,476)				(1,476)
QUEENSPARK COURT			(960)				(960)
WEST END GATE			(3,522)				(3,522)
CONTINGENCY			(9,550)				(9,550)
KEMP HOUSE/BERWICK ST			(52)				(52)
TOTAL OTHER PROJECTS	0	2,820	(21,253)	5,544	0	0	(12,889)
TOTAL HRA SLIPPAGE	**(696)**	**17,558**	**(70,391)**	**11,508**	**(26,794)**	**1,000**	**(67,816)**

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City of Westminster **Cabinet Report**

Meeting or Decision Maker:	Full Cabinet
Date:	12 July 2021
Classification:	General Release
Title:	Governance arrangements for Council owned companies and societies
Wards Affected:	All
City for All/Policy Context:	The recommendations in this report contribute to the overall City for All aims through effective governance arrangements.
Cabinet Member/Lead Member:	Leader of the Council and Cabinet Member for Finance and Smart City
Key Decision:	Yes
Financial Summary:	There are no direct financial implications from this report
Report of:	Gerald Almeroth, Executive Director of Finance and Resources and Tasnim Shawkat, Director of Law

1. Executive Summary

1.1 Westminster City Council is committed to maintaining strong and robust governance to ensure the decisions that are taken are made in conjunction with, and in the best interests of, the communities it serves. As part of this commitment, the Council constantly reviews its governance arrangements alongside learning best practice with other authorities to ensure the Council continues to meet its statutory obligations in the best way.

1.2 The desire to review the governance arrangements for Council owned companies and societies was considered as activity in the Council owned companies increased. In addition, the Committee on Standards in Public Life published its report in 2019 on local government ethical standards. The report included a good practice recommendation regarding transparency of each Council's relationship with separate bodies they have set up.

1.3 In October 2020, three internal audits were completed for Westco Trading Limited (WTL), Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL). The audits highlighted several improvements that could be made in terms of the governance arrangements across all the companies. As Westminster Builds Housing Company starts to increase its investments, it is considered a suitable time to review the governance arrangements for WCC.

1.4 The Council is also aware that more recently that external auditors such as Grant Thornton have issued public interest reports where local authority companies have performed poorly and where it was found that governance arrangements were not adequate.

1.5 Following this review and the wider focus on local authority governance arrangements, this report outlines some improvements the Council proposes to make with respect to its oversight of its wholly or part owned companies or societies. This includes a governance framework to support continuous good governance practice and transparency.

2. Recommendations

2.1 Approve the creation of Shareholder Committee as detailed in this report to ensure that its companies or societies act in the interests of the Council as shareholder and /or lender and contribute to the Council's objectives.

2.2 Note the draft Terms of Reference at set out at Appendix 2 and delegate approval of final terms to Executive of Director of Finances and Resources in consultation with the Cabinet Member for Finance and Smart City.

2.3 Delegate authority to Executive Director of Finance and Resources to agree final terms and enter into each Memorandum of Agreement with relevant subsidiary.

2.4 Delegate authority to Executive Director of Finance and Resources to approve final terms and enter into any Service Level Agreements where corporate functions provide support services to the subsidiaries.

2.5 Note that Cabinet Member Terms of Reference will be amended to reflect the above changes including the delegation of all Council decisions in respect of loan provision or grant to companies to the Cabinet member for Finance and Smart City.

3 Reasons for Decision

3.1 It is believed that the recommendations proposed will improve the governance arrangements and allow the Council to closely monitor its interest within each of its companies and societies with further clarity, transparency, and reporting.

3.2 It will ensure that the Council and its subsidiaries are meeting their legal and statutory responsibilities, are practising good governance and is in a better position to operate its subsidiaries in the future.

3.3 The proposed Shareholder Committee will be a sub-committee of the Cabinet and therefore a Cabinet decision is needed.

4 Background

4.1 Review of Current Governance Arrangements

4.1.1 The Council has several companies/societies which it either owns or has an interest in, which were formed to deliver council objectives in a more efficient and effective manner.

4.1.2 Some of these companies have been dormant/inactive companies and are being considered for recommendation to be wound up and will be considered by Cabinet at a future date. There are however three entities, one of which Westminster Community Homes is a Cooperative and Community Benefit Society (also referred to as a “society") that have significant activity:

- Westco Trading limited (“WestCo”)
- Westminster Community Homes Limited (“WCH”) and
- Westminster Housing Investments Limited and Westminster Housing Development Limited hereafter referred to as “Westminster Builds”.

4.1.3 All Westminster companies/societies (also collectively referred to as (“subsidiaries”) currently have their own boards in place to manage the activities and performance of each subsidiary. The boards are made up of Council representatives with the only exception being WCH which has a non-council representative on its board. The current structure of the Council subsidiaries is specified in **Appendix 1.**

4.1.4 There are currently matters reserved in the articles of association of each company/society for shareholder decisions and the Leader of the Council has delegated authority to make shareholder decisions with some specific delegated authorities for the Leader to take decisions relating to WestCo. The Cabinet member for Communities and Regeneration has delegated authority to make shareholder decisions in relation to Westminster Builds and it is recommended that this review enables greater clarity on how shareholder decisions are taken. The normal capital programme approval and individual scheme and project business cases and financing will continue to be part of the existing Cabinet Member approval process including, capital monitoring expenditure reporting which is reviewed by the Capital Review Group (CRG) monthly and Audit and Governance Committee reporting on a quarterly basis.

4.1.5 The Council wants to ensure that good governance and accountability is in place with respect to its Council owned companies and it is keen to learn from other local authorities' experiences. Recent public interest reports from external auditors highlight where, governance arrangements were not strong enough and the recommendations in this report are aimed at covering these areas of risk. Reports produced by internal audit in October 2020 identified some areas for improvement in the governance processes between the companies and the Council, in respect of the UK Corporate Governance Code published by the Financial Reporting Council (the "**Code**"). These included clarity with reporting lines from the companies to the Council, control from the Council as shareholder and assurances that companies are acting within the best interests of the Council. The internal audit reports also highlighted improvements for the governance process, these included the structure of the board, the role of the Chair and training for directors including dealing with potential conflicts of interest.

5 PROPOSALS

5.1 The Council is in most cases the majority shareholder in its subsidiaries and should be kept informed of each of its subsidiary's operations and performance. To support the Council in carrying out its role as a shareholder it is proposed that a Shareholder Committee should be established to perform the shareholder function on behalf of the Council across all owned or affiliated companies/societies.

5.2 The general legal concept is that shareholders own the company (such as the Council in respect of Council owned companies), whilst directors run companies/societies. The directors of companies are empowered to run the relevant company so long as they do so in accordance with its constitution and in line with their directors' duties. (Some activities, such as amending the constitution of a company, will always require the input of shareholders, by virtue of the Companies Act). If the shareholders do not like how the company is being run by the directors, then it is open to them to remove the directors and replace them with others; directors are required to act independently of the shareholders and utilise their independent judgement to take decisions as to how the company is run.

5.3 **Shareholder Committee:**

5.3.1 The shareholder committee will perform the shareholder's function and lender scrutiny on behalf of the Council for its companies. This committee will consist of 4 members made up of elected Council Cabinet members with Council officer advisors as required,

5.3.2 Cabinet are being asked to delegate specific powers to the Shareholder Committee by way of a terms of reference (Appendix 2) to be included within the constitution. It is currently envisaged that the Shareholder Committee will be convened at least three times a year to provide direction and scrutiny of the subsidiaries business plan, annual reports and performance. The committee will also refer any significant issues of concern for Cabinet consideration and determination as required.

5.3.3 It is recommended that reports from the companies are considered by the Shareholder Committee at general intervals such as a mid- year report and at the end of financial year full report of all the Council owned companies and societies. Cabinet will retain responsibility for the following functions in relation to the Council's companies, partnerships and societies:

- The establishment of any new company, partnership or entity
- The decommissioning/winding up of existing companies, partnerships and entities
- Scheme of delegations to the Shareholder Committee
- Subject to approval of this report, the determination of for the provision of investment of funds or assets or any lending facilities from the Council to the Council’s companies, partnerships and societies/charities will be determined by Cabinet Member for Finance and Resources.

5.3.4 Shareholder Committee Membership to be set with four Cabinet Members comprising of the Leader (as Chair), Cabinet Member for Communities and Regeneration, Cabinet Member for Finance and Smart City and Cabinet Member for Housing. This will be kept under review and can be amended as appropriate.

5.4 **Memorandum of Agreement:**

5.4.1 In addition to the establishment of a shareholder committee, it is recommended as good practice that a Memorandum of Agreement is drafted and will apply to all WCC companies/societies. The agreement should contain core terms which could be applied to all the Council's companies/societies and how the Shareholder Committee will interact with the subsidiaries but may well need to contain additional bespoke or modified terms for each company depending on what the company is doing (i.e., what business it is in / markets it trades in etc.) and its size etc.

5.4.2 The Memorandum of Agreement will contain a list of "reserved matters" which the company agree will not go ahead without the consent of all the shareholders; these reserved matters will be dealt with by the Shareholder Committee or Cabinet, where Cabinet has retained responsibility for specific matters, as set out in paragraph 4.3.3 above). In essence, this agreement involves the company agreeing to limit their authority to take decisions without input from the company's owners.

5.4.3 It is expected that each company or society 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.

5.4.4 Delegated authority is sought in this report to agree the final terms of Memorandum of Agreement (MOA). Some of the key terms of this are broadly summarised below:

a) **Business/Conduct of the Company:** provides that the Business of the company (including its objectives) will be as set out in the Business Plans as approved by the Council and that the company will carry out its business in accordance with the MOA, the Business Plans and other parameters agreed with the Council

b) **The Board:** will set out broadly how the Board will operate on a day to day basis. The Council (as Shareholder) will have the power to appoint and remove members of the Board in all of its companies

c) **Policies**: various policies will be required in order for the operation of the company to be effective; for example where there are potential conflicts of interest a policy can be adopted to provide clarity; the shareholder will also include a requirement for adoption of a remuneration policy;

d) **Council Reserve Power:** as well as the specific matters which are always reserved to the Council to decide (as described above in paragraph 4.7.2.2) and which will be set out in a schedule to the MOA, the MOA gives a general power to the Council (as Shareholder Committee) to direct the Board to take action or refrain from taking any action

e) **Scheme of Delegation:** sets out how decisions will be made. This will be a separate schedule setting out which decisions will be reserved to the Council as Shareholder and which by the company's Board (and which by the company's management, if applicable)

f) **Business Plans:** requires the company to be run and financed in accordance with the Business Plan and sets out how they will be prepared, approved and updated. Each MOA will describe the Business Plan which are to be produced by the company, which will vary depending on the nature of the subsidiary. The MOU will also refer to how performance will be monitored against Business Plans with key trigger events which will require a review of the relevant Business Plan.

5.5 Conflict:

5.5.1 Training for Directors and shareholder representative should be provided on an ongoing basis and a protocol should be established which deals with Council decision making and how potential conflicts are to be managed.

5.5.2 Directors of companies need to be aware of their statutory duties in relation to conflicts of interest.

5.5.3 Under the MOA, each company will be required to adopt a conflicts of interest policy which will align with statutory duties for directors in terms of conflicts of interest. This single policy will support a consistent approach to identifying, recording and managing conflicts of interest across all of the Council's companies.

5.6 Internal Audit

5.6.1 Internal audit to include annual review of governance arrangements in the audit plan – report on the review outcomes to the Shareholder Committee and Audit and Performance Committee (along with all other audit reviews conducted). This will include assurance of governance arrangements of subsidiaries in the Annual Governance Statement reported to Audit and Performance Committee.

6. Financial Implications

6.1 The Council has a number of active financing arrangements with both Westminster Builds and Westminster Community Homes. For Westminster Builds this consists of both quasi-equity funding and senior debt for specific development schemes. As at the end of 2020/21 outstanding financing into Westminster Builds totalled £19.6m. For Westminster Community Homes this consists of loan financing and Affordable Housing Fund for the provision of affordable housing units. As at the end of 2020/21 total loan financing outstanding into Westminster Community Homes totalled £8.2m.

6.2 The proposals set out in this report seek to strengthen and consolidate the financial monitoring undertaken in terms of the Council's subsidiary companies/societies. Key financial monitoring information will be brought together in a performance dashboard for the Shareholder Committee. This will provide a regular snapshot of the financial performance of each company and the group as a whole to support wider decision making. It will also help to raise early concerns about the financial position of any of the subsidiary companies/society and where necessary discuss and agree appropriate actions.

7. Legal Implications

7.1 The Council has the power to set up companies or bodies, which they own. Section 1(1) of the Localism Act 2011 introduced the “general power of competence” for local authorities, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area. The generality of the power conferred by subsection (1) is not limited by the existence of any other power of the authority which (to any extent) overlaps the general power.

7.2 Section 4(2) of the Localism Act 2011 provides that where, in exercise of the general power, a local authority does things for a commercial purpose the authority must do them through a company.

7.3 Section 95 of the Local Government Act 2003 authorises the Council to do for a commercial purpose anything which it is authorised to do for carrying on any of its ordinary functions (other than where it is under a statutory duty to provide that function) however, this power is only exercisable through a company.

7.4 Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any other of its functions, whether involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.

7.5 The Local Government Association's (LGA) guide on enterprising Councils, advises Councils that the governance framework should clearly articulate the role of Councillors and scrutiny.

7.6 The Committee on Standards in Public Life published 15 recommendations on local government ethical standards best practice. Recommendation 14 states that "*Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place."*

7.7 In recent months there has been significant consideration in the local government sector of how a number of Council owned companies have been less than successful. One of the highest profile examples is Robin Hood Energy Limited, a company wholly-owned by Nottingham City Council. Following concerns regarding that company's governance, NCC instructed Grant Thornton UK LLP to conduct a governance review, and a Report in the Public Interest[1] prepared by them was published in 2020 under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.

7.8 The Public Interest Report concluded that: "*Overall, the governance arrangements were overshadowed by [NCC's] determination that the Company should be a success, and this led to institutional blindness within the Council as a whole to the escalating risks involved, which were ultimately very significant risks to public money. Where concerns were raised by some individuals, these concerns were downplayed and the resulting actions insufficient*".

7.9 The proposal to set up a Shareholder Committee, the Terms of Reference as set out and the ancillary arrangements outlined in this report will ensure that the Council not only acts lawfully but also that current guidance and good practice recommendations as mentioned above are followed. The proposals will ensure improved governance of companies or bodies set up by the Council.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact: Gerald Almeroth, Executive Director of Finance and Resources or Tasnim Shawkat, Director of Law

APPENDICES

Appendix 1 – Current structure of the Council subsidiaries

Appendix 2- Draft Shareholder Committee Terms of Reference

BACKGROUND PAPERS: None

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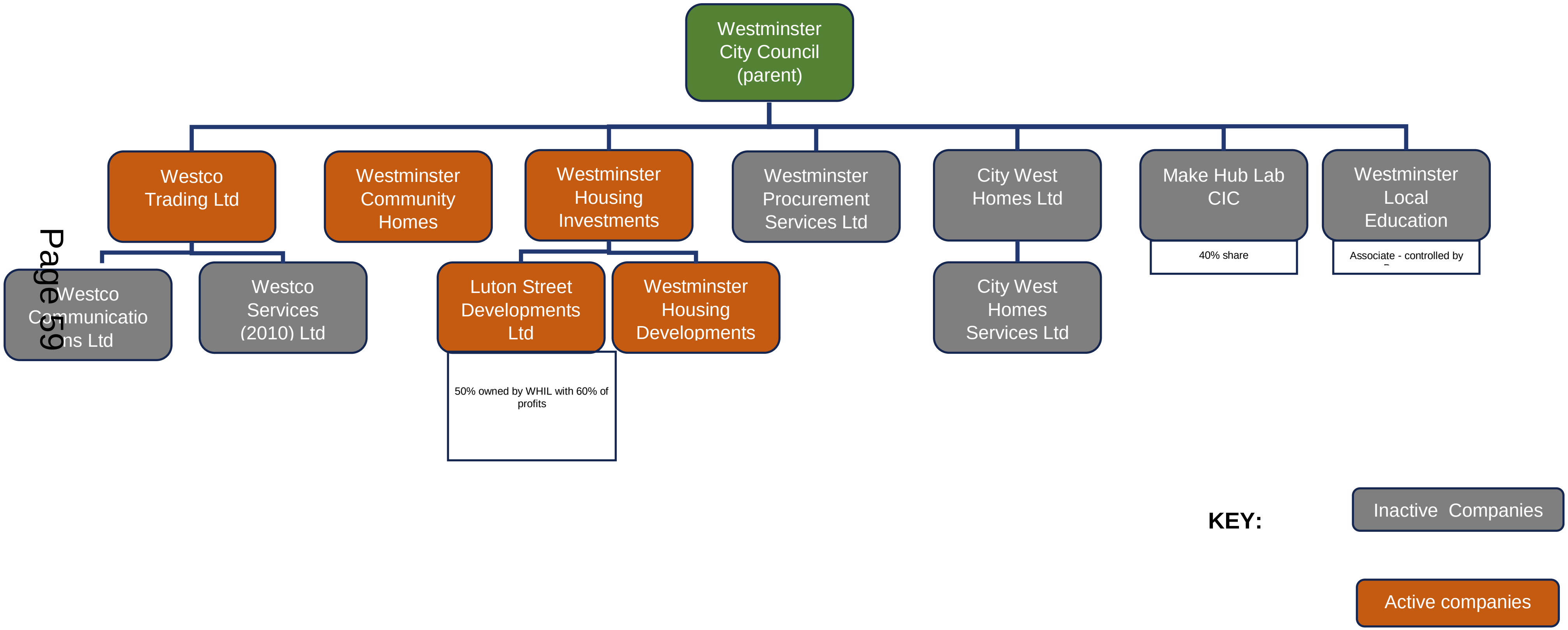
APPENDIX 1: Current structure of the Council subsidiaries



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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.

4.6 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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City of Westminster

Cabinet Report

Meeting or Decision Maker:	Cabinet
Date:	12th July 2021
Classification:	General Release *(Appendix 2– Exempt from public disclosure)*
Title:	Westminster Builds Business Plan 2021/22
Wards Affected:	All
Cabinet Member/Lead Member:	Cabinet Member for Communities and Regeneration
Key Decision:	Yes
Financial Summary:	The Westminster Builds Business Plan sets out the planned activity of the company over a 15 year period. Through a £0.8bn capital programme funded by £0.5bn of income, the company plans to deliver 2,000 new homes.
Report of:	Debbie Jackson, Executive Director of Growth, Planning & Housing and Gerald Almeroth, Executive Director Finance & Resources

1. Executive Summary

1.1. The report sets out the context of the Westminster Builds business plan being brought forward for approval. The business plan sets out the direction and planned activity of the Council's wholly owned housing and development company Westminster Builds over the next 15 years. The plan is considered annually by the Council as sole shareholder and lender so that the company has authority to proceed with work progressing schemes.

1.2. The business plan includes an intention for Westminster Builds to develop a pipeline of activity within Westminster but also outside of the borough. After further consideration the Council has taken the decision to pause this activity at the current time with the need to focus on Council led schemes. Further work will now need to be carried out to ascertain the impact on the business plan of this change. This will feed into the next refresh of the plan and the Council's budget setting process.

1.3. Given the scale of investment required into the company over the longer term the Council commissioned an independent review of the business plan and this report sets out the key findings from that. Overall, the plan was assessed as sound but with a few areas for consideration or action which are being addressed.

2. Recommendations

2.1. That Cabinet is recommended to:

a) Approve the Westminster Builds Business Plan as outlined in Appendix 1 to this report excluding the out of borough 'pipeline' element.
b) Note that the Business Plan will be revisited to consider the implications of the removal of the out of borough pipeline element to feed into the forthcoming budget setting process and the approval of the 22/23 Business Plan.
c) Consider the findings from the independent review of the business plan and note the actions being undertaken as a result of that review

3. Reasons for Decision

3.1. To agree the Business Plan for the Council's wholly owned housing and development company Westminster Builds. It is a requirement that Westminster Builds seeks approval of its business plan on an annual basis so that it has the authority to proceed with work on progressing schemes and incurring operating expenditure contained in the plan. It should be noted that further approval is required from the Council in respect of each capital scheme before committing financially to these, in accordance with the Council's capital scheme governance processes.

4. **Background, including Policy Context**

4.1. In December 2017 the Council took a decision to set up a wholly owned housing company to help deliver the Council's ambition to increase the supply of affordable housing within Westminster. At that time, it was also agreed to set up a second wholly owned housing company where appropriate for tax efficiency purposes.

4.2. 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 trading name of 'Westminster Builds'. This single brand creates an identity which is distinct from the Council whilst remaining part of the Westminster family.

4.3. Westminster Housing Investments Limited (WHIL) is an investment vehicle designed to own completed properties to generate net rental income for the longer term. Westminster Housing Developments Limited (WHDL) is the development vehicle acquiring land and developing properties for a range of tenures.

4.4. The Council owns 100% of the shares in WHIL and WHIL owns all of the shares for WHDL. The Council is currently the sole shareholder and principal lender to WHIL and indirectly to WHDL. The company is funded by a mixture of quasi equity or shareholder's loans and debt financing which is provided through the Council's General Fund.

4.5. The Council's objectives in setting up the company were set out in the 2017 Cabinet report as follows:

Wholly Owned Housing Company Objectives	
1.	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 being identified by the Council.
2.	Operate on a commercial basis but offering new tenures and, in particular, intermediate tenures to extend the range of provision available for Westminster residents
3.	Work to the scale and pace set by the Council.

4.	Work to the Council's quality standards to help ensure quality housing is provided for all income ranges

4.6. Company directors are all appointed by the Council and the management and day to day operation of the company is undertaken by Council officers under a Service Level Agreement (SLA) with the Council.

4.7. Structures and processes have been put in place within the company to ensure that its activities are adequately controlled. Whilst ultimate responsibility remains with the Council, day to day control of Westminster Builds is the responsibility of the company's board of directors.

4.8. The board is responsible for the delivery of the business plan. This includes decisions regarding development and acquisition and changes to project/scheme appraisals and financial modelling. However capital schemes and their investment requirements follow the Council's normal approval and governance processes and as such the annual approval of the Business Plan is 'in principle' and subject to subsequent Council approval processes for each scheme. Also, any changes to the Business Plan and/or additional funding requirements would require further council approval.

Introduction to the Business Plan

4.9. The Westminster Builds Business Plan sets out the activity that the company plans to carry out over the next 15 years in order to achieve the objectives that have been set for it. These plans are subject to Council decision at every stage, first via this report and then individually for each scheme. In addition, for schemes on Westminster land, the Council will approve the preferred delivery route for each of the specified schemes. The full business plan document is set out in Appendix 1.

4.10. At the heart of the business plan is the delivery of an ambitious programme to deliver 2,000 homes through a £0.8bn capital programme funded by £0.5bn of income. Delivery of these homes is either through direct development undertaken by the company on behalf of Westminster Council, development in partnership with an external entity or through acquisition of units outside of Westminster or from council led schemes.

4.11. The overall company vision is stated as:

'By delivering high quality, modern homes for people from all backgrounds, the Company aims to: Build better homes, Build a better city, Build a better future".

4.12. Since the Council is about to embark on a number of large regeneration and development projects and a role is envisaged for Westminster Builds, it seems sensible to revisit the purpose and objectives for the company as part of the review and agreement of this business plan and consider whether the business plan will enable Westminster Builds to deliver the role envisaged.

Business Plan headlines

4.13. The key planned activity for the company over the next 15 years as set out in the Business Plan is:

- Plans to develop 1,656 homes across a mix of tenures (market sale, market rent, intermediate and social rent) and acquiring a further 291 intermediate rent units
- Retaining a management portfolio of 921 homes let at either intermediate or market rent with an annual turnover of £21m
- The company can repay its borrowings in 2058, which is within the 40 year cashflow period
- At the end of the development and acquisition programme in March 2030, Westminster Builds holds assets valued at over £400m

4.14. Obviously the removal of the out of borough pipeline will change these numbers.

4.15. The company has a funding requirement from the Council through a debt and equity injection of £797m over the next 15 years. The company plans to make repayments back to the Council through sales receipts and development profit of £468m during that same period. The Council funding request from the current Business Plan has been included as part of 2021/22 budget setting process.

4.16. The company is projected to return a loss on its profit and loss account for the current year and up to 2023/24. This position reflects the normal development cycle whereby the company is in the development phase for a number of projects and is incurring the normal running costs of the company without any contribution from scheme profits or asset rental income. This position will change as receipts are achieved from sales and the company begins to hold completed income returning units.

4.17. Individual scheme approval and financing requirements will be assessed through normal governance routes for the Council capital Business Cases (if over £10m), which is reviewed by the Capital Review Group and then decision via Cabinet Member Report.

4.18. In addition to Council led schemes, the Business Plan also includes an intention for Westminster Builds to develop a pipeline of activity both within Westminster (beyond the Council-led schemes) but also outside of the Borough. This is to support the long-term growth of the company, to provide affordable homes for those who live and work in Westminster but wish to live outside and commute to their jobs, to diversify risk and build a longer term revenue stream. This element of the business plan has been given further consideration by the Council and is not deemed a priority for the company at this time given finite capacity and the need to focus on the Council-led schemes; a recommendation is therefore sought for approve of the business plan excluding the "out of borough" pipeline. Further work will need to be undertaken to fully understand the risks and benefits of these proposals before any commitment is given to an expansion of activity beyond Westminster.

4.19. Whilst the business plan will need to be revised following this decision, other schemes ready to progress within the plan will continue to be assessed and approved individually on their own merits as they come forward for decision through the Council's capital scheme governance processes.

<u>Independent Review of Business Plan</u>

4.20. Given the scale of investment required into the company, the Council commissioned an independent review of the Westminster Builds Business Plan.

4.21. The Council commissioned 31ten consulting to undertake the review which was agreed to cover the following scope:

- Comment on quality of the business plan
- Review of underlying assumptions supporting the business case
- Review of risks and mitigation measures
- test robustness of business plan through stress testing

<u>Headline Findings from the Review</u>

4.22. The review looked at the quality of the Westminster Builds Business Plan and the financial model and assumptions that underpin and supports it. Overall, the review found that the structure and the narrative of the Business Plan was clear and includes the majority of the aspects that they would expect to see. However, they raised a number of areas for consideration or action as outlined below.

Objectives

4.23. The business plan would benefit from giving the reader a clearer narrative around the objectives of the company to include how these reflect the Council's initial objectives for the company. The objectives should represent SMART targets that ultimately can be used to judge the performance of the company.

Risk

4.24. Although included throughout the report, the narrative that sets out the company's risk management strategy, its identification and management of risk, and the overall impact of risks could be improved. It is usual for a Business Plan to have a stand-alone section on risk.

Assessment of Financial Model

4.25. The model was found to be technically correct and did not show any mechanical or formula-based issues. However, there was an element of hard coding found within the model which makes assumptions harder to track, sensitivity testing more difficult to perform and increases the risk of errors in future updates/changes.

4.26. In addition, several tax treatments need to be reviewed throughout the model.

Stress Testing

4.27. When assessing the sensitivity of the model to changes in assumptions it was found that inflation was a key driver in the future success of the company. The business plan assumes that market sales and market rent growth out strips cost inflation. Whilst this may be true over the longer term, there is significant risk that short term implications could negatively impact on both the company and the return to the Council.

4.28. Sensitivity analysis on the key drivers of the business plan model showed most risks were categorised as low or low to medium. Those risks that were categorised as medium or medium to high were the impact of market sale inflation and an increase in the funding interest rate. It is suggested that it would be prudent for Westminster Builds to set out in the business plan ways in which it would seek to manage this impact.

Next Steps

4.29. Overall, the findings from the review show that the business plan is broadly sound with a number of areas of improvement highlighted. These have been discussed with company directors and an action plan is included within Appendix 2 to outline how these key risks and recommendations will be managed going forwards.

5. Financial Implications

5.1. The business plan sets out the capital expenditure plans and revenue running costs for the company over the next 15 year period. The annual running costs of the company are estimated at £750k per annum and the capital expenditure plans total £0.8bn over the period. At the end of its development and acquisition programme in March 2030, Westminster Builds holds assets valued at over

£400m. These figures include out of borough activity contained within the current business plan.

5.2. The company requires funding from the Council in the form of debt and quasi equity totalling £0.8bn over the period. The company's debt peaks at £270m in 2026/27 whilst delivering two of the largest schemes in the business plan, Church Street and Ebury Phase 2. Under current assumptions, Westminster Builds can fully repay its borrowings in 2058 demonstrating that the Business Plan is self-sufficient within the 40-year cashflow period.

5.3. The funding requirement from the council through loans and quasi equity was included within the Council's general fund capital programme as part of the 2021/22 budget setting process.

5.4. The recommendation not to progress the out of borough pipeline will reduce the capital expenditure requirement of the company by £5.5m in 2021/22 and £147.7m over the life of the business plan. Withholding approval of this element will necessitate an updated version of the business plan to be brought forward in 2021/22. However, since none of those affected schemes are planned to complete until 2023/24, in the Council's opinion there is no short-term detriment to the plan. The Directors of Westminster Builds have signalled that this is anticipated to impair the longer-term profitability of the company but that this is not currently quantified and so will require further review. It has been agreed by the Council that this can take place as part of the next annual cycle of the business plan.

5.5. The Council will be regularly monitoring a range of key performance indicators for the company in its role as shareholder and lender. Overall, the Council will be monitoring financial performance against the business plan in terms of quantum and timing of expenditure and income, the company's annual profit and loss position and the funding requirement from the Council and planned loan repayments. Other areas to be monitored are the company's Interest Cover Ratio (ICR) and Loan to Value (LTV).

6. Legal Implications

6.1 The Council has the power to set up companies or bodies, which they own. Section 1(1) of the Localism Act 2011 introduced the "general power of competence" for local authorities, defined as "the power to do anything that individuals generally may do" and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area. The generality of the power conferred by subsection (1) is not limited by the existence of any other power of the authority which (to any extent) overlaps the general power.

6.2 Section 4(2) of the Localism Act 2011 provides that where, in exercise of the general power, a local authority does things for a commercial purpose the authority must do them through a company.

6.3 Section 95 of the Local Government Act 2003 authorises the Council to do for a commercial purpose anything which it is authorised to do for carrying on any of its ordinary functions (other than where it is under a statutory duty to provide that function) however, this power is only exercisable through a company such as Westminster Builds. The Council needs to articulate clearly its objectives to justify the use of a Westminster Builds and to demonstrate that it is not seeking as its prime purpose in setting up a WOC to avoid legal or policy constraints that would otherwise apply.

6.4 Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any other of its functions, whether involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.

6.5 The Council has power to borrow under the Local Government Act 2003 subject to complying with the rules on prudential borrowing and provided that any borrowing is in line with the Council's treasury management policy and budgetary frameworks, and in particular the setting of the Council's overall capital financing requirement.

6.6 Separate powers are available to the Council in relation to the funding of the Westminster Builds for the provision "privately let housing accommodation". For the privately let housing accommodation (which would include both market and affordable rented housing), the Council may also rely on both:

- Section 1; and
- Section 24 of the Local Government Act 1988 – power to provide financial assistance for privately let housing accommodation. (The provision on of financial assistance under section 24 requires Secretary of State consent if utilised)

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

Lyndsey Gamble, Strategic Finance Manager, Strategic Projects and Commercial

APPENDICES

Appendix 1 -Westminster Builds Business Plan 2021/22

Appendix 2 -Action Plan from Independent Review (Exempt)

BACKGROUND PAPERS

Review of Westminster Builds Business Plan (Exempt)

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Westminster Builds

15 October 2020

Westminster Builds Business Plan

Business Plan 2021

Westminster Housing Investments Limited and
Westminster Housing Developments Limited

Building a better future

IN ASSOCIATION WITH

City of Westminster

Contents

Introduction from the Chair

This Business Plan marks a step change for Westminster Builds (WB). As Westminster City Council's internal pipeline is secured and London rebuilds its economy post Covid-19, innovative thinking is required to deliver more affordable housing options in the South East, help the construction industry get back on its feet and ensure quality house building continues.

To this end, we are expanding our ambitions and are now actively following up opportunities to work across London and the South East as well as in Westminster.

Our ethos remains the same, to build high quality sustainable homes, investing 100 per cent back into our communities to fund new affordable homes, green spaces, amenities and opportunities, and support a zero-carbon future. We will continue to work with our communities to design homes and spaces.

This will help our owner Westminster City Council (the Council) to reach its objective of ensuring Westminster really is a City for All by providing affordable housing to those who live and work in the City but cannot afford the market offer.

WB was created following the Council's decision to increase its investment in affordable housing production and a desire to retain quality and control over all such assets, whether social or intermediate housing. In doing so, the Council is building on the experience it has developed delivering housing in borough. Through the use of a wholly-owned company and with staff seconded from Westminster, it can extend its ambitious in-house programme into delivery of tenures and products which the Council is unable to provide.

Additionally, WB will provide homes across the south east and in the growth corridors for those who wish to commute to their jobs in Westminster. Together the Council and WB will deliver the range of housing needed to meet Westminster's needs. Public/public partnerships can and should be a viable alternative to public/private partnerships at this time and WB believes they offer the potential to help lead the economy forward as the country addresses the impact of Covid-19.

Delivering both the Council's and the Company's mission are more important than ever in a post-Covid world. With developers nervous and many sites put on hold, WB can show its worth by stepping in to bring failing or stalled schemes back on track.

Cllr Jacqui Wilkinson

Chair of Westminster Builds

Executive Summary

It has been a positive year for Westminster Builds (WB) but now is very much the time to build on that success and expand the Company's ambitions.

The Company's Vision is:

"By delivering high quality, modern homes for people from all backgrounds, the Company aims to:

Build better homes, Build a better city, Build a better future".

This Business Plan sets out an exciting programme to deliver 2,000 homes within the next ten years with a strong emphasis on quality and sustainability. Over the same period WB will build up a management portfolio of 900 homes. Not only does this support Westminster City Council's pledge to build a City for All but it will support efforts to regenerate Westminster's economy and that of the south east post Covid.

WB was set up three years ago to help deliver Westminster City Council's pledge to build a City for All by providing affordable and market housing to those who live and work in the City but cannot afford the central London market offer.

Westminster City Council (WCC – the Council) has tasked it to build not only in Westminster but in commuter areas and growth corridors to ensure people can continue to live and work in the city. The average house price in Westminster is nearly a million pounds and the average private rent is almost £530 per week. These are significant amounts for even a fulltime worker in a well-paid job. WB is able to provide alternative products and tenures, beyond social rent (which the Council continues to build), to create a "Ladder of Housing Opportunity" for those who want to live and work in Westminster.

Traditionally this type of accommodation is provided across the country by Housing Associations because market, submarket and sale housing cannot legally be owned and managed directly by the Council. WB's model therefore ensures WCC retains greater control of its assets.

Over the past year, WB has moved to operational activity which has seen work commence at Luton Street and Jubilee providing a viable and innovative solution to two stalled projects. WB is progressing development at 300 Harrow Road and is involved in the delivery of the Council's flagship regeneration of Ebury Bridge Estate.

Going forward the Company pipeline is growing. Westmead is now approved while budgeted schemes include units at Parsons North and West End Gate. Our summary programme is shown below.

Figure 1: Summary Programme

Summary	Rented homes		Social rent for HRA	Sale by WHDL	Sale by other parties	WB total homes
	Intermediate	Market				
Contractually committed schemes	19	22	0	0	87	128
Approved schemes	48	41	27	61	0	177
Budgeted schemes	331	460	395	456	0	1642
Pipeline	0	0	0	0	0	0
Pipeline prospects			0			
Total	**398**	**523**	**422**	**517**	**87**	**1947**

The Company is also in discussion with partners to build in London's growth corridors. We are considering a range of opportunities including:

- Development schemes – with or without planning consent,
- Acquisition of bulk newly completed homes from developers – where we can be satisfied that the quality of the homes is acceptable,
- Forward purchase agreements to unlock stalled schemes
- Collaborative schemes – proposals with a partner that share risk and reward.

Financial Summary

Westminster Builds' ambitious programme to deliver 2,000 homes is underpinned by sound financial planning and commercial expertise. Financial performance is at the heart of every decision and the Company has a set of established benchmarks with which to judge each scheme and to understand its impact on the business.

This Business Plan takes the Company from a new organisation to one that, by 2030, aims to have a significant and healthy balance sheet. Through a £0.8bn capital programme funded by £0.5bn of income, WB will build a management portfolio of 900 homes across Westminster, London and the growth corridors[1] with an annual turnover of £21m.

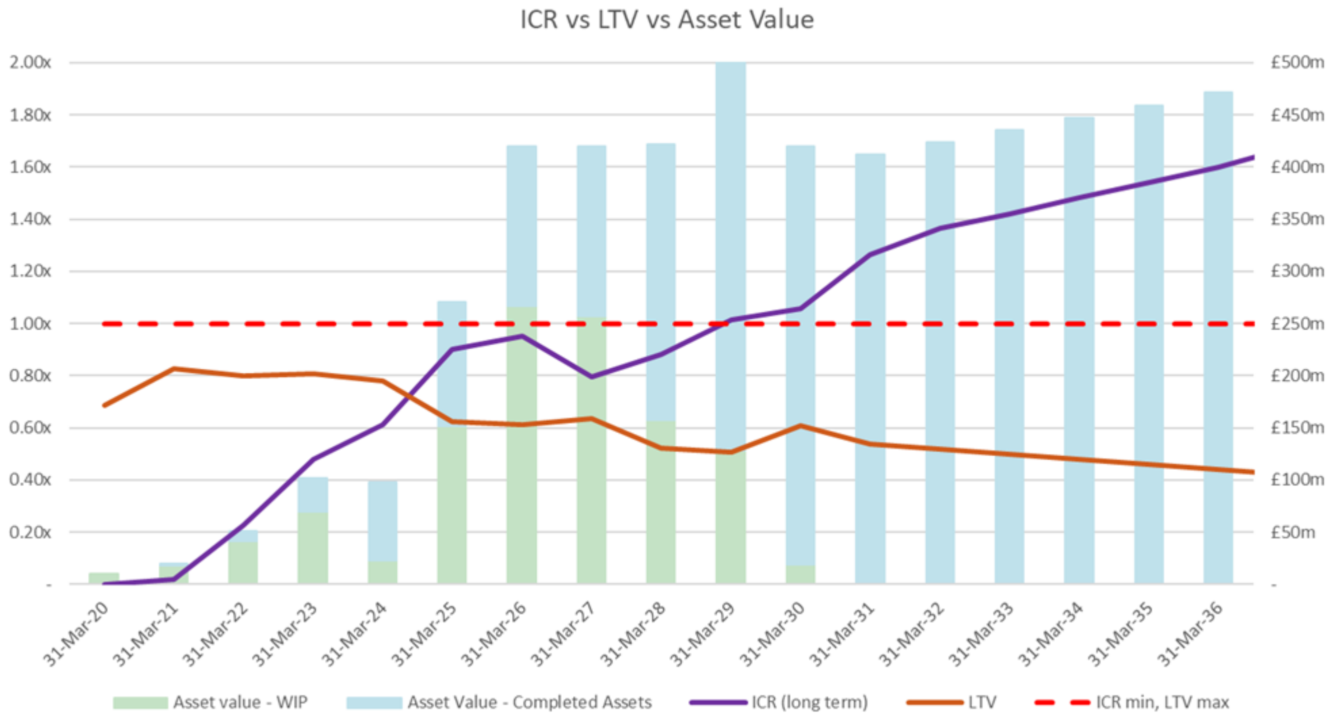
1 These are areas along the major transport corridors radiating from London where due to growth in the economy there is an increased demand for homes. It includes the Cambridge – Oxford Arc.

The Business Plan sets three financial tests:

- Prudential borrowing against the strength of WB's balance sheet measured by peak debt and Loan To Value (LTV), and;
- A clear path to profitability measured by the Company's Interest Cover Ratio (ICR);
- Long term financial independence within the Business Plan period.

The graph below demonstrates the first two financial tests:

Figure 2: Interest Cover Ratio vs Loan to Value vs Asset Value



As a developer, Westminster Builds quickly acquires a strong balance sheet of work in progress (WIP) and completed assets, which it can leverage to consolidate its position further. By the time its larger schemes commence, its balance sheet is valued at over £250m and continues to grow, transitioning into a property portfolio worth over £400m.

WB's relationship with the Council provides it with a source of accessible and predictable finance. However, key to the long-term success of the Company is that borrowing is prudential and measured against the strength of the Company's balance sheet.

WB's loan to value peaks at a loan to value ratio (LTV) of 0.8x in the early years of the Business Plan before improving to 0.6x and below from 2025. By keeping finance at the core of every investment decision taken by the Company, each scheme contributes to the Business Plan, building headroom to fund future activity or weather downturns.

In the early years of the Business Plan the ICR is below 1.0x, meaning that WB will accumulate operating losses each year until the first scheme is delivered and the development profit realised, but through additional well targeted and sustainable investment, demonstrated by the falling LTV, the whole programe becomes affordable. From 2028 WB's ICR rises above 1.0x before quickly climbing to the target of 1.2x by 2030.

The third test is a clear route to financial independence and whilst WB's debt peaks at £270m in 2026/27 it is paid off in full by 2058, without requiring the Company to break up and sell its assets.

The financial health of the Company is underpinned by prudence at every stage and in every step of our development process:

- Sales and rental assumptions are based on "Red Book" valuations,
- Significant contingencies are built into the costings at both scheme/project level and held centrally,
- Assumptions are well tested and based on external advice.

In summary, this Business Plan sets a solid financial platform for the Company on which it can grow and succeed by delivering value to the Council, its shareholder.

It is critical to understanding the business that it is recognised that the assets of the Company are owned by Westminster as the sole shareholder and that all profits generated are returned to Westminster to be invested into new social, economic and environmental infrastructure.

1. Company Vision and Objectives

The Company's Vision is:

"By delivering high quality, modern homes for people from all backgrounds, the Company aims to:

Build better homes, Build a better city, Build a better future".

1.1 WB intends to be a long-term investor in development, delivery and management of homes and neighbourhoods in Westminster, and beyond. As part of the Westminster "family" we have a special blend of skills, knowledge and resources and seek to apply our well-informed approach with values of fairness, ambition, energy and problem solving. We will do so in support of the Council's City for All objectives, working with the Council to deliver a range of tenures and products which will create new opportunities for individuals and families who wish to live and work in the city.

1.2 WB will be at the forefront of creating a "Ladder of Opportunity" for people at all different stages of their lives. This offers a range of tenures and products to help ensure that, whether you are a first time buyer, have a family, are a downsizer or are a key worker in the city or feel you do not earn enough to rent or buy in Westminster, there will be options for you. We will deliver homes in Westminster but also in locations outside Westminster which are affordable for those who may wish to commute to and from their jobs in the city.

1.3 WB's vision and objectives are particularly pertinent at this time with the difficulties and uncertainties created by Covid-19 and Brexit. We believe we are able, as part of the Westminster family, to bring the exceptional blend of a forward thinking Council, with a positive approach to investment opportunities, together with a proven development track record and skilled development team to maintain construction momentum, jobs and the associated supply chain benefits to the wider economy. As a wholly-owned, fully funded company we can work with the Council to bring a unique approach to risk management which, even in the current climate, can enable us to bring forward projects which otherwise will struggle. We know this is possible because we have already done it; two previously stalled schemes are currently on site providing much needed homes and jobs in the city.

1.4 This Business Plan sets out the Board's strategy to realise these objectives, growing the Company's activities, both within and outside Westminster, especially in the Growth Corridors. It builds upon the success of WB's first Business Plan (see section 2) whilst ensuring the key immediate activities set by that first Plan can be achieved:

- Successful delivery of the 2020/21 development programme,
- Creation of beautiful homes affordable by people who want to live and work in Westminster.

1.5 This Business Plan covers activities for the 5-year period 2021 – 2026, although financial projections cover a 40-year period. Our strategy is to deliver c 2000 homes and grow to around 1,000 homes in management and be able to cover our operating costs from rental income, although still depending on Council capital funding to deliver homes. Further details of our planned programme are contained in Section 3. Our opportunities will be within Westminster but also within commuting distance of Westminster, especially in the Growth Corridors where we will work with local councils to achieve our and their objectives for each project. We plan to collaborate with landowners and developers as, for example, we have done in Luton Street in Westminster.

1.6 Within Westminster, WB will seek projects that meet the following criteria:

- Complement the delivery of social housing such as 300 Harrow Road or Ebury Bridge,
- Provide exemplars in terms of innovation technology or design, stimulate new employment or skills,
- Bring into use land or property which is a detriment to neighbourhoods.

1.7 Outside of Westminster, WB will seek projects that, additionally:

- Provide homes for working households who cannot afford to live in the city,
- Create attractive places to live,
- Generate a significant commercial benefit to WB,
- Complement the policies and strategies being pursued locally.

Swot Analysis

1.8 To support our thinking, we have prepared a SWOT analysis; this is shown overleaf at Figure 3. In general, for a new Company, we consider this demonstrates that WB has significant strengths based on its position within the Westminster "family". Our strengths create opportunities which this Business Plan seeks to capitalise upon, both to deliver value to the Council in support of City for All objectives and to respond to the challenges of helping London and the construction industry get back on its feet in a post Covid-19 world. The geographical spread this brings will help also to diversify our customer, product and price range, something identified in the SWOT analysis and key to our vision and success. We do not underestimate the challenges, but this Business Plan shows how we intend to both address these and deliver our objectives in pursuit of our vision.

Figure 3: SWOT Analysis

Strengths	Weaknesses
• Strong pipeline of schemes from WCC • Covenant strength of WCC as parent, providing flexible funding rather than a restrictive third party • WCC has vested interest in the success of WB • Long term ownership of assets to produce income and capital growth • Able to call on resources within WCC • Initial investment through Luton Street JV provides income and development experience • WCC record of delivering housing and positive optics of WCC in the private market at Masefield and Venice Court, and WB at Carrick Yard • able to shape its identity and position in the market • WB has a tax efficient corporate structure	• Limited experience of development (sales and marketing) and managing homes as a company • All current projects in one Borough so limited diversification of price points and customer type • Building a market rent portfolio means economies of scale will not be achieved from day one • Company overhead likely to be high in early years relative to income • Church Street and Ebury Bridge regenerations are complex projects, therefore higher risk for a new company • Lack of in-house resources could limit agility in following up opportunities • As a new housing company lacks established identity and brand equity in the market

Opportunities	Threats
• Provide high quality homes for people wanting to work in Westminster but live in lower value areas • Small organisation so able to respond to market changes flexibly • Focus on mixed tenure schemes to mitigate sales risks • Delivering WCC ladder of opportunity • Developing schemes in other areas to diversify geography of portfolio • Generating long term investment income for the Council	• Impact of Covid-19 and risk of significant market downturn • Economic impact of leaving the EU on costs of labour, materials and house prices • Changes in political governance and strategic priorities within the Council • Government restrictions to on-lending or changes to policy on wholly-owned companies • Viability constraints lead to lower than anticipated returns

2. Background and achievements

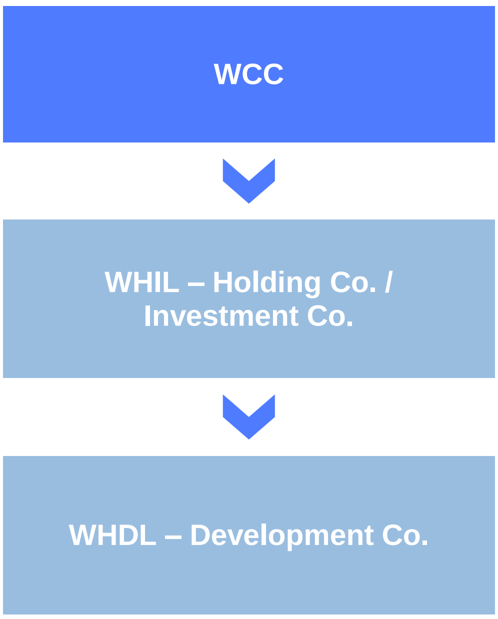
Formation of Westminster Builds

2.1 Westminster Builds (WB) is the “brand” under which Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL) operate. The structure is shown below. The companies were formed in 2018 (two companies for tax efficiency reasons) to allow the Council to build homes on a commercial basis. The single brand creates an identity which is distinct from the Council whilst remaining part of the Westminster family. The Council is the only shareholder and principal funder: this helps define WB as part of the Westminster family. The goal is that WB, by operating on a commercial basis, extends the resources of the Council to deliver the opportunities and allow the Council to retain control of the assets created. The Company is accountable to, and subject to direction by, the Council as sole shareholder.

2.2 WB is part of the Council’s implementation of its City for All targets. The Council needs to provide homes at a wider range of price levels for people who live and work in Westminster but are unable to secure market priced housing. The Council wishes to ensure that the income from, and value generated by, the homes it funds is retained to be reinvested by the Council, as it decides, in new homes and other assets or services.

Structure of Westminster Builds

2.3 The structure of WB is shown below:



- Potential to structure tax efficient deals
- WCC retains ultimate control
- Governance processes can be replicated to a large extent

2.4 WHIL and WHDL are profit making companies limited by shares. The Council holds 100% of the shares in WHIL and, in turn, WHIL owns all the shares in WHDL. WHIL will acquire and hold properties for rent as investments and WHDL will undertake development activity.

2.5 The Council as shareholder of WHIL is represented by the Cabinet Member for Communities and Regeneration. The Articles of Association are the same for both companies. The Directors of both companies are the same and are appointed by the Council (who has the right to appoint and remove the directors). They comprise one Councillor and three Council officers. Further details of management arrangements are given in section 5.

Previous Business Plan

2.6 WB's first Business Plan in 2018 set the objectives to be delivered using funding provided by the Council:

1) To provide more Intermediate and market housing in the city,
2) To offer new tenures including those offered at a discount to open market value to extend the range of provision for those living and working in Westminster,
3) To increase housing delivery at a scale, pace and quality set by the Council and with control and ownership of the assets retained by the Council,
4) To offer a flexible partner for the Council in delivering housing.

2.7 In November 2019, the first Business Plan was updated to inform the Council's budget setting process. Following approval to that budget, the 2020/21 supplement to the first Business Plan was formally approved by the Board in March 2020.

Achievements to Date

2.8 The Board notes the successes of WB since its formation. Over the course of 2019/20 WB moved to operational activity and began its first development schemes: Luton Street, Jubilee and 300 Harrow Road. In addition, other schemes had been identified for WB and the use of the Council's services has worked well and provided full support to date. Further details of the programme and how this Business Plan proposes to extend it are given in section 3.

2.9 WB has enabled the Council to find a commercially viable but innovative solution to two stalled projects in Westminster, bringing resources and underwriting sales risk. These will deliver over 300 homes over the next 3 years. In addition, WB is working with the Council on a range of schemes that will deliver homes on sites with design, logistical and costs challenges. For example, WB is partnering with the Council to deliver the Council's flagship regeneration scheme on the Ebury Bridge estate, delivering homes that do not distinguish between tenures from outside the home and ensuring existing residents can stay living in their neighbourhood in high quality, low energy homes.

2.10 In addition, over 2019/20, following marketing advice and research, WB was approved as the formal brand name for both WHIL and WHDL and a detailed branding, communications and marketing strategy commenced. This branding is “trademarked” and has protection until 2030.

The Board believes that WB has reinforced the reputation of the Council as a capable, expert, delivery focused agency and as a good client, through working with partners and contractors to deliver high quality schemes and all elements of place shaping. However, the Board now feels the time is right to do more. Although WB’s roots are in Westminster and WB will continue to help deliver the Council’s regeneration programme, this Business Plan sets out the Board’s plans to support economic recovery post Covid-19 and contribute to addressing the housing crisis across London and beyond.

3. Current and Future Activity

Business Plan Schemes – Programme and Governance

3.1 This Business Plan sees the Company's ambitions extended significantly. Having worked with the Council to bring forward the Council schemes over the last 18 months, WB now plans to take on a major share of the Council's regeneration activity, particularly at Ebury Bridge. In addition, it will extend its programme beyond Westminster.

3.2 The programme of activity set out in this Business Plan will see WB becoming financially self-sufficient. It includes acquisition, forward funding, collaborative and development opportunities. These have been separated into the following categories which reflect the progression of schemes through governance stages:

Contractually committed – A scheme where the WB Board has approved it as part of the WB programme and has entered binding commitments to deliver it. Signature of the documents requires approval from the Board.

Approved – A scheme where the WB Board has approved a report recommending that WB takes over delivery of the project or commits to the purchase of completed homes but there is no legal contract in place.

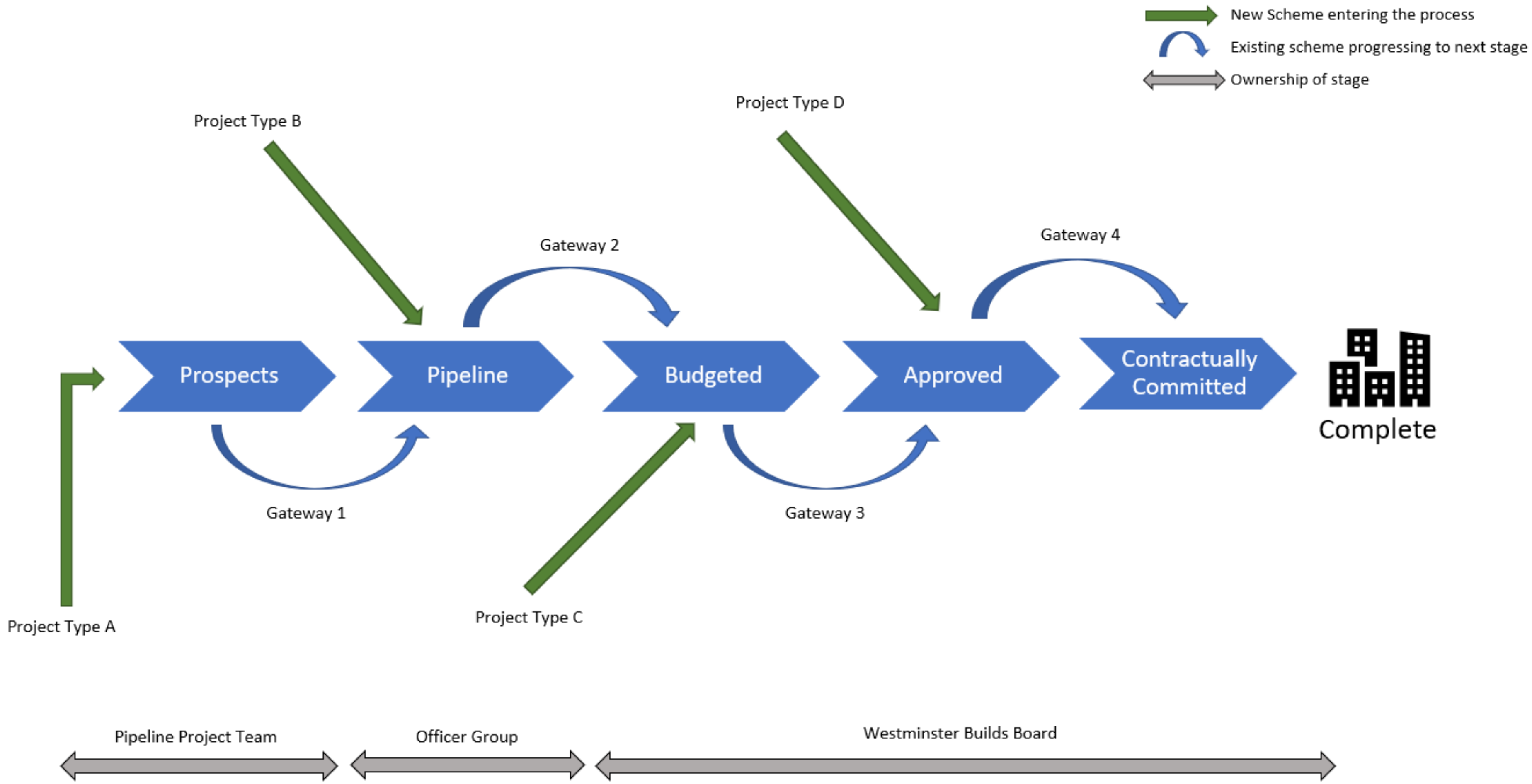
Budgeted – A scheme which the WB Board has agreed should be included within the budget provision within the WB Business Plan.

Pipeline – Projects under consideration but where there is no specific budget allocated to them within the Business Plan

Prospects – Projects being evaluated prior to discussion with WB Board.

3.3 The five categories provide the framework around which the Company's project governance sits, with schemes progressing from Prospects to Contractually Committed and eventually complete by passing through approval gateways. The flowchart below in Figure 4 shows the process:

Figure 4: Project Governance Structure



This aligns with the Council's processes through the preparation and approval of business cases at project stage boundaries.

3.4 To remain agile and responsive to changes, projects entering the above governance process can do so at different stages:

Project Type A: New development or collaborative opportunities identified by the pipeline team requiring considerable due diligence prior to a recommendation being made to the Board.

Project Type B: Schemes on Council land where WB has been identified from the start as a potential delivery route.

Project Type C: Forward funding opportunities or acquisitions that have been identified as being of interest to WB and where the scheme parameters are set (planning approval granted; construction underway/completed).

Project Type D: Schemes arising from emerging opportunities or issues with the Council's Pipeline where the project is already at an advanced stage e.g. Luton Street LLP and a change of delivery strategy is needed.

Programme of Schemes

3.5 The approvals process for WB follows that of the Council, using Strategic, Outline and Full Business Cases, aligned to the Treasury Green Book, Five-case Model as projects move through the approval process. Figure 5 below details our programme of schemes showing which schemes are at each of the governance stages described above. It sets out by scheme the number of homes:

- Under development,
- To be retained (acquired from the Council, WHDL or third parties) as either intermediate or open market rent,
- To be sold to the HRA as social rent homes,
- To be sold to individual purchasers.

3.6 It reflects the different types of project WB will be involved in and the activity planned both in Westminster and in other locations, outside Westminster and in the growth corridors (yet to be identified).

3.7 This programme has been used to prepare the financial projections in Section 6.

3.8 Additional detail and milestone dates for each scheme are included in the full schemes programme located at Appendix 1.

Figure 5: WB Development Programme

Project name / scheme name	WB total homes	Retained			Developed and sold	
		Intermediate retained	Market retained	Sale to HRA/LA	Sale by WHDL	Sale by Third Party
Contractually Committed schemes – *Legals complete*	**128**	**19**	**22**	**0**	**0**	**87**
Luton St / Carrick Yard	109		22			87
Jubilee	19	19				
Approved schemes – WB Board *has agreed to deliver scheme*	**177**	**48**	**41**	**27**	**61**	**0**
300 Harrow Road	112	34		17	61	
Westmead	65	14	41	10		
Budgeted schemes – *WB Board has allocated funds in BP*	**1642**	**331**	**460**	**395**	**456**	**0**
Farm Street	14	14				
Parsons North	9	9				
Ashbridge Street	10	10				
Luton St / Carrick Yard (off-take agreement)	19	19				
Luxborough Street	14	14				
Torridon House Car Park	8	8				
West End Gate	37	37				
Ebury Bridge Ph.1	28	28				
Balmoral Castle & Darwin House Pimlico	19	19				
Dalkeith	12	12				
Abbots Manor	16	16				
Ebury Bridge Ph.2 (self – delivery)	532	41	190	160	141	
Lisson Grove / Lilestone Street and Orchardson Street	46	46				
Church Street Ph2 – Site A	394	58		124	212	
Pipeline Budget schemes	484	0	270	111	103	
Pipeline – *presented but not yet allocated budget in BP*	**0**	**0**	**0**	**0**	**0**	**0**
None at present						
Pipeline Prospects – *identified not yet presented to Board*	**0**	**0**	**0**	**0**	**0**	**0**
Church Street Ph2 – Sites B & C						
Total	**1947**	**398**	**523**	**422**	**517**	**87**

3.9 This programme sees WB providing just under 2,000 homes of which around 1,700 will be developed by WB either directly or in partnerships and JVs and 291 homes will be acquired by WHIL from third parties. It is expected that in total around 900 homes will be retained in management let at either market or intermediate rents. The tables at figures 6.1 and 6.2 below show the breakdown of delivery.

Figure 6.1 Breakdown of Programme by Delivery Type

	Total homes in BP	Total WB delivery	WHDL	WHIL Invest-ments	WHIL Acquis. from Third Party
WB delivery type	A+B+C	A+B	A	B	C
Total homes delivered in Business Plan period to 2029	**1,947**	**1,656**	**1,026**	**630**	**291**
WHDL Direct Developments	709		709		
WHIL Joint Ventures	503			503	
Acquisitions – HRA and GF	232				232
Forward Fund / Partnerships	19				19
Pipeline Budget Schemes	484		317	127	40

Figure 6.2 Breakdown of Homes Retained and Managed by Delivery Type

Homes (Intermediate and Market Rent) Retained and Managed			
WB delivery type	Total WHIL acquired and managed	WHIL Acquis. from Third Party	WHIL Acquis. from WHDL or JV
Total homes under management by 2029	**921**	**291**	**630**
WHDL Direct Developments	320		320
WHIL Joint Ventures	80		80
Acquisitions – HRA and GF	232	232	
Forward Fund / Partnerships	19	19	
Pipeline Budget Schemes	270	40	230

Growth – Development Targets and Tenure

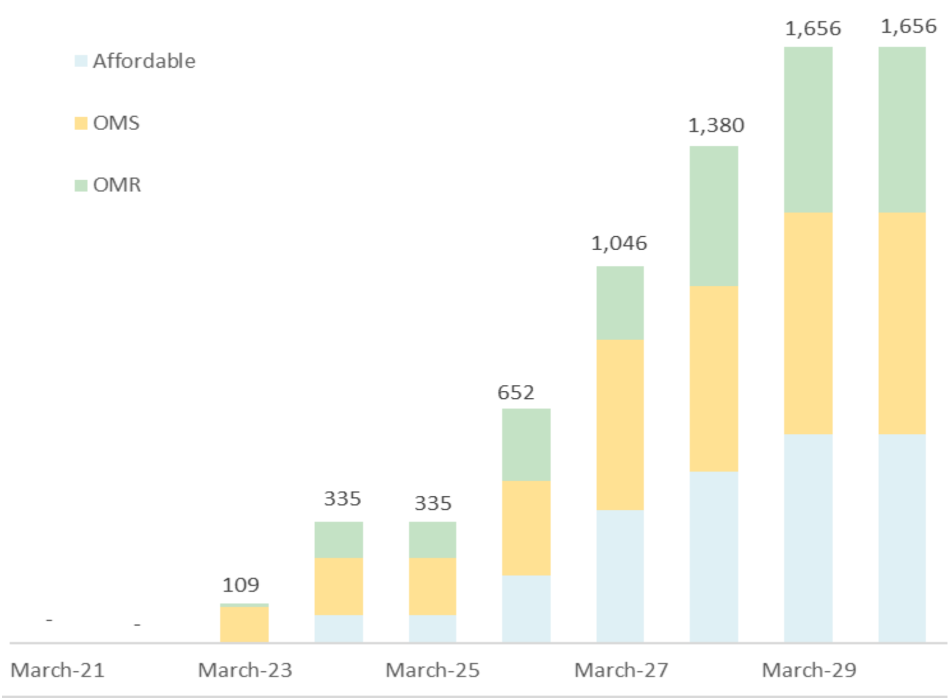
3.10 As stated above, over the course of the projections in this Business Plan period, WB will develop just under 2,000 new homes. Development schemes will be undertaken through WHDL and acquisition/on-going rental activity through WHIL. Over the course of the Business Plan period (the unit numbers below have been rounded to the nearest 10):

- 710 homes will be developed by WHDL (Ebury Bridge, Harrow Road and Westmead),
- 500 homes will be developed in partnerships (Luton Street and Church Street Site A),
- Estimated 440 homes provided by the Pipeline Budget schemes (these numbers based on estimated development / forward fund activity).

3.11 These numbers include an indicative number of homes and parameters for investment opportunities without referencing specific schemes. They are therefore subject to change. This is the Pipeline Budget line of £150m, which will be used in developing homes for rent and sale. The pipeline budget programme, is estimated will generate an assumed £60m of receipts giving a net spend at the end of the plan period of £90M. It should be noted that these figures are not based on firm schemes at this stage and therefore will be subject to change and spend will depend on appropriate opportunities being identified and secured.

3.12 The chart below at Figure 7 shows the total homes developed and completed during the Business Plan period. As development activity starts in 2021, it shows WB's delivery portfolio grows from March '23 through to a peak in March 2029, which marks the practical completion of Ebury Phase 2.

Figure 7: Homes Developed and Completed

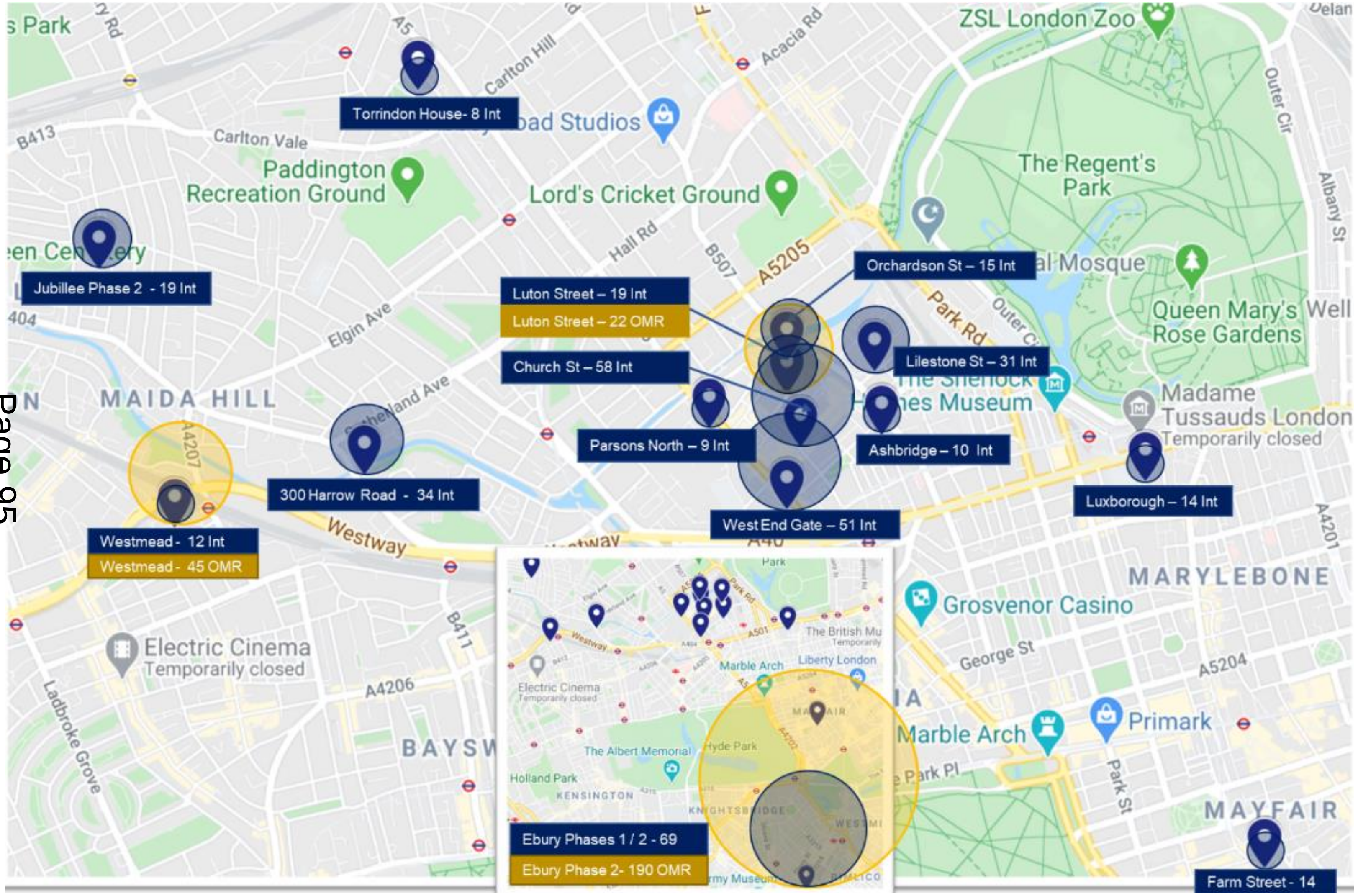


3.13 As development schemes progress and WHIL acquires homes the portfolio of homes under management grows. Figure 8 below shows the growth in intermediate and market rent homes under management from 2021 through to December 2029. At the end of the core Business Plan period, 2026, the rental portfolio is forecast to be c.350 homes. The sharp increase in 2029 to just under 900 homes represents the handover of homes from Ebury Phase 2. This peak continues until the end of the Business Plan.

Figure 8: Homes Developed and Managed

3.14 For reference, the map below (Figure 9) shows the relative locations of the budgeted schemes within Westminster and highlights the number of intermediate and market rent homes to be managed.

Figure 9: Location of Schemes in Westminster



Growth – Pipeline Programme

3.15 To maintain our growth targets WB will be developing a pipeline of activity, assessing options not only to deliver schemes within Westminster but also outside the Borough.

Schemes in Westminster

3.16 WB will continue to support the delivery and acceleration of the Council's regeneration and development programme. This includes acquiring homes in Council led schemes or delivering schemes on behalf of Westminster Council. These schemes will:

- Include several types of homes and tenures to offer housing choice and opportunity,
- Complement the delivery of social housing or other non-commercial objectives such as social care, recreation, leisure and education,
- Facilitate the delivery of commercial residential, office or leisure developments where an exit strategy for any residential component de-risks the proposal,
- Provide exemplars in terms of innovation technology or design, stimulate new employment or skills,
- Bring back into use land or property which is a detriment to neighbourhoods.

3.17 WB also would like to work with developers to help deliver their schemes in Westminster if they are stalling. The partnerships at Luton St and Jubilee are models that can be used elsewhere and have demonstrated how intervention by WB can enable schemes to be implemented and deliver much needed homes whilst sustaining jobs in the construction industry.

Schemes Outside of Westminster

3.18 Outside of Westminster WB is especially interested in working in partnership with developers and in public/public partnership with other local authorities and quasi-public sector partners, such as the health service and TfL, to share risk and rewards. Public/public partnerships can and should be a viable alternative to public/private partnerships at this time and WB believes they offer the potential to help lead the economy forward as the country addresses the impact of Covid-19.

3.19 Key considerations for schemes outside Westminster are about:

- Providing accommodation which may be attractive to households who are looking to Westminster for assistance, such as working households who cannot afford a suitable home in the city,
- Creating attractive places to live,
- Generating a significant commercial benefit to WB,
- Complementing the policies and strategies being pursued by the host borough.

Maintaining a Pipeline

3.20 As stated above, WB will be assessing options not only to deliver schemes within Westminster but also outside the Borough. We will consider:

- Development schemes – WB will consider development opportunities with or without planning consent, where it can use its expertise and resources to create value, or help achieve wider social, economic or environmental goals.
- Acquisition of bulk newly completed homes from developers – where WB can be satisfied that the quality of the homes is acceptable, offer good value for money over the life of building and that any remedial works required including the costs of compliance are discounted from the purchase price.
- Forward purchase agreements to unlock stalled schemes – WB will agree bulk forward purchase deals enabling developers to progress schemes where taking all the private sale/rental elements will unlock S106 provision or help achieve wider social, economic or environmental goals.
- Collaborative schemes – going beyond forward purchase agreements WB will look at proposals that share risk and reward with a developer that unlock S106 provision or help achieve wider social, economic or environmental goals.

4. Marketing and Communications

WB Schemes Marketing Strategy

4.1 Although schemes being delivered for WB are being built for commercial returns, the sensitivities of being part of the Westminster family are important and therefore, particularly for Westminster schemes, WB's marketing strategies will reflect City for All values.

4.2 The focus for the strategies will be to reinforce a positive reputation for WB and, at project level, enthusiasm for the scheme among the local community, linking it with the success of the Council's overall regeneration programme and the qualities of excellence, innovation and quality in both construction and service provided. Currently, all strategies are underpinned by two key themes:

Enhancing London Living	*Embracing the Community*
	

4.3 Within these key themes, the principles our marketing strategies will use, are:

- Homes that meet City for All priorities,
- Homes that are high quality in design, specification and finish, and are eco-conscious, low carbon both in construction and to live in,
- In Westminster local communities and those on Council waiting lists will be at the centre of the wider sales and marketing programme (Community First), highlighting exciting community initiatives and collaborations which will benefit existing residents in the area,
- Out of Westminster, we will give similar first preference to those living or working in Westminster, although, as described earlier, this will be in relation to market homes; all S.106 affordable housing will be for the host authority to allocate,
- An approach to sales and marketing which will enhance Westminster's reputation of providing outstanding services to our residents,
- An in-depth assessment of the local residential market, including current and future competitive schemes, and the impact of external influences, such as Covid-19.

Establishing Strategy

The London Residential Market

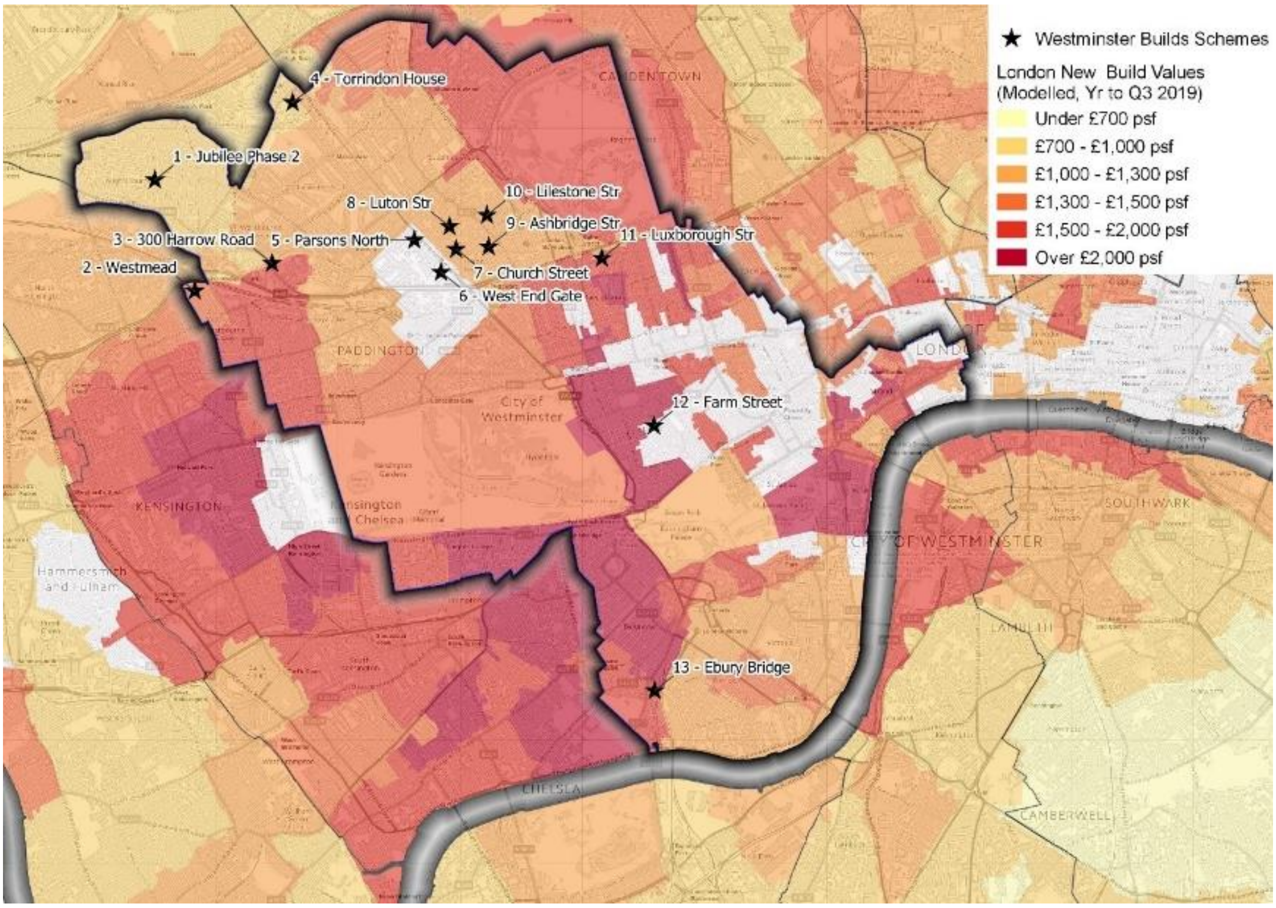
4.4 Although Westminster is often referred to as Prime Central London, schemes being delivered by WB are within areas of the borough where values tend to be lower and perform differently to higher value locations which are more dependent on high net worth individuals. It is important therefore to assess each scheme within its micro location, not approach a broad review of the Borough. In addition, given our City for All values, WB's development activity is carefully crafted, within Westminster's aspiration to provide a "Ladder of Housing Opportunity," to deliver high quality homes at reasonable price points.

4.5 The Council is assessing the London residential market continuously. WB will work with the Council to ensure that our schemes can be released to the market at the appropriate time, whether providing homes for sale or rent. We will not seek to compete with other schemes and continue to assess the residential market throughout the build programme. This ensures that we are able to amend strategy as appropriate and to advise the Board of any significant market changes that will impact values.

4.6 At present we are optimistic, and this is reflected in meeting successfully the sales targets for our scheme in Luton St (Carrick Yard). However, we are not complacent and will use our ability to be flexible in both timing and tenure to ensure we can continue to provide much needed homes in Westminster.

Figures 10 and 11 below show London New Build Sales and Rental Values across the Borough of Westminster in relation to the location of WB schemes and the current development pipeline across London.

Figure 10: London New Build Sales and Rental Values, 2020



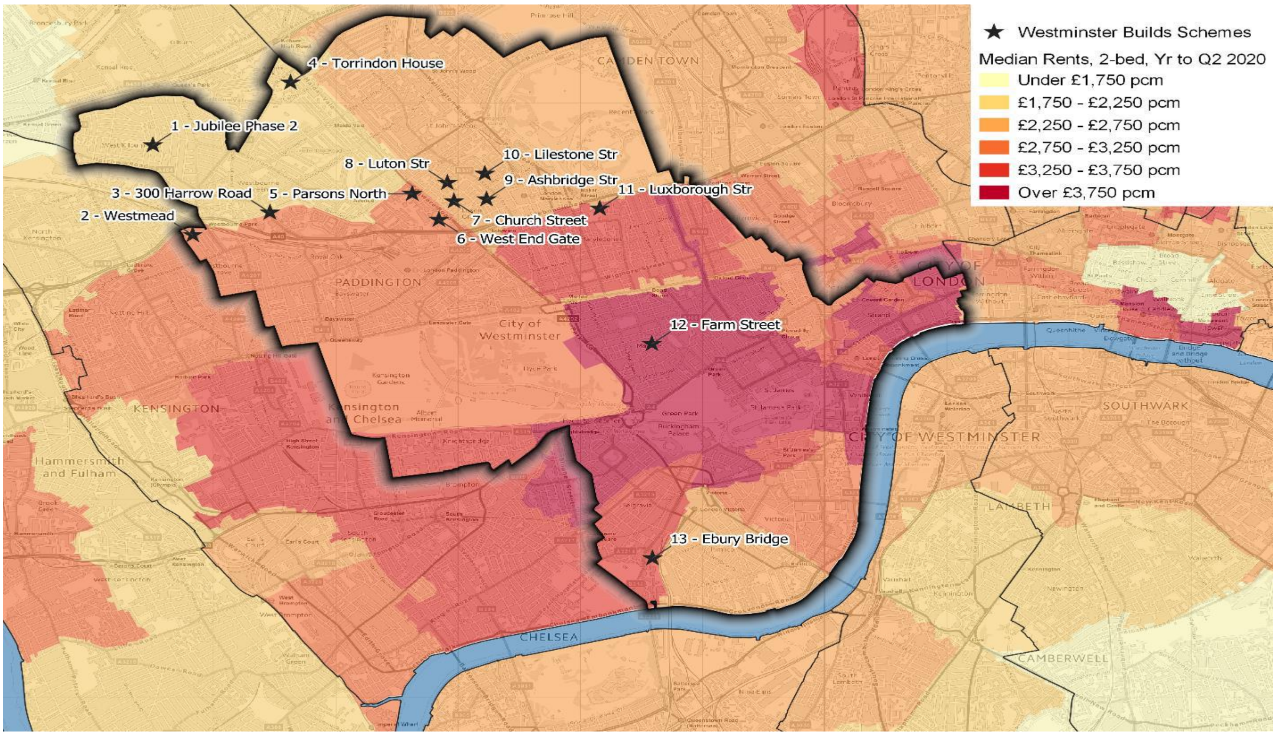
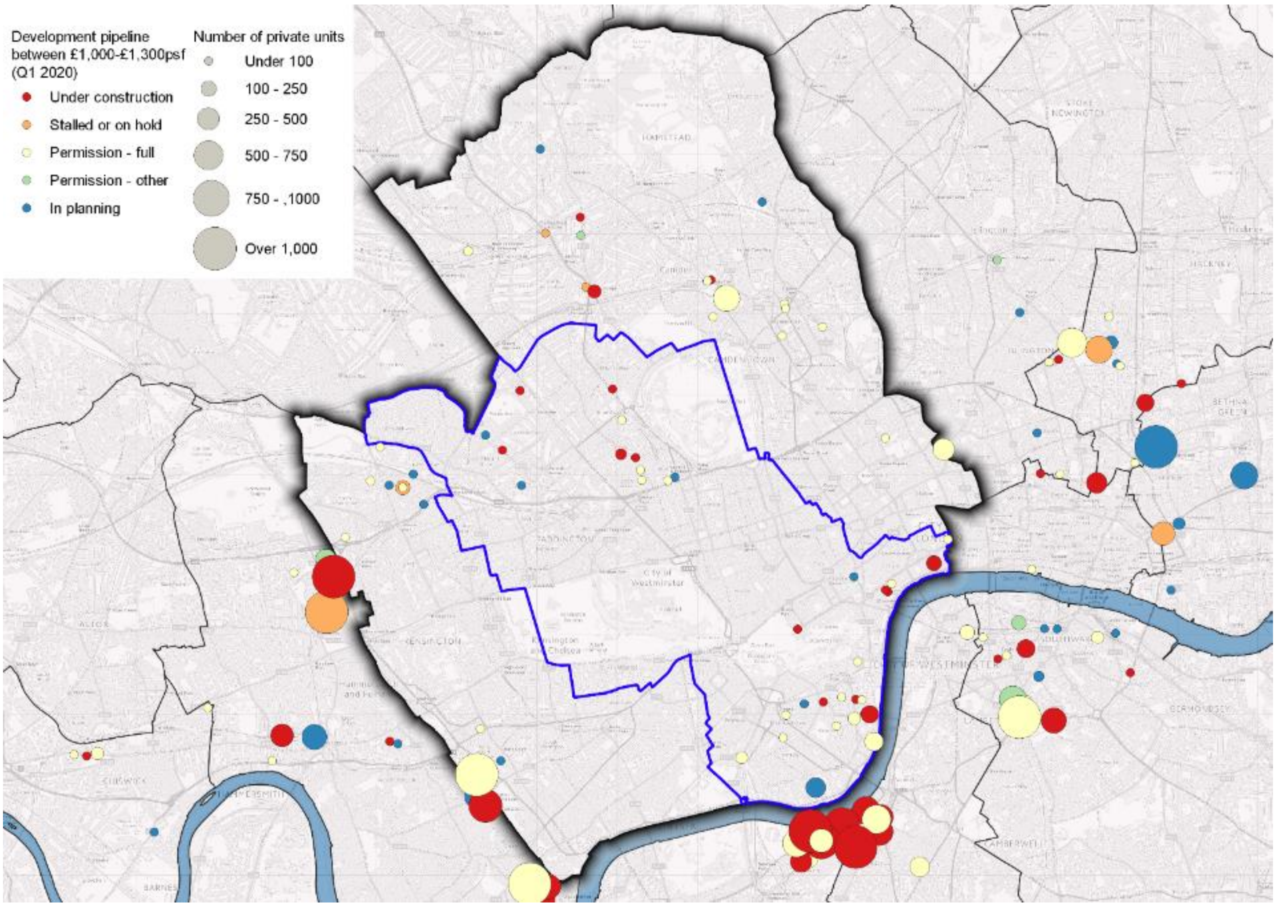


Figure 11: Current Development Pipeline across London; 2020



Establishing Sales and Marketing Strategies

4.7 Each marketing strategy will focus primarily on the domestic market, the inclusion of an international strategy will be considered by the Board on a scheme by scheme basis.

4.8 Our current sales strategy includes a three-stage process to ensure that the viability requirements of each scheme are achieved. The process commences with initial pre-launch activity designed to build scheme presence and a database of buyers. This is followed by a "Local First" structured release of a series of units to achieve reservations and exchanges during the construction programme. This release allows local residents and domestic purchasers to reserve units within a priority period before the sales strategy is widened to those outside Westminster and internationally where appropriate. A final stage will launch more widely to maintain the momentum of sales and achieve at least 60% sales prior to completion.

4.9 For market rent homes, and market rent and sale homes outside of Westminster, we plan to adopt the principles set by the Dudley House scheme in Westminster, summarised as Communities First, publicising the opportunities in the first instance to Westminster's own housing lists. We will extend to Council employees and to key employers and their employees, such as hospitals and educational establishments, and to other major employers in Westminster. We will develop and refine this strategy in line with the progression of our development programme.

Establishing our Communications Strategy

4.10 The sales and marketing strategies will be complemented by a communications programme to raise awareness and build the reputation of WB with its key stakeholders. A communications plan has been drafted and includes a programme of PR, stakeholder engagement and events (online and offline). Work has already been carried out to create a brand, vision and key messages for WB which are aligned to the Council's corporate messaging and it will be important that all communications activities – corporate, sales and marketing - have this messaging at their core. Work is underway to create communications collateral, including a new website, to support this activity.

4.11 Each of the sales and marketing schemes will have its own communications strategy which will include:

- A cohesive, centrally managed approach,
- A proactive approach for all audiences,
- A clear and consistent pipeline of content for all audiences,
- A clearly defined maintenance programme in place for the duration of the scheme.

5. Management and Operations

Overview and Management by the Board

5.1 Under the WB structure, as set out earlier, WHIL is directly, and WHDL is indirectly, owned 100% by WCC. Under the Articles of Association of each, the Council has the power to appoint and remove the Directors. Currently both companies have the same Board of Directors which comprises one Councillor and three Council officers as follows:

- Councillor Jacqui Wilkinson (Chair)
- Barbara Brownlee (Managing Director)
- James Green
- Steve Muldoon.

5.2 It should be noted that all four directors are members/officers of the Council. This duality is seen as a major strength of WB; the Board is well placed to operate in the best interests of the companies but with a duty of care to the Council as shareholder. The skill sets and expertise of the Board is also a strength, combining commercial skills (innovation, enterprise and risk management) with public sector values and disciplines of probity, transparency and stewardship.

5.3 In practice, the Board manages the business within the parameters, and to deliver the targets, set by its Business Plan, as approved by the Council. Over the period covered by the Business Plan the Board will have the following key workstreams:

- Developing the current programme of schemes and securing the projected pipeline as set out in section 3,
- Delivering the homes that will see WB financially self-sufficient for its operating costs in 2030,
- Developing the operational policies and procedures needed to support the growth of WB.

In addition, responding to the SWOT analysis and managing the strategic risks identified in this Business Plan will form a significant part of the work of the Board over the plan period.

Westminster has decided to establish a Strategic Oversight Board to provide accountability as well as guidance to both WWB and Westminster Community Homes, a charitable housing association.

Operational Structure

5.4 The structure supporting the Board is light and, at present, there is no plan to change this, although the MD is now seconded on a part time basis to WB. Other than that post, neither Company has direct staff but operate using Council staff under a Service Level Agreement (SLA) (note this arrangement is not subject to procurement regulations as the “Teckal” exemption applies). External advisers and corporate advisers such as legal and tax advisers, company secretarial services and auditors provide further support as required.

5.5 Implementation of Board decisions is undertaken by the MD's Management Group, which consists of the three officer directors. The Company's external advisors and appropriate Westminster officers support the Group. It acts within WB's scheme of delegation to:

- progress projects,
- identify and secure the pipeline,
- develop policies, practices and reporting arrangements,
- ensure the effective running of the Company in line with Board decisions, policies and procedures.

5.6 All premises, IT support and equipment and office systems and support are provided by WCC and paid for through the Service Agreement.

Growth in operational activity over next 18 months

5.7 Currently the focus of WB activity is on its development programme set out in Section 3. However, over the next 18 months WB's range of activities will expand. Figure 12 shows key activities detailed by scheme and over the 18 months to the end of March 2022. As development activity ramps up so too does all operational activity, including marketing, sales and letting and then on-going housing management.

5.8 This progression and maturing of WB's developmental stages will be a major part of the Board's focus over the course of the core Business Plan period, 2021-2026.

5.9 The diagram overleaf (Figure 12) shows the increasing relevance of housing marketing and sales and lettings activities and housing management operations for the next 18 months. WB is currently addressing how these activities will be resourced but no major changes to the current service agreement with the Council are planned at this stage. Further details are given after figure 12.

Figure 12: Key Activities over next 18 months

FY	Q3 2020/21	Q4 2020/21	Q1 2021/22	Q2 2021/22	Q3 2021/22	Q4 2021/22
Quarterly management build up	0	8	14	20	23	38
	6 months		7 – 12 months		13 – 18 months	
WB Company Activities	1. Appointment of legal advisor	1. Complete SLA with WCC				
	WB marketing launch including website					
	WB PR Programme					
	Seek and secure 'Pipeline Budget' sites					
Development (predevelopment, construction SoS and PC)	1. Westmead Planning approval	1. Ebury Bridge phase 1 SoS 2. Church Street planning submission?	1. Westmead FBC 2. Pipeline Development activity starts	1. Westmead SoS 2. Pimlico Planning approval		
Acquisitions		1. Farm Street PC – 14 intermediate flats	1. Parsons North PC – 9 intermediate flats		1. Jubilee PC – 19 intermediate flats	1. Ashbridge PC – 22 intermediate flats
Management Activities	1. Parsons North management strategy finalised		1. Luton St management strategy finalised		1. Harrow Road management strategy finalised	
Agency, Sales and Marketing Activities	1. Jubilee hoarding 2. Ebury strategy confirmed + hoarding 3. Seek Pipeline opportunities Carrick Yard marketing continues	1. Harrow Road launch and events 2. Secure 1st Pipeline opportunity Carrick Yard marketing continues Ebury continues	Carrick Yard and Harrow Road marketing continues Ebury continues	1. Cosway Street launch (includes Ashbridge St) Carrick Yard and Harrow Road marketing continues Ebury continues	Continuation of previous quarter	Continuation of previous quarter

Business Risk

5.10 A key focus of the management team will be to manage and mitigate risk, as the growth in activity ramps up over the next 18 months, and then over the Business Plan period. The SWOT analysis set out in Section 1 has been used to inform and identify the development of the risk register for WB. This risk register is set out at Appendix 2. It concentrates on the principal strategic risks to WB at this stage in its activities. As can be seen mitigation strategies have been considered and will be implemented throughout the Business Plan period.

5.11 WB has taken the opportunity of developing this Business Plan to make our risk register "real" and, in addition to discussion by those central to its development, it has been discussed widely in a workshop forum with an industry expert facilitator. In this way we intend that, particularly in the new post Covid and post Brexit world, our key risks will be central to decision making as we implement this 2021 Business Plan.

Operational arrangements with Westminster Council

5.12 As part of the Westminster "family" WB benefits from the expertise and skills of the Council. These services are provided under a Service Level Agreement which covers most of WB's development and operational activities. Officer time is charged to the companies as either a revenue cost (company overhead) or capitalised within project/ scheme costs.

5.13 Skill sets and advice outside those of the Council, for example, in relation to legal advice and audit and tax services, are procured under a direct arrangement with WB but utilising the resources of the Council to support the process, as necessary.

5.14 WB also follows the Council's policies and procedures unless specific circumstances dictate otherwise. This assists for example in managing our risk assessment processes in line with the management of our risk register explained above.

5.15 Key activity areas and the support arrangements are set out below.

Marketing and Corporate PR/Press Activities

5.16 Marketing and corporate PR will be provided in close liaison with both the Council's Communications team and with the assistance of external advisers as appropriate.

Scheme Design, Development, Construction and Acquisitions

5.17 Development management services are provided to WB by the Council Development Team led by James Green who is a director of WB. This covers all aspects of development and construction management through to handover and commissioning and includes procurement of professional and contractor services which are undertaken with Westminster's procurement team and processes to ensure value for money and probity.

Scheme Marketing, Sales and Rents

5.18 In addition to the above the marketing of schemes, sales and lettings strategy and services (apart from corporate communications and public relations, which are provided with the Council's Communications teams) are provided through the Council development team. WB recognises the importance of seeking professional advice at the earliest opportunity to de-risk schemes and, through the Council team, will appoint marketing and sales professionals to provide expert advice for its projects. This will include early guidance on the design as it emerges to seek to maximise the values generated by each scheme, continuing through the development process to optimise returns on schemes.

Housing and Tenancy Management

5.19 WB is committed to providing high quality management services to all its occupiers and will need to do this on a commercially viable basis. The skills required for this are being investigated. Management of market and Intermediate rental housing under assured shorthold tenancies is an area in which external service support will be required.

5.20 However, the Council is already examining how mixed tenure estates, within its own regeneration and development portfolio, will be managed. Policies, procedures and practices for tenancy, estate and property management services are being developed and it is expected that WB will be able to join into the arrangements which the Council makes, in the same way as it joins into the Council's development services arrangements.

5.21 Outside of Westminster WB will follow Westminster practices unless there is a specific reason, for example, a. request by the host borough to adopt an alternative approach.

6. Financial Projections

6.1 This section sets out the underlying assumptions in the Business Plan and forecast financial outcomes from delivering the planned activities set out in Section 3. The financial forecasts show the projected financial outcomes of the schemes delivered in the 5-year Business Plan period (2021 – 2026), plus any pre-existing WB activities, over a 40-year cashflow.

6.2 The financial forecasts show that the Business Plan is viable on the assumptions used, which are reasonable for delivering WB's objectives of maximising the delivery of high quality and affordable homes. It should be noted, however, that to deliver the target number of 1,658 homes, WB will need to draw down a substantial amount of funding from the Council as shareholder and senior lender. Robust budgetary management at a scheme and Company level is required to ensure that the schemes can be delivered within the forecast parameters of the Business Plan.

6.3 WB has ambitious plans to grow its development and housing management portfolio over the Business Plan period. There is risk inherent in these activities, which are new to WB as a young company and in the early years of the plan WB will be accumulating losses before the first scheme completes and generates a profit which will offset the cumulative losses to date and return WB to profitability. WB has the advantage of having the Council as a key partner, shareholder and funder who can support WB through these early years. This also provides a degree of flexibility in the programme, strength of pipeline, availability of resources, and an aligned partnership focused on maximising outcomes for residents in the Borough.

6.4 WHIL and WHDL are separate companies within WB: their financial positions will need to be monitored individually and collectively. The development finance that WHDL takes out is provided by the Council via WHIL so the analysis shown in the Business Plan consolidates WHIL and WHDL borrowing. In addition to the two-company structure, WB intends to VAT group WHIL with Westminster City Council to mitigate the potential for irrecoverable VAT costs.

6.5 The financial forecasts in this section are accompanied by a series of stress tests that align with the highest scoring risks in the risk register.

6.6 The highlights of the financial forecasts are:

- Up until 2028 WHIL is unable to cover its interest costs due to a high number of schemes under development supported by a relatively low number of income generating homes under management. By 2024, the Company covers most of its interest costs (90%) however this is followed by a period of significant development expenditure stressing the Company's ICR. Interest is 'rolled up' during this period and paid in later years.
- The break-even position is reached in 2030 at which point the ICR is 1.2x,
- The peak financial exposure (senior debt and shareholder loan) within WHIL from acquiring market rent and intermediate homes is reached in 2030 at a level of £393m,
- The peak financial exposure (senior debt and shareholder loan) from developing new homes (includes investing in partnership structures such as Luton Street) is reached in 2026 at a level of £317m,
- Under current assumptions, WB can repay its borrowings in 2058 demonstrating that the Business Plan is self-sufficient within the 40-year cashflow period,
- At the end of its development and acquisition programme, March 2030, WB holds assets valued at over £400m.
- The P&L is set out in Appendix 5, showing that WB will produce losses until 2023/24 when the first development scheme concludes (Carrick Yard) and delivers a return from the LLP

Assumptions

6.7 A range of assumptions have been used in the Business Plan to develop the cashflows. The table below summarises the key Business Plan assumptions. These cover items that will be managed centrally, such as cost of funding, or that are driven by wider national or regional economic conditions such as cost price inflation, rental growth and house price growth.

6.8 Scheme-specific assumptions such as build costs, values for open market sales and rent, and phasing, which are site-specific and vary between schemes. As schemes are developed, the Executive Team will monitor scheme-specific assumptions to cross-check for consistency and to ensure that lessons learned on earlier schemes are carried through to later developments.

6.9 The Business Plan financial model is based on scheme data drawn from project appraisals prepared by the Council's development managers who know the scheme in detail.

Figure 13: Business Plan Assumptions

Business Plan cashflow period	40 years
WHDL borrowing rate	6.00%
WHIL borrowing rate (developments)	6.00%
WHIL borrowing rate (acquisitions)	5.00%
General Fund borrowing rate	2.35%
Gearing (all WB companies)	65% debt: 35% equity
Development Contingency (See Appendix 4 – Optimism Bias)	10% at OBC 5% at FBC
CPI	FY20: 0.0% FY 21: 1.5% FY 22 Onwards: 2.0%
Revenue Costs pre Apr 20	£71k
Set-up costs	£500k (one off cost incurred in 2021)
Operating costs	£375k per company per annum
Inflation – rental and HPI	Affordable rent CPI + 1% Market rent [3%] HPI [3%]
Acquisition capitalisation yields	Forward fund market rent 4% Acquisition at PC market rent 3.75% Acquisition of intermediate homes at PC 3.75%
Management costs (management, maintenance, lifecycle, voids and bad debts)	28% intermediate and market rent

Note. Inflation rates and rental levels informed by Oxford Economics Baseline Forecast August 2020.

6.10 Within the Business Plan is an allocation for future pipeline schemes. At this stage, the budget is based on metrics and parameters representing the type of schemes and potential returns that WB is targeting. These assumptions, set out below, have enabled the Company to put forward a reasoned bid for funding from WCC based on the Company's hurdles. Opportunities that progress through the Pipeline will inevitably be different in terms of size, location and return but should outperform the hurdles used to inform the budget allocation.

Figure 14: Pipeline assumptions

Pipeline assumptions	
Gross Capex	£150m
Net Capex	£90m
Distribution of Net Capex	25% Forward Fund (Outer London) 25% Forward Fund (Growth Corridors) 25% Acquisition (Outer London) 25% Development (Growth Corridors)
Average Rent per Home per Month (2020 Prices)	Outer London £1,700 Growth Corridor £1,100

Resource Plan and Operating Cost Assumptions

6.11 Section 5 has set out WB's management structure and proposals for the management and operation of its planned and projected activities. During the period of this current Business Plan it is assumed that resources are secured from the Council and re-charged under a Service Agreement. These Council services and costs will cover the main activities of WB.

6.12 For development activity, the financial projections assume that the Council recharges are within the overall scheme cost estimates, that is, that within scheme costs, allowances have been made about the resources required to develop schemes, oversee and manage construction.

6.13 In relation to subsequent management of the homes, there is an overall assumption in the financial projections that 28% of gross income will be used to fund management and maintenance costs, including lifecycle costs. Further work is in progress to test the validity of this assumption.

6.14 Beyond the above costs, WB will have central overheads and management costs. These will be in relation to, for example:

- Non-scheme related staff costs,
- Board and company secretarial costs,
- Accountancy audit and insurance costs,
- Legal and tax advice (not included in scheme costs).

6.15 The current assumption is that there will be initial set-up costs of £500k, followed by operating costs of £750k per year to manage both WHIL and WHDL.

6.16 The operating costs budget will be reviewed and developed as it evolves through the changing stages of the Company, from set up through to managing first homes, development growth and steady state.

6.17 In relation to the Pipeline Budget schemes, consideration will need to be given to the efficiency of managing homes that are geographically dispersed where economies of scale are more challenging to achieve. The map at Figure 9 (section 3) shows the locations of schemes in Westminster in the Business Plan. The Pipeline Budget schemes are based on parameters at this stage so are not shown on the map.

Funding Requirement

6.18 WB incurs costs associated with running the business, undertaking development and construction activities, and acquiring and managing new homes for intermediate and market rent. It generates income from open market sales and rental income. As set out in the Funding Structure (Section 7 below), WB borrows from the Council's General Fund through a combination of debt and shareholder loan to finance its development and acquisition activities.

6.19 The table below summarises the capital funding and financing requirement for the Business Plan period for each of the two companies in WB – WHDL and WHIL. Note, where Joint Venture investments are made, such as at Luton Street, investment is made through WHIL.

Figure 15: Funding Requirement over Business Plan Period to 2060

	WHDL	WHIL
Costs		
Development costs	(£501.3m)	
Development costs through investments		(£137.6m)
Acquisition costs excluding acquisitions from WHDL		(£161.5m)
Acquisition costs from WHDL		(£208.6m)
Central contingency	(£25.1m)	(£6.9m)
Company overheads*	(£4.2m)	
Tax*	(£2.3m)	
Income		
Market sales income (includes exit sales)	£329.1m	
Income from sales to WHIL	£208.6m	
Return from investments		£177.3m
Grant	£39.0m	
Net Capital spend		£293.4m
Funding requirement (peak exposure)		£316.8m
Peak Council loan		£392.5m
Peak Council equity		£504.7m

* WHIL tax and overheads are excluded from the above analysis, as they are predominately revenue in nature; however they are reflected in the total funding requirement

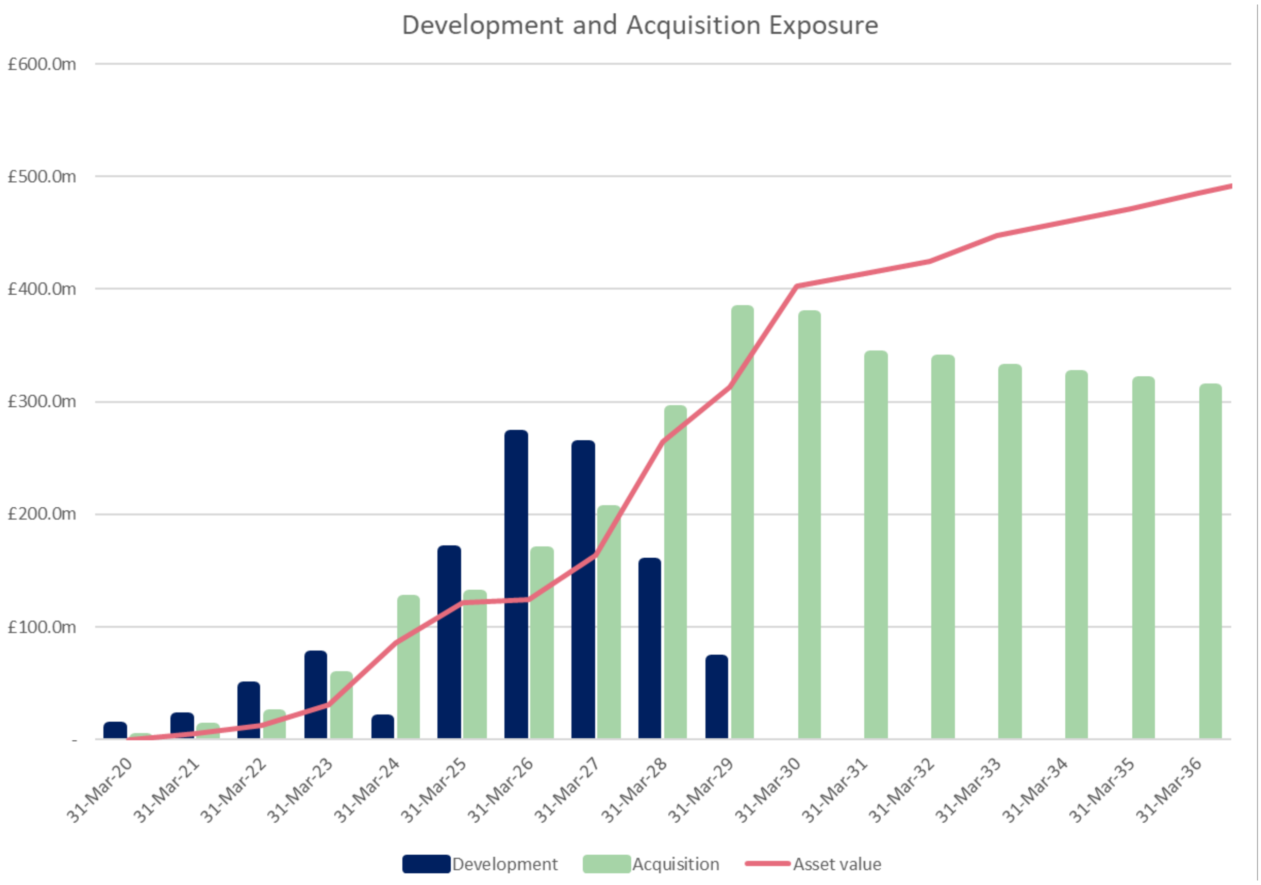
6.20 The graph below shows the level of funding requirement split between development (dark blue) and acquisitions (light green). The development phase funding is repaid from the following sources subject to the specific scheme:

- Open Market Sales,
- Sale of market rent homes to WHIL,
- Sale of social rent homes and non-residential space to the HRA,
- Sale of intermediate homes to WHIL.

6.21 These income sources repay the development debt but, where WHIL acquires rented homes from WHDL, it borrows to fund these acquisitions; hence the total exposure within WHIL increases. The peak acquisition borrowing within WHIL at £392m is substantial but it should be noted that this is used to acquire income-generating assets. As these homes are occupied, proceeds from net rental income are used to service debt costs.

6.22 By acquiring properties from completed schemes, WCC led developments and its pipeline the value of WB's assets grows over the Business Plan, rising to over £400m by March 2030. At the culmination of its development programme, asset value exceeds exposure, continuing to grow through re-valuations.

Figure 16: Funding Requirement



Cashflows

6.23 Cashflow is critical to any company and it is particularly relevant for WB as a new company without reserves to fall back on. The early years of the Business Plan are particularly challenging, with a sustained period up to 2028 of an ICR lower than 1. As mentioned above, there is an initial period (2021 – 2024) when WB does not have enough income to cover all overheads and interest costs (see also Appendix 5). The point at which the Interest Cover Ratio (ICR) exceeds the target of 1.20x is in 2029. Careful budgetary management will be required, along with continued support from the Council. While the Business Plan is grounded in prudent assumptions, careful management will be required to ensure that the Company's borrowing remains affordable and it can achieve its target ICR of 1.20 in 2030.

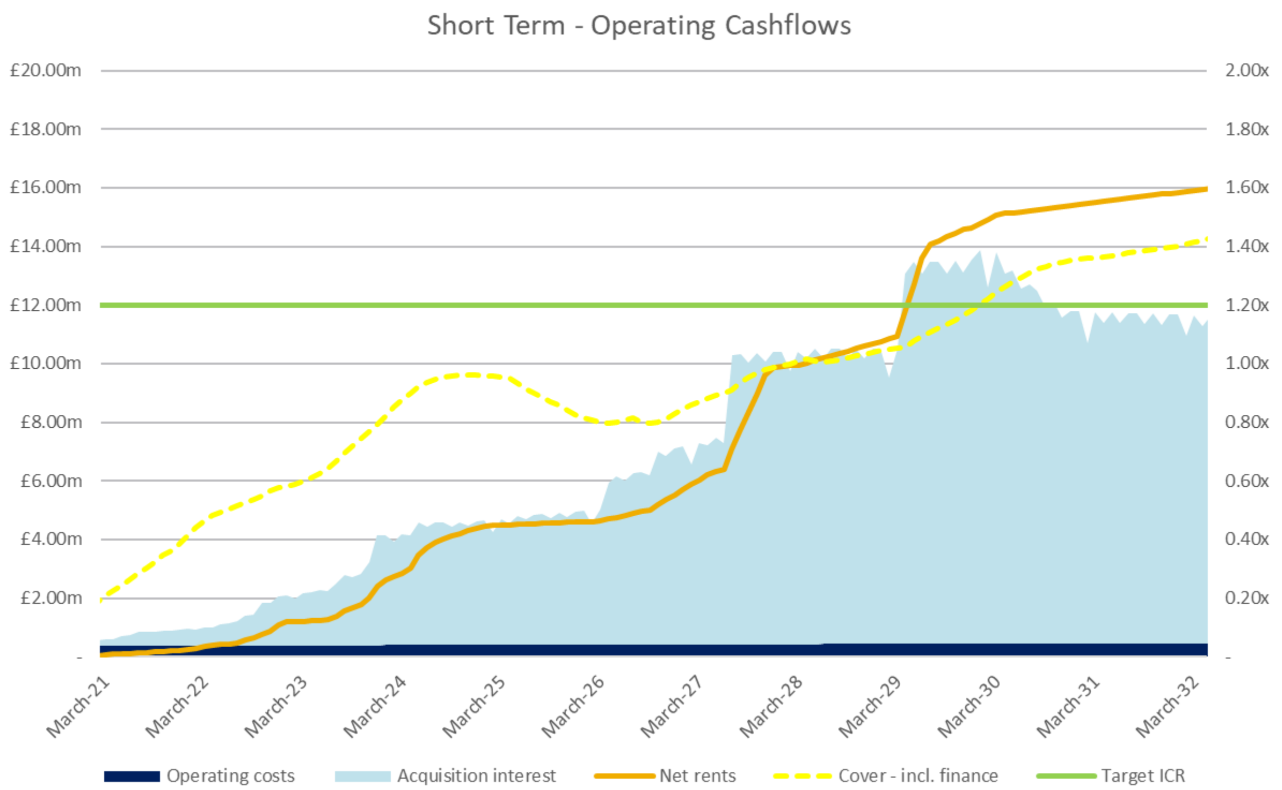
6.24 During the early years of the Business Plan it will be critical to ensure that meeting an ICR of 1.20 is not pushed back which would leave WB in a position where it would struggle to meet debt costs in the event of reduced income, for example, due to higher voids or bad debts.

6.25 The graph below shows the operating cashflows for WHIL over the short term (2021 – 2032) excluding WHDL. The shaded area represents the on-going revenue costs of the Company consisting of interest incurred on acquisition debt (light blue) and operating costs (dark blue). The spike in operating costs in 2021 is due to one-off establishment costs. The increase in acquisition borrowing in 2028 represents completion of Ebury Phase 2 and the acquisition of intermediate and market sale homes.

6.26 In general, net rents fall behind revenue costs, reflecting the delay between acquiring properties and fully letting them. In addition, net rents include an assumed deduction towards life cycle costs, which, while a prudent long-term assumption, will impact on the initial return from rented homes.

6.27 The ICR approaches but does not reach 1.0x in 2024 and reduces to a low of 0.8x in 2026 due to assumed forward funding – where the Company is paying upfront for assets under-construction – of some of its pipeline schemes.

Figure 17: Short Term Operating Cash Flows



Balance Sheet

6.28 The programme of activity in WB's Business Plan quickly builds a strong balance sheet which the Company can leverage during its growth stage.

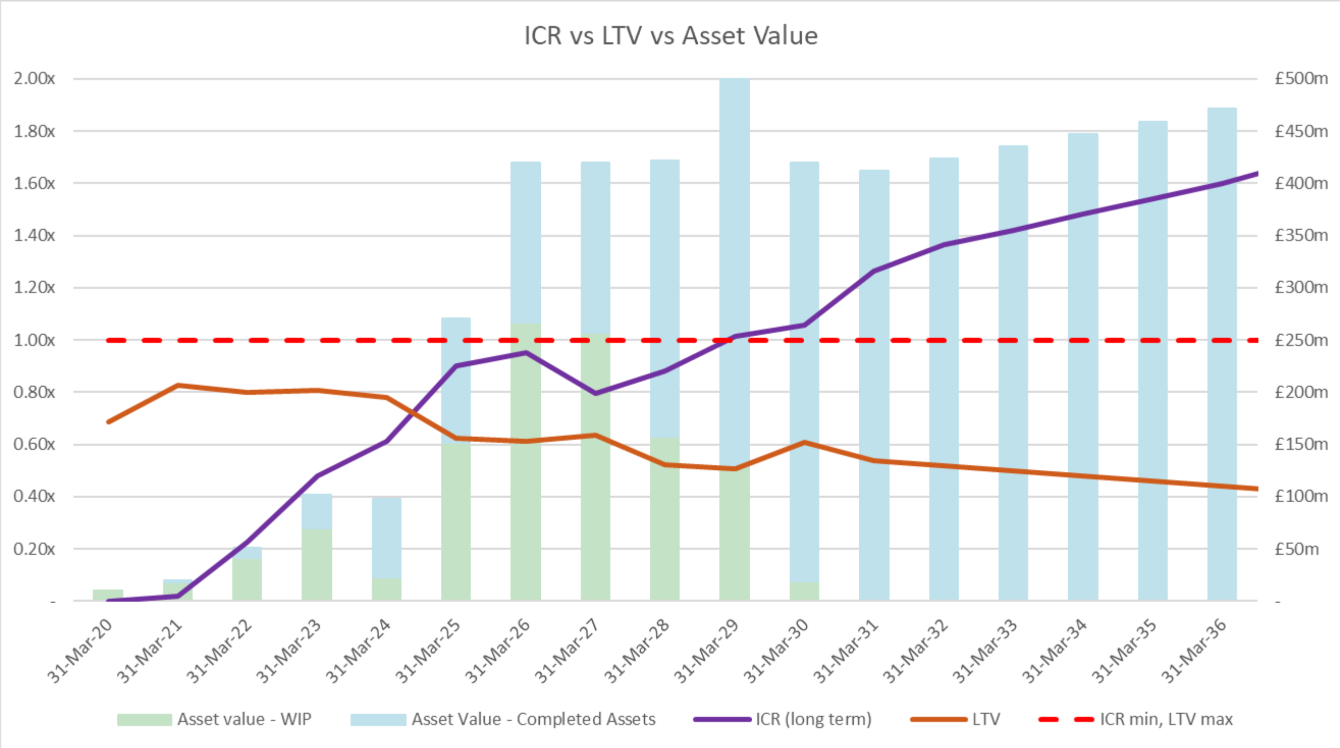
6.29 The graph below plots LTV and ICR against WB's assets, consisting of work in progress (WIP) and completed homes. It demonstrates how leveraged the Company is (LTV), how affordable that position is (ICR) and the underlying value of the Company's (assets) and how the liquidity of that value improves as homes move from development to completed assets. In isolation, it demonstrates the key metrics of the Company but overlayed it helps tell the story of the Company.

6.30 In the years up to March 2024, the Company's early capital programme consists of smaller sites as well as a programme of acquisitions which translate quickly into completed homes, enabling the Company to build a strong balance sheet. This stage of the Business Plan is funded by high levels of debt, with capitalisation of interest pushing the LTV above 0.8x.

6.31 The foundation created supports the Company's growth beyond 2024. While debt financed development increases as Ebury Bridge Phase 2 and Church Street Site A commence, this is underwritten by a falling LTV and rising ICR. This means that debt falls proportionate to the Company's asset base and that it is becoming more affordable.

6.32 At the close of the planning period, March 2030, the Company's ICR is above 1.0 and continues to grow as rental incomes grow and debt is repaid shown by a falling LTV.

Figure 18: ICR vs LTV vs Asset Value



Performance Metrics and Hurdles

6.33 A series of hurdles have been set to measure how well the Business Plan is performing – these are shown in the table below, along with the performance of the current Business Plan. In general, these hurdles will be targeted at a scheme level, however, the Board may choose to pursue schemes that do not meet the hurdles but that offer other attributes, provided there is no detriment to delivery of the overall Business Plan. WB will assess the schemes against the financial requirements in the Business Plan as well as social value to ensure that schemes are delivering broader social benefits as well as financial returns.

Figure 19: Performance Metrics and Targets

Metric	Target	Business Plan performance
WHDL profit target	• Market sale 12% on GDV • Market Rent (investor / purchaser identified) 6.6% on GDV • Affordable 5% on GDV • Non-residential sold to HRA 5% on GDV	WHDL total profit from schemes delivered directly by WHDL £55.2m or 10.58% profit on cost (project contingency and overheads, pre-tax)
WHIL JV investment profit	Matches JV partner	12.75% for Luton Street

Interest Cover Ratio post stabilisation (completion of all development)	1.20x	c. 1.20x from 2030
ROCE investments	1.20x	1.32x

6.34 Performance by scheme in terms of development profit (where applicable) and IRR for operating rental homes is shown below.

Figure 20: Performance by Scheme

	Scheme	Pre finance development profit on cost	Acquisitions ungeared IRR
Developments	300 Harrow Road	19.2%	6.2%
	Westmead	5.3%	6.6%
	Ebury Phase 2	15.13%	6.6%
Joint Ventures	Luton Street LLP	12.57%	n/a
	Church Street	23.1%	5.2%
Acquisitions	Ebury Ph1	n/a	6.2%
	Luton St (10% Takeout)	n/a	7.1%
	Luton St (Intermediate)	n/a	6.2%
	Jubilee	n/a	5.2%
	Parsons North	n/a	6.2%
	West End Gate	n/a	6.2%
	Pimlico	n/a	6.2%
	Luxborough	n/a	6.2%
	Torridon House	n/a	6.2%
	Farm Street	n/a	6.3%
	Ashbridge	n/a	6.2%
	Lisson Grove	n/a	6.2%
	Dalkeith	n/a	6.1%
	Abbots Manor	n/a	6.1%

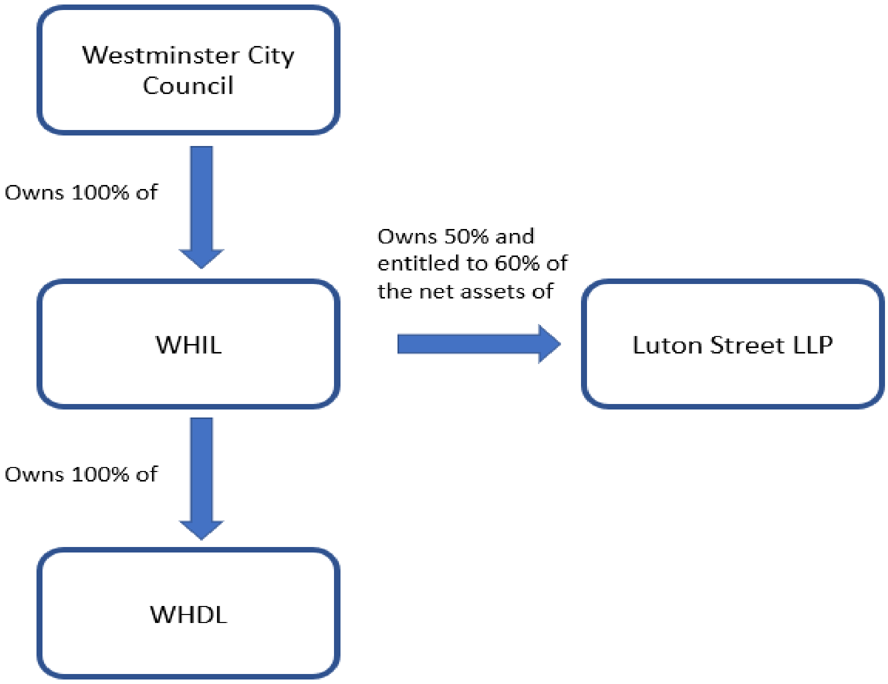
7. Funding Strategy

Company Structure and Equity

7.1 WB currently consists of two companies, Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL). Both are limited by shares. WHDL has issued 1 share, which WHIL owns giving it 100% ownership. Likewise, WHIL has only issued 1 share which is owned by Westminster City Council giving it 100% ownership.

7.2 WHIL also owns 1 share in Luton Street LLP granting it 50% ownership of the special purpose vehicle. However, the members' agreement signed between WHIL and LinkCity entitles WHIL to 60% of the net assets generated by the LLP.

Figure 21: WB Company Structure



Financing for Development and Acquisition Activity

7.3 The Business Plan assumes a consistent approach to financing for both development of sites and the acquisition of homes. This approach will be tested when financing is arranged, using state aid and legal advice to set an appropriate rate and commercial terms between Council and WB. The key assumptions are listed below:

- Council will provide financing at the minimum state aid required rate, or at a rate competitive with similar treasury investments if higher,
- The funding will be drawn down monthly as required by the Company,
- The first 35% of funding will be a shareholder loan, the remaining 65%, senior debt,
- Development finance will be repaid from receipts of the development, first repaying senior debt then shareholder loans,
- If WHIL acquires property from a WHDL development, the Company will refinance the investment through a separate agreement,
- Acquisition shareholder loans and senior debt will be repaid pro-rata,
- Development loans will have fixed terms to match the development and sales period, acquisition debts will match the life of the asset.

Senior Debt

7.4 Senior debt is the general term in the Business Plan for interest bearing debt, which will have the first call on guarantees and collateral given by the Company should it fail to repay its debt. During development it will be the last financing into the project and the first to be repaid from receipts. However, to maintain the gearing between debt and quasi-equity (shareholder loans), the two will be repaid pro-rata. This will ensure the Council receives a consistent return on its investment.

Shareholder's Loan

7.5 These loans from the Council act as quasi-equity, effectively acting exactly like equity in a transaction without being and having the restrictions of equity. This arrangement favours the Council, providing benefits including:

- Ability to be repaid at any time, improving the Council's liquidity,
- Prevents the build-up of excessive equity in the Company during the Business Plan's peak,
- Initially set at nil interest but can be varied in the future to increase return to WCC,
- Simpler to arrange and draw down, can be drawn down and invested to meet with the Company's financing requirements.

7.6 In addition to project specific shareholder's loans, the Company is in the process of securing a working capital loan to fund day to day expenditure. The terms of this facility may differ.

State Aid

7.7 State Aid and the Market Economy Investor Principle (MEIP) govern transactions between the Council and WB, which prevent the Council offering a commercial advantage to WB and potentially distorting the housing market.

7.8 At this time, WB has chosen not to pursue relief from state aid under the exemption for Services of General Economic Interest (SGEI), owing to the high degree of complexity that results from applying this exemption. Further legal advice will be sought so we can seek to apply it where the benefits outweigh any perceived disadvantages.

7.9 The European Commission provides a table, for state aid purposes, that sets the margin (i.e. the rate added to the base rate), based on the collateral of the transaction and the credit rating of the Company. The Business Plan assumes for planning purposes that the UK government will apply a similar arrangement. The table shows the basis points, where 100 basis points is equivalent to 1%, which is added to the reference base rate. Previously the PWLB lending rate has been used as a reference rate.

Figure 22: Base margin for State Aid purposes

Rating/credit worthiness	High collateral	Normal collateral	Low collateral
Strong (AAA–A)	60	75	100
Good (BBB)	75	100	220
Satisfactory (BB)	100	220	400
Weak (B)	220	400	650
Bad/Financial difficulties (CCC and below)	400	650	1,000

7.10 The table is the starting position of any arrangement between Council and WB and will be tailored to each transaction, reflecting other benefits to the Council.

7.11 The two loan agreements currently in place, Luton Street and Jubilee, have been agreed based on a margin of 4.0%, i.e. CCC and below with high collateral, reflecting the lack of credit history on which to judge WB's credit worthiness. The Company is working with Treasury Services advisers to map out the process for obtaining a stronger credit rating, which will reduce the borrowing rate.

Alternative Finance

7.12 Council financing is the baseline position for the Business Plan: however, the Company continues to explore alternative financing arrangements. By doing so WB provides a commercial rate for the Council to bid against, dispensing with the need to follow state aid tables, i.e. by matching a private investor the Council can demonstrate that it is providing commercial terms. In addition, it reduces the reliance on the Council and allows more bespoke financing arrangements which could not necessarily be achieved under state aid restrictions.

The financing of the Business Plan remains a Board decision and any alternative financing arrangements will be brought to the Board for approval. Subsequently permission will need to be sought from the Council as shareholder and principal funder.

8. Taxation

Company Structure and Equity

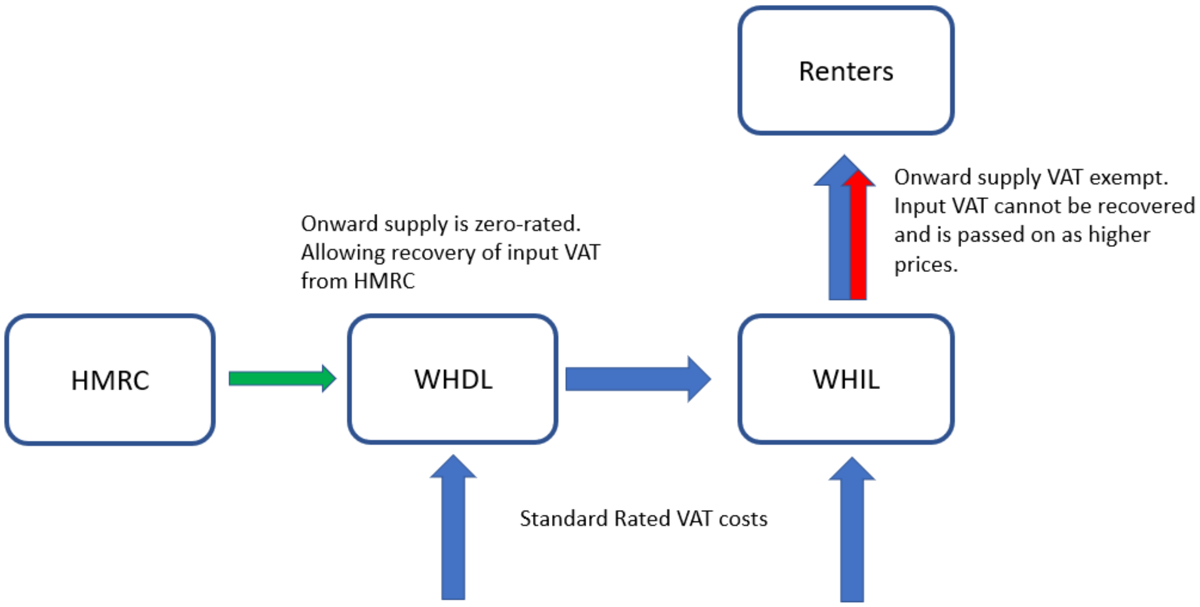
8.1 As a normal commercial organisation WB is subject to full UK taxation.

VAT

8.2 WB operates a two-company structure to minimise unrecoverable VAT, splitting the business into a development company (WHDL) and a lettings company (WHIL). The development company, by virtue of making zero-rated supplies of completed homes to private individuals, the Council and WHIL, can recover most of its input VAT. The letting company however, cannot recover its input VAT, as residential lettings are exempt for VAT. The separation of companies allows VAT to be recovered on construction and development activities, which would not be possible in a single company structure.

8.3 Figure 23 sets out the VAT recovery position of the Company.

Figure 23: WB VAT recovery structure



8.4 WHIL, unable to reclaim VAT from HMRC, instead passes the cost on to renters in the form of higher prices. This is not a major cause for concern, as most renters will be private individuals who, unable to recover VAT, do not differentiate between price and VAT. Instead it incentivises the Company to reduce its VAT burden as much as possible to increase its margin or offer lower rents.

VAT Grouping

8.5 In addition to the two-company structure, WB is working with the Council to seek VAT grouping for WHIL with the Council to further reduce VAT costs.

8.6 WB operates using seconded Council staff and with services provided by Council staff and VAT is chargeable on these at the standard rate, i.e. 20%. This would create an additional burden on WHIL, as it cannot recover VAT and, as most letting companies employ their own staff, it would reduce WHIL's competitiveness. However, by VAT grouping WHIL and WCC, supplies between the two bodies will be treated as intra-company for VAT purposes meaning there will be no VAT implications. Transactions between one of the grouped bodies and a third party would be unchanged. Importantly WHDL would stay outside of the VAT group, enabling it to retain its ability to recover VAT through its zero-rated supply to WHIL.

8.7 The estimated saving of VAT grouping is approximately £70k per annum.

Stamp Duty (SDLT)

8.8 The majority of WB's current pipeline consists of developments on Council land or acquisitions from Council developments. In these instances, the Company can rely upon group relief for stamp duty. Where the Company is acquiring land outside of the Group, tax advice will be sought at the time to minimise taxation.

8.9 Where acquiring homes, SDLT can be reduced by acquiring the vacant land upfront and paying for the units to be built through a construction contract. This option, used on Jubilee, reduces the initial land value, and therefore the SDLT due, but this forward funding results in increased interest charges. In each instance, the relative benefits of this approach will be assessed in the business case.

Corporation Tax

8.10 The Business Plan assumes a constant Corporation Tax rate of 19%. Project appraisals view Corporation Tax in isolation from the wider Business Plan and therefore present the maximum Corporation Tax position. When individual schemes are then consolidated into the Business Plan, tax efficiencies are captured and held as a Business Plan level saving.

8.11 The Company has appointed tax advisors to ensure tax compliance and efficiency.

Appendices

Appendix 1– Development Categories and Programme

Programme Categories	Definition
Contractually Commited	- A scheme where the WB Board has approved it as part of the WB programme and has entered into binding commitments to deliver it. This may include funding documents, contracts for consultancy services or construction, or a contract to purchase homes on completion
	- Signature of douments requires approval from the Board
Approved	A scheme where the WB Board has approved a report recommending that WB takes over delivery of the project or commits to the purchase of completed homes but there is no legal contract in place.
Budgeted	A scheme that has been reviewed by the WB Board and has had funding allocated to it under the WB Business Plan. The 'Pipeline Budget' entry under this category is for future sites currently in the process of being identified and budgeted within the WB Business Plan
Pipeline	Projects under consideration following discussion at WB Board but where there is no budget allocated to them from the Business Plan
Prospects	Projects being evaluated prior to discussion with WB Board

Property Types	Definition
Open Market Sale (OMS)	- Homes for sale at open market value
	- May be divided between those where WB takes sales risk and where a third party takes sales risk
Open Market Rent (OMR)	Homes to be let on an Assured Shorthold Tenancy (AST) at the open market rent
Intermediate Rent	Homes to let on an AST at less than the open market rent, within Westminster will be let in line with WCC Intermediate rent policy, outside Westminster may be up to 80% of the market rent (including service charges)
Rent to Buy	Homes sold on terms that help the tenant to buy at the end of the term for a price that has been predetermined at a predetermined discount from market price.

Notes
Retained by WB - sold by WHDL to WHIL or purchased directly by WHIL from a developer - Intermediate Rent - Market Rent
- Sold by WB - WHDL has developed the site and is taking sales risk
- Social - sold by WHDL/WHIL to the HRA
- Sale - other vendor - where on partnership schemes sales risk is taken by either the partnership or a commercial developer

Project Name	Delivery by	Rented homes: Intermediate	Rented homes: MR	Social Rent for Sale to HRA / LA	MS sale by WHDL	MS sale by Other Vendor	WB Total Homes	Other Assets	Milestones: Planning Appl	Milestones: SoS	Milestones: PC	Milestones: Sales/letting	Milestones: End Sales / letting	Board Approvals: Budget	Board Approvals: Approved for delivery	Board Approvals: Contract
Contractually Committed schemes		**19**	**22**	**0**	**0**	**87**	**128**									
Legal documentation agreed and completed																
Luton St /Carrick Yard	Partnership/ Investment Scheme WHIL		22			87	109		12/08/2017	01/11/2019	31/10/2022					
Jubilee	Partnership/ Investment Scheme WHIL	19					19		16/12/2014	17/02/2020	01/12/2021					
Approved schemes		**48**	**41**	**27**	**61**	**0**	**177**									
WB Board have agreed to deliver scheme																
Westmead	WHDL Development	14	41	10			65		07/08/2020	21/09/2021	01/11/2023				26/05/2020	
300 Harrow Road	WHDL Development	34		17	61		112		09/12/2019	01/06/2020	31/07/2023					
Budgeted schemes		**331**	**460**	**395**	**456**	**0**	**1642**									
WB Board have allocated funds in Business Plan																
Luton St /Carrick Yard	WHIL Acquistion	19					19				31/10/2022					
Ashbridge Street	WHIL Acquistion	10					10		23/12/2017	26/08/2020	01/04/2022					
Ebury Bridge Ph.1	WHIL Acquistion	28					28		30/06/2020	01/02/2021	01/10/2023					
Farm Street	WHIL Acquistion	14					14			01/02/2016	01/01/2021					
Lisson Grove Programme - Lilestone Street and Orchardson Street	WHIL Acquistion	46					46		19/04/2020		01/12/2029					
Luxborough Street	WHIL Acquistion	14					14		15/08/2019	15/03/2021	01/11/2022					

Project Name	Delivery by	Rented homes		Social Rent for Sale to HRA / LA	MS sale by WHDL	MS sale by Other Vendor	WB Total Homes	Other Assets	Milestones					Board Approvals		
		Intermediate	MR						Planning Appl	SoS	PC	Sales/letting	End Sales / letting	Budget	Approved for delivery	Contract
Budgeted schemes contd		**331**	**460**	**395**	**456**	**0**	**1642**									
Parsons North	WHIL Acquistion	9					9		21/07/2017	26/03/2019	30/06/2021					
Pimlico	WHIL Acquistion	19					19		29/06/2020	28/05/2021	01/06/2023					
Dalkeith	WHIL Acquistion	12					12				01/04/2024					
Abbotts Manor	WHIL Acquistion	16					16				01/04/2024					
West End Gate	WHIL Acquistion	37					37				01/09/2022					
Ebury Bridge Ph.2	WHDL Development	41	190	160	141		532		30/06/2020	01/01/2025	31/03/2029					
Torrindon House Car Park	WHIL Acquistion	8					8		29/11/2019	13/05/2021	01/03/2023					
Pipeline Budget Schemes	WHIL Acquisition / Investment Scheme / Acquisition	0	270	111	103		484		BP assumes first activity in 2021							
Church Street Ph2 - Site A	Partnership/ Investment Scheme WHIL	58		124	212		394		31/10/2020	01/08/2022	31/10/2026					
Total Business Plan (contracted, approved and budgeted)		**398**	**523**	**422**	**517**	**87**	**1947**									
Pipeline		0	0	0	0	0	0									
Schemes presented to the Board but not yet allocated budget in Business Plan							0									
Pipeline Prospects		0	0	0	0	0	0									
Identified schemes not yet presented to Board																
Church Street Ph2 - Sites B & C									19/10/2020	01/11/2026	18/02/2038					

Summary	Rented homes		Social rent for HRA	Sale by WHDL	Sale by other parties	WB total homes
	Intermediate	Market				
Contractually committed schemes	19	22	0	0	87	128
Approved schemes	48	41	27	61	0	177
Budgeted schemes	331	460	395	456	0	1642
Pipeline	0	0	0	0	0	0
Pipeline prospects	0					
Total	**398**	**523**	**422**	**517**	**87**	**1947**

Appendix 2 – Risk Register

Westminster Builds Risk Register

Ref	Risk	Description	Pre-mitigation Impact	Pre-mitigation Likelihood	Pre-mitigation Score	Mitigations	Post-mitigation Impact	Post-mitigation Likelihood	Post-mitigation Score
Company vision and objectives									
1	Lack of coherent understanding of WB vision, purpose and capacity within WCC	Lack of WCC internal recognition of the WB purpose, brand and activities leads to its de-prioritisation in terms of WCC's total development activity, programme delays or inappropriate projects being passed to WB.	3	4	12	Map out a corporate communications plan, including internal communications across WCC about the role of WB as part of the regeneration programme and the strength of WB/WCC as subsidiary/parent. Prioritising resources for WB and ensuring staff aren't stretched across multiple 'day jobs'.	2	2	4
2	Lack of effective/robust governance from the Council as shareholder	Dilution of support from WCC's political leadership leads to delays in WB achieving its Business Plan objectives	3	2	6	WCC ensures buy-in to the WB Business Plan at all levels and WB communicates positive delivery messages from the outset. Establish a strategic oversight Board with robust, effective and transparent governance between WCC and WB. WB to liaise with the Council as Shareholder on strategic direction.	1	1	1
3	Decision making does not keep to programme, impact of lack of clear roles	Delays to decision making, WB scheme prioritisation and lack of dedicated resource has an impact on programme and delivery of the Business Plan targets	3	2	6	Provide decision-makers with clear programme of dates for critical path. Allow lead-in and early briefings and delegate decisions to Exec where appropriate. Establish clear and well understood roles, responsibilities and accountabilities for WCC staff delivering WB projects through SLA.	1	1	1
4	WB not sufficiently known in the market	A disconnect between WB scheme achievements and the WB brand leads to a lack of recognition in the investor and end user markets	3	3	9	Work with WCC to launch WB to the market through a robust communications plan, including promotion across national contractor frameworks and national/local press coverage.	2	2	4
Background and achievements									
	None to report at this time								
Market Analysis									
5	Impact of Covid-19 on scheme viability	Risk that Covid-19 increases development costs due to restricted supply chain, longer build period and / or higher financing costs. Reduction in purchaser and investor appetite would reduce values. Both higher costs and reduced value could lead to insufficient surpluses to generate returns for further investment.	4	3	12	Mitigation managed through the SLA. WCC will obtain quarterly market advice from agents and advisors in respect of the impacts of Covid-19 across schemes and ensure that sensitivity scenarios test a slowing down of the market over the Business Plan period including the impact across different tenures. Red Book valuations will be sought before scheme marketing launch. Minimise market sale subject to viability. Retain flexibility in planning consents and maintain dialogue with WCC as funder, to switch between market sale and market rent to facilitate responses to market changes.	3	2	6

Ref	Risk	Description	Pre-mitigation Impact	Pre-mitigation Likelihood	Pre-mitigation Score	Mitigations	Post-mitigation Impact	Post-mitigation Likelihood	Post-mitigation Score
6	Impact of Brexit on scheme viability	Risk that a hard Brexit increases development costs due to restricted EU supply chain and longer build period. Both higher costs and reduced value due to a lack of confidence in the UK market could lead to insufficient surpluses to generate returns for further investment.	3	3	9	Mitigation managed through the SLA. WCC will obtain quarterly market advice from agents and advisors in respect of the impacts of Brexit across schemes and ensure that sensitivity scenarios test a slowing down of the market from Q1 2021 over the Business Plan period including the impact across different tenures. Red Book valuations will be sought before scheme marketing launch. Minimise market sale subject to viability. Retain flexibility in planning consents and dialogue with WCC as funder, to switch between market sale and market rent to facilitate responses to market changes.	3	2	6
7	Tension between scheme viability and quality standards, especially sustainability	Sales and rental values do not support delivery of homes built to Westminster's standards of specification, amenity and sustainability. Inability to meet local authority S106/CIL requirements	4	3	12	Develop and keep under review a standard specification for WB projects which meets policy standards and can be used for benchmarking project specifications. Undertake reviews of schemes delivered by to ensure that development spec and cost aligns with local market demand.	3	3	9
Planned and future activity									
8	Lack of a standardised WB project selection process leads to WB taking on unsuitable schemes from other parts of WCC	Without a clear and early selection process for schemes to be included in the WB Business Plan, leads to the WB pipeline including schemes that are hard to deliver at a late stage	3	4	12	Ensure there is a clear set of metrics agreed across WCC's development teams and procedures in place for early identification and inclusion of WCC projects within the WB Business Plan. Monitor this at a WB portfolio level to confirm WB's capacity and risk exposure when agreeing to deliver schemes or acquisitions. Procedure: strategic outline case and WB board approval with February budget report as a milestone. Within the assessment metrics delivery routes also need to be identified.	2	3	6
9	Planning and programme delay	Programme and reputational impact of delayed planning consent and start on site leading to delayed tenant move in and decant	3	2	6	Ensure that WCC undertakes pro-active engagement and consultation with residents. Seek robust planning and legal advice and forecast programme slippage, particularly where WB is involved early on. Ensure a communications plan is in place to manage any programme delays and close working with WCC housing team. Ensure WB's role is explained in projects and their related communications, especially in relation to planning and other Council regulatory roles.	2	1	2
10	Suitable sites cannot be identified for 'Pipeline Budget' schemes	A lack of suitable schemes, particularly those within the 'Future Pipeline', leads to programme delays and insufficient surpluses for re-investment	2	3	6	Initiate market dialogue and identification of possible schemes as early as possible, particularly for sites within the 'Future Pipeline', on non-WCC owned sites.	2	2	4
11	Government Policy and Regulatory Changes	Government regulation limits WB delivery of Affordable (Intermediate) rent tenancies. This leads to programme delays and an inability to deliver the Business Plan targets.	4	3	12	The role of WB in WCC's development & regeneration programme is to be consistently articulated to government at all opportunities. Develop low cost home ownership options, including a Rent to Buy model. Monitor future government policies which might adversely impact WB.	3	2	6

Ref	Risk	Description	Pre-mitigation Impact	Pre-mitigation Likelihood	Pre-mitigation Score	Mitigations	Post-mitigation Impact	Post-mitigation Likelihood	Post-mitigation Score
12	Challenges over disposal of land from HRA to WB	Risk that some land cannot be disposed from HRA to WB without Secretary of State consent, which either causes delay or transfers do not receive consent	3	2	6	Take legal advice on permitted land transfers from HRA to WB including how these should be structured and associated timings. Ensure that any transfers that require Secretary of State consent are appropriately worded and the overall objectives to deliver affordable housing are clearly articulated. Allow sufficient time in delivery programme to secure consents as required.	2	2	4
13	Procurement processes are non-compliant with WCC/Public Procurement Regulations	Lack of clarity/certainty over WB status creates confusion over its procurement processes and its TECKAL exemption	3	2	6	Ensure that WB follows required WCC/Public Procurement Regulations and has clarity on when it can adopt its own approach. Ensure benefits of Teckal status are maximised. Identity and sign up to frameworks which allow wholly-owned council subsidiaries to use them.	2	2	4
Management and operations									
14	Risk that estate and housing management services provider is not appointed in time for first scheme to come on board	A lack of estate and housing management services at the time of first acquisitions/completions leads to a delay in home occupancy, loss of rent and reputational damage	3	4	12	WB continues to discuss with WCC the procurement of a management services provider in time for the first WB homes being ready for sale or letting.	3	3	9
15	WB lacks the skills and capacity to manage delivery of the BP pipeline	WB is unable to deliver its Business Plan ambitions due to a lack of commercial experience across finance, construction and development (including marketing and sales) and managing market rent homes.	4	3	12	Establish clear roles, responsibilities and accountabilities for WCC staff delivering WB projects through SLA, with particular emphasis on projects outside Westminster. Ensure WB retains experienced in-house team, suitable advisers and service suppliers required for delivering development, construction, marketing and management services. Ensure that estate management advice is engaged at development stage to provide input into design. WCC to undertake effective contract monitoring of service providers.	3	2	6
16	Management costs higher than forecast	Lower operating income makes WB unable to service debt and pay for WB company overheads, reducing surpluses for re-investment	4	3	12	WCC to carry out market testing with management providers. Where possible, incentivise providers to take risk on fee as % of rent income with fixed return to WB. For Affordable properties agree fixed management fee with effective KPIs and tight variation controls.	3	2	6
17	Health & Safety during construction and operations	Insufficient H&S measures and insurances through the design, construction and operations leads to regulatory non-compliance and / or injuries	3	2	6	Mitigation managed through SLA. Ensure WCC passes responsibility to relevant design consultants, construction contractors and management services contractors who are best placed to manage the risk. WB and contractors to hold appropriate insurances. Ensure regulatory requirements e.g. gas safety are fully understood and integrated into contract and that H&S is held by the appropriate person at every stage of the design and construction cycle. KPIs and reporting will ensure 100% compliance.	3	1	3
18	Management services provider under-performs	Reputational impact of underperforming management services leads to unhappy tenants	3	3	9	Rely on WCC through the SLA to deliver an effective service.	3	2	6

Ref	Risk	Description	Pre-mitigation Impact	Pre-mitigation Likelihood	Pre-mitigation Score	Mitigations	Post-mitigation Impact	Post-mitigation Likelihood	Post-mitigation Score
Sales and Marketing Activity									
19	Changing demand for Central London locations and home specifications in light of Covid-19 and Brexit	Reduced income on schemes due to a changing market in light of Covid (lower demand to live in central London) and Brexit (Europeans leaving London). Evolving end-user demand means specification/layouts are insufficient at time of completion. Less market demand leads to insufficient surpluses for reinvestment.	4	4	16	Ensure scheme designs respond to short and longer term market trends, procuring regular strategic advice from property agents on the letting and sales markets. Engage with agents to produce quarterly assessments of local market trends in relation to each project.	3	3	9
20	Lack of local market knowledge out of Westminster	Lack of local knowledge makes it hard to design projects to local needs/demand, reducing demand for homes (wrong specification/price point/built form)	4	3	12	Ensure scheme designs responds to local market requirements, procuring advice from property agents on the letting and sales markets at the outset.	3	2	6
21	Reluctance of host boroughs to accept WB as a developer in their areas.	Host boroughs may be suspicious of WB seeking to develop in their area and oppose WB involvement	4	4	16	Ensure early discussions with the host borough, targeting schemes that are a priority for the LA but not progressing (unlocking s106 for example). Upon agreement to purchase a site, ensure commitments are also made with the host borough. Clarify the use of the homes to be delivered and provide preferential access for host borough residents to market sale/rent homes where appropriate.	3	3	9
Funding Strategy									
22	Lack of interest from private sector partners due to market and unawareness of WB pipeline	Lack of interest from private sector partners particularly for Ebury Bridge, Church Street and 'Future Pipeline' schemes leads to Insufficient surpluses for re-investment.	4	3	12	Mitigation managed through SLA. Market testing with private sector partners to inform scheme type and vehicle structure. De-risk vehicle's activities where possible to make proposition attractive. Marketing to partners on the WB brand and total pipeline.	4	2	8
23	Loan interest rates are higher than forecast	Interest rates on PWLB on-lending facilities are higher than forecast, causing a challenge to viability	3	2	6	Mitigation managed through SLA. Regular monitoring of PWLB rates and Government consultations on changes to the PWLB regime. Sensitivity testing on the impact of rate increases on viability.	2	2	4
24	State aid challenge	Challenge to structure and transactions on grounds of state aid leading to delay and possible financial consequences	2	2	4	In line with legal advice, land transactions will be at market value and assessed independently. Equity and loan investments will be made on a state aid compliant basis, in line with market approach or adopting rates appropriate for SGEI exemption	2	1	2
Taxation									
25	VAT treatment of Council services provided to WHIL, consideration of taxation consequences of project delivery models	In-house services provided by the Council to WHIL will be subject to unrecoverable VAT. The decision to second staff from the Council instead of employing them directly will create a	2	5	10	WB will continue to work with tax advisors to lobby HMRC to review their policy on VAT grouping Local Authorities and WOCs. If successful the risk will be mitigated entirely. If unsuccessful the Company will explore other methods and arrangements to reduce	2	2	4

Ref	Risk	Description	Pre-mitigation Impact	Pre-mitigation Likelihood	Pre-mitigation Score	Mitigations	Post-mitigation Impact	Post-mitigation Likelihood	Post-mitigation Score
		20% deadweight loss and reduce the competitiveness of the lettings business. This does not apply to WHDL which can recover VAT.				VAT costs. Ensure business cases consider the tax implications of project delivery methods and they are included in the appraisals.			
Financial Projections									
26	Sales values and / or investment values for market rent lower than forecast	Reduced income generated on schemes due to values being less than forecast leading to reduced or insufficient surpluses to profit for re-investment	4	3	12	Mitigation managed through SLA. WCC will obtain market advice from agents in respect of sales and rental values, including the forecast inflation. Red book valuations to be confirmed before launching marketing. Deliver a range of tenures to mitigate reductions in values that impact rentals or sales in particular. Test scenarios and sensitivities for downward income levels and minimise market sale subject to viability. Maintain dialogue with WCC as shareholder to ensure flexibility to switch tenure as required by the market.	3	3	9
27	Build costs higher than forecast	Build costs increase to be higher than forecast in viability testing, including contingency allowances, resulting in reduced or insufficient surpluses to generate profit for re-investment	3	3	9	Mitigation managed through SLA. Development Managers to provide scheme costs backed by contractor quotes or QS reports. WCC will verify these. WCC will obtain quotes from D&B contractors, fixing prices where commercially appropriate. Appraisals will include additional contingency, TPI in line with forecasts and run sensitivities on increases to test viability impact. Maintain dialogue with the Council as shareholder to vary funding as required.	3	2	6
Exit Strategy / Fall Back Plan									
	None to report at this time								

Appendix 3 – Sensitivities

Sensitivity modelling	Name	Description	Peak Overall Exposure	Peak Development Exposure	TDC	WHDL Profit/ (Shortfall)	Business Plan repays debt in 40 year period	Overall Geared IRR	ICR 1.2x date
1	Base Case		£504.6m	£316.9m	£501.3m	£23.8m	Yes	6.94%	30-Jun-30
2	Decrease in forecast HPI	HPI forecast decreased by 1% for 2 years	£510.7m	£318.9m	£501.3m	£11.9m	Yes	6.45%	30-Sep-30
3		HPI forecast decreased by 1% for 5 years	£511.5m	£318.3m	£501.3m	£10.4m	Yes	6.38%	30-Sep-30
		HPI at 0% for 5 years	£503.8m	£362.2m	£502.8m	(£7.3m)	No	5.74%	31-Dec-31
4	Decrease in forecast rental growth	Rental growth 2% in years 1-5 then 3% thereafter	£498.9m	£316.9m	£501.3m	£19.5m	Yes	6.78%	31-Jul-30
5		No growth over 3 years; 2% over 2 years and 3% thereafter	£492.7m	£317.7m	£501.3m	£13.8m	Yes	6.59%	30-Sep-30
6		Rental growth at 0% for 5 years	£496.7m	£360.4m	£502.8m	£2.5m	No	6.21%	28-Feb-31
7	Decrease in HPI and rental growth	HPI and rental growth at 0% over 5 years	£503.7m	£363.5m	£502.8m	(£30.1m)	No	5.01%	31-Dec-32
8	Decrease in sales values	5% decrease in sales values	£510.8m	£318.9m	£501.3m	£11.5m	Yes	6.44%	30-Sep-30
9		10% decrease in sales values	£517.2m	£321.2m	£501.3m	(£1.9m)	No	5.93%	28-Feb-31
10	Increase in base build costs	5% increase in development costs (excl. contingency)	£521.1m	£339.3m	£526.4m	(£4.1m)	No	5.95%	28-Feb-31
11		10% increase in development costs (excl. contingency)	£545.2m	£361.9m	£551.4m	(£33.8m)	No	5.12%	31-Jul-32
12	Increased debt rates on short and long-term borrowing	0.25% increase in borrowing rates	£507.2m	£317.5m	£501.3m	£23.0m	Yes	6.81%	31-Oct-30
13		0.5% increase in borrowing rates	£509.9m	£318.1m	£501.3m	£22.2m	No	6.68%	31-May-31
14	VAT on staff costs	20% increase to Company annual overheads	£505.7m	£317.3m	£501.3m	£23.1m	Yes	6.89%	31-Jul-30
15	Third party management costs higher than forecast	Scheme gross to net leakages at (i,) 30% and	£497.0m	£317.7m	£501.3m	£18.7m	Yes	6.76%	31-Jul-30
16		(ii) 35%	£478.0m	£320.1m	£501.3m	£3.2m	No	6.20%	31-Dec-30

Sensitivity modelling	Name	Description	Peak Overall Exposure	Peak Development Exposure	TDC	WHDL Profit/ (Shortfall)	Business Plan repays debt in 40 year period	Overall Geared IRR	ICR 1.2x date
17	Market sale swapped for market rent	50% developed market sale swapped for market rent	£581.1m	£322.4m	£501.3m	(£20.4m)	Yes	6.32%	31-Mar-30
18	Planning and programme delay	All development programmes delayed by 12 months, including Church St and Pipeline Forward Funds	£526.0m	£326.3m	£511.5m	£27.3m	Yes	7.00%	31-May-31
19	Outside Westminster development programme delayed a year	All pipeline schemes delayed 12 months	£496.9m	£359.3m	£502.8m	£23.8m	Yes	6.99%	31-Aug-30
20	PC delays	12 month delay to development sales periods	£564.7m	£408.7m	£512.4m	£4.0m	No	6.15%	31-Aug-31
21	PC Delay to development PCs on sites outside Westminster only	12 months delay to OOB development sales periods	£512.1m	£365.8m	£502.1m	£23.0m	Yes	6.91%	30-Jun-30
22	Increased acquisition cost of schemes outside Westminster	5% increase in acquisition costs	£508.7m	£316.9m	£501.3m	£23.8m	Yes	6.89%	31-Jul-30

Appendix 4 – Optimism Bias

Westminster Builds, aligned with the Council, follows HM Treasury's Green Book guidance for appraisal and evaluation of projects which advises adjusting for optimism bias to provide a more realistic estimate of cost.

Optimism bias reflects the systemic tendency for appraisers to be optimistic about capital cost, project duration and benefits realisation. HM Treasury advises using the table below to adjust both a project's duration and costs. Starting with the upper level, the total adjustment can be reduced to the lower level as risks are identified and included in costs or mitigated.

Table 1 – HM Treasury Green Book – Optimism Bias

Project Category	Optimism Bias Adjustment			
	Works Duration		Capital Expenditure	
	Lower	Upper	Lower	Upper
Standard Buildings	1%	4%	2%	24%
Non-Standard Buildings	2%	39%	4%	51%
Standard Civil Engineering	1%	20%	3%	44%
Non-Standard Civil Engineering	3%	25%	6%	66%
Equipment/Development	10%	54%	10%	200%
Outsourcing	n/a	n/a	0%	41%

The table above is not mandatory for Local Government and instead provides a guide for best practice. Following the Council's example, Westminster Builds will apply a consistent approach for project contingencies but it will choose not to apply an optimism bias adjustment to duration. The rigour and review of projects by the Project Management Office provides sufficient comfort that schemes are well programmed, and delays will instead be explored through sensitivity analysis.

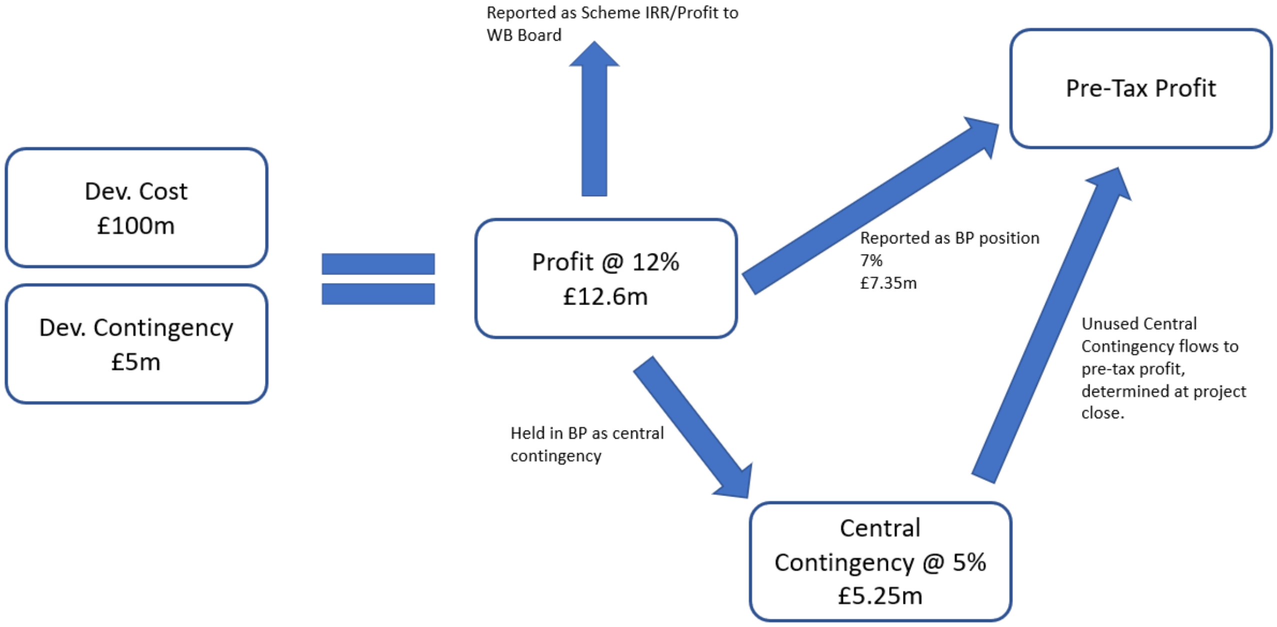
Table 2 – Project and Central Contingency

Business Case	RIBA Stage	Project Contingency
OBC	2	10%
FBC	4	5%
Construction	5	5%
Post Completion	6+	3%

The project contingency is held at appraisal level, flowing through to profit margin and residual land value.

In addition, the profit margin charged by WB includes a sales and development risk. Whilst, at scheme level, this is reported as profit, the Business Plan instead holds a central contingency. This provides a cushion against adverse movements in cost or sales values and is only released to profit at project completion, ensuring the Business Plan can weather adverse movements without impacting headline metrics.

The exact percentage of central contingency will vary depending on the type of project.



Appendix 5 – Financial Accounts and Budgets

Overheads

The Business Plan assumes one-off expenditure of £500k to move the Company into full operation as well as an on-going overhead of £750k per annum. Overheads exclude project or asset specific costs which are included in capital or operating expenditure below.

	Direct Cost £'000	Services Agreement £'000	Total £'000
Staffing		409	409
Council Services		75	75
Other Services	173		173
Contingency	93		93
Total	266	484	750

Staff costs account for the largest proportion of overheads and include the Directors and working group who manage the Company and its activities. Other services include audit, branding and support for development of the Company's Business Plan and strategic decision making.

Overheads currently include a contingency which reflects the limited historic data upon which to base the budget. This allowance will capture one off spends required as the Company grows and transforms through its Business Plan.

Operating Income and Expenditure

WB will hold a rental portfolio of open market rent and intermediate rent homes. The resulting income stream relies upon red-book valuations for market rent and Westminster's Intermediate rent policy for affordable homes held within Westminster.

The operational costs arising from managing and maintaining this portfolio is currently expressed as a percentage of gross income. This gross to net calculation assumes that 28% of gross income is "leaked" through expenditure and lost potential income, i.e. voids. Therefore, for every £100 of rental income, the Company will incur expenditure of £28, leaving an operating profit of £72.

Using a fixed percentage is reasonable assumption at this stage. However, as the business matures this will be refined and developed to reflect experience.

The table below shows the forecast operating income and expenditure for this and the following five financial years.

	20/21	21/22	22/23	23/24	24/25	25/26
Operating Income	0.01m	0.26m	1.07m	2.63m	5.63m	6.34m
Operating Expenditure	(0.00m)	(0.07m)	(0.30m)	(0.74m)	(1.58m)	(1.78m)
Net Income	0.01m	0.19m	0.77m	1.89m	4.05m	4.57m

Profit and Loss

WHIL's profit and loss statement (P&L), as the property investment arm of the Company, shows the income and expenditure arising from operational activities, i.e. WB's letting portfolio.

The statements below show the actual audited position for 2019/20, where WHIL recorded a profit of £213k, together with the forecast for the current year and the following three years by which point the Company returns to profit when the Luton Street LLP distributes its profits.

WHIL P&L £'000	**Prior Year 2019/20**	**Forecast 2020/21**	**2021/22**	**2022/23**	**2023/24**
Rental Income	-	11	265	1,072	2,627
Other Income	67	140	140	140	15
Return on Investments					6,641
Gross Profit	67	151	404	1,212	9,282
Cost of Sales	-	(3)	(74)	(300)	(736)
Administrative Expenses	(134)	(500)	(750)	(750)	(750)
Profit/(loss) before Interest and Tax	(67)	(352)	(420)	161	7,797
Interest Receivable*	280	45	527	880	6
Interest Payable**		(52)	(865)	(2,038)	(2,650)
Profit/(loss) before Tax	**213**	**(359)**	**(758)**	**(996)**	**5,153**
Cumulative profits/(losses) to date	213	(146)	(904)	(1,900)	3,253

* Luton Street LLP. Under the arrangement the cash will not be received until practical completion and the sale of homes, however, it is accounted for in the year it is incurred.
**Relates to interest payable on acquisitions or funding JVs. Interest on developments will be capitalised and flow to WHDL's P&L as part of the profit on disposal calculations.

Capital Expenditure

The following tables state the Company's capital expenditure and income budgets. WB's full capital programme, including pipeline prospects, is forecast to cost £800m and bring in income of £545m from sales, grants and return on investments. For the net cost of £254m the Company will hold 900 homes, an average cost of approximately £300k per a home.

The capital budget is split into several sections:

- **Development Capital Expenditure**
  Development schemes progressing through WHDL
- **Investments into Joint Ventures**
  Where WHIL is entering into a partnership with a third party
- **External Acquisitions**
  Homes acquired either upon completion or through a forward fund. This excludes those homes retained by WHIL on WHDL developments.
- **External Sales**
  Sales of market or affordable homes to companies or individuals outside WB's group, i.e. excluding WHIL acquisitions from WHDL developments.
- **Return on External investment**
  The gross return from partnerships and joint ventures entered into by WHIL
- **Grants**
  GLA or AHF received for developments. This excludes AHF received for acquisitions (i.e. Jubilee) which is netted off the price paid.

Expenditure	Totals	31-Mar-20 £'000	31-Mar-21 £'000	31-Mar-22 £'000	31-Mar-23 £'000	31-Mar-24 £'000	31-Mar-25 £'000	31-Mar-26 £'000	Future Years £'000
Development Capital Expenditure									
300 Harrow Road	57,865	-	3,742	16,080	20,039	14,034	3,969	-	-
Westmead	31,490	-	-	2,820	25,828	2,842	-	-	-
Pipeline – Development – Growth Corridor	76,116	-	-	-	-	2,209	36,686	37,220	-
Ebury Phase 2a	161,593	-	-	-	256	1,715	32,199	39,875	87,548
Ebury Phase 2b	174,218	-	-	-	276	1,849	34,714	42,991	94,388
Total Development	**501,283**	**-**	**3,742**	**18,900**	**46,398**	**22,651**	**107,569**	**120,087**	**181,936**
Investment into Joint Ventures									
Luton Street	43,302	10,302	6,483	14,065	12,452	-	-	-	-
Church Street	94,339	-	-	-	-	-	40,064	51,981	2,295
Total Investment	**137,641**	**10,302**	**6,483**	**14,065**	**12,452**	**-**	**40,064**	**51,981**	**2,295**
External Acquisitions									
Intermediate									
Ebury Phase 1	6,640	-	-	-	-	6,640	-	-	-
Church Street	17,376	-	-	-	-	-	-	-	17,376
Dalkeith	3,731	-	-	-	-	-	3,731	-	-
Abbots Manor	4,975	-	-	-	-	-	4,975	-	-
Parsons North	2,183	-	-	2,183	-	-	-	-	-
Luton Street Intermediate	4,340	-	-	-	4,340	-	-	-	-
West End Gate	9,816	-	-	-	9,816	-	-	-	-
Pimlico	4,249	-	-	-	-	4,249	-	-	-
Luxborough	3,694	-	-	-	3,694	-	-	-	-
Torridon House	1,408	-	-	-	1,408	-	-	-	-
Farm Street	2,796	-	2,796	-	-	-	-	-	-
Ashbridge	1,951	-	-	-	1,951	-	-	-	-
Lisson Grove Programme	13,433	-	-	-	-	-	-	-	13,433
Market Rent									
Luton Street	7,713	-	-	-	-	7,713	-	-	-

Expenditure	Totals	31-Mar-20 £'000	31-Mar-21 £'000	31-Mar-22 £'000	31-Mar-23 £'000	31-Mar-24 £'000	31-Mar-25 £'000	31-Mar-26 £'000	Future Years £'000
Jubilee	5,583	-	2,471	3,112	-	-	-	-	-
Pipeline – Forward Fund 1	24,500	-	-	5,547	13,382	5,572	-	-	-
Pipeline – Acquisition 1	22,520	-	-	-	-	-	-	-	22,520
Pipeline – Forward Fund 2	24,570	-	-	-	-	-	-	5,562	19,008
Total Acquisitions	**161,477**	**-**	**5,267**	**10,842**	**34,590**	**24,173**	**8,706**	**5,562**	**72,337**
Total Expenditure	**800,400**	**10,302**	**15,492**	**43,807**	**93,439**	**46,824**	**156,338**	**177,630**	**256,568**

Expenditure	Totals	31-Mar-20 £'000	31-Mar-21 £'000	31-Mar-22 £'000	31-Mar-23 £'000	31-Mar-24 £'000	31-Mar-25 £'000	31-Mar-26 £'000	Future Years £'000
External Sales									
300 Harrow Road	46,894	-	-	-	-	33,798	13,096	-	-
Westmead	1,351	-	-	-	-	1,351	-	-	-
Pipeline – Development – Growth Corridor	58,048	-	-	-	-	-	-	31,594	26,453
Ebury Phase 2a	66,890	-	-	-	-	-	-	-	66,890
Ebury Phase 2b	155,901	-	-	-	-	-	-	-	155,901
Total External Sales	**329,083**	**-**	**-**	**-**	**-**	**35,149**	**13,096**	**31,594**	**249,244**
Return on External Investments									
Luton Street	51,681	280	45	527	27,483	23,346	-	-	-
Church Street	125,660	-	-	-	-	-	-	-	125,660
Total Return on Investments	**177,342**	**280**	**45**	**527**	**27,483**	**23,346**	**-**	**-**	**125,660**
Grants									
300 Harrow Road	13,440	-	3,742	9,698	-	-	-	-	-
Westmead	7,500	-	-	492	6,321	687	-	-	-
Ebury Phase 2a	18,109	-	-	-	-	-	145	8,874	9,090
Total	**39,049**	**-**	**3,742**	**10,191**	**6,321**	**687**	**145**	**8,874**	**9,090**
Total Income	**545,474**	**280**	**3,787**	**10,717**	**33,804**	**59,182**	**13,241**	**40,468**	**383,994**
Net Capital Cost	**254,927**	**10,022**	**11,705**	**33,090**	**59,635**	**(12,358)**	**143,097**	**137,161**	**(127,426)**

Appendix 6 – Glossary of Terms

Assets – The Business Plan uses this term broadly to include non-current assets (completed homes which the Company does not intend to sell in the short term), inventories (completed homes held for sale) and Work in Progress (uncompleted homes, defined below).

Capital Expenditure – is incurred in the process of creating an asset including but not limited to: construction costs, professional fees, statutory costs (e.g. CIL/S106). The Business Plan refers to all spend on developments as capital.

Capital Income – includes grants received for the construction of affordable homes and receipts from the sale of homes to private individuals, the Council or third party investors.

Gross and Net – Gross figures are presented without any deductions whereas net are after deductions. Net figures in the Business Plan normally relate to offsetting expenditure and income to reach the net income or net cost.

Internal Rate of Return (IRR) – is a measure of an investments expected rate of return. It considers the costs and incomes of an investment over a period of time and reflects that £1 today is worth more than £1 in the future. The calculation returns a percentage which can be used to easily rank projects with different cost and return profiles.

Loan to Value (LTV) (Developments) – Total drawn loans (excluding shareholder loans) expressed as a percentage of value of the completed scheme.

Loan to Value (LTV) – Total drawn loans (excluding shareholder loans) expressed as a percentage of the value of assets held by the Company, both completed homes and work in progress.

Net Rents – Rent income after deductions for costs associated with the management, maintenance and letting of the home. The Business Plan assumes a standard deduction of 28%. I.e. that net rents are 72% of gross rents.

Operating Expenditure – Costs incurred in the day to day activity of the Company related to the services provided by the Company, i.e. letting property.

Overheads – General company costs incurred in the day to day running of the Company which do not directly relate to letting or maintenance of an asset.

Prudential Borrowing – Is borrowing which is affordable and where the Company can demonstrate capacity to service the interest cost and repay the principal within the term of the loan.

Return on Capital Employed (ROCE) – Expresses earnings before interest and tax as a proportion of capital employed, in this case shareholder loans from the Council. WB's ROCE looks at the earnings generated from the maximum investment from the Council.

Senior Loan – See 7.4.

Shareholder Loans – See 7.5.

Tax – Unless specified, tax refers to Corporation Tax, which at the time of the Business Plan is 19% of WB's profits. See 8.10.

Yield – The return generated by an asset or investment in a single year expressed as a percentage of its cost. The percentage enables comparison between different investments.

Work in Progress (WIP) – Homes or buildings which have not yet been completed. WIP is accounted for at the lower of cost or sales price less cost to complete, and represents the value created during construction that has not been released through sales.

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

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