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.

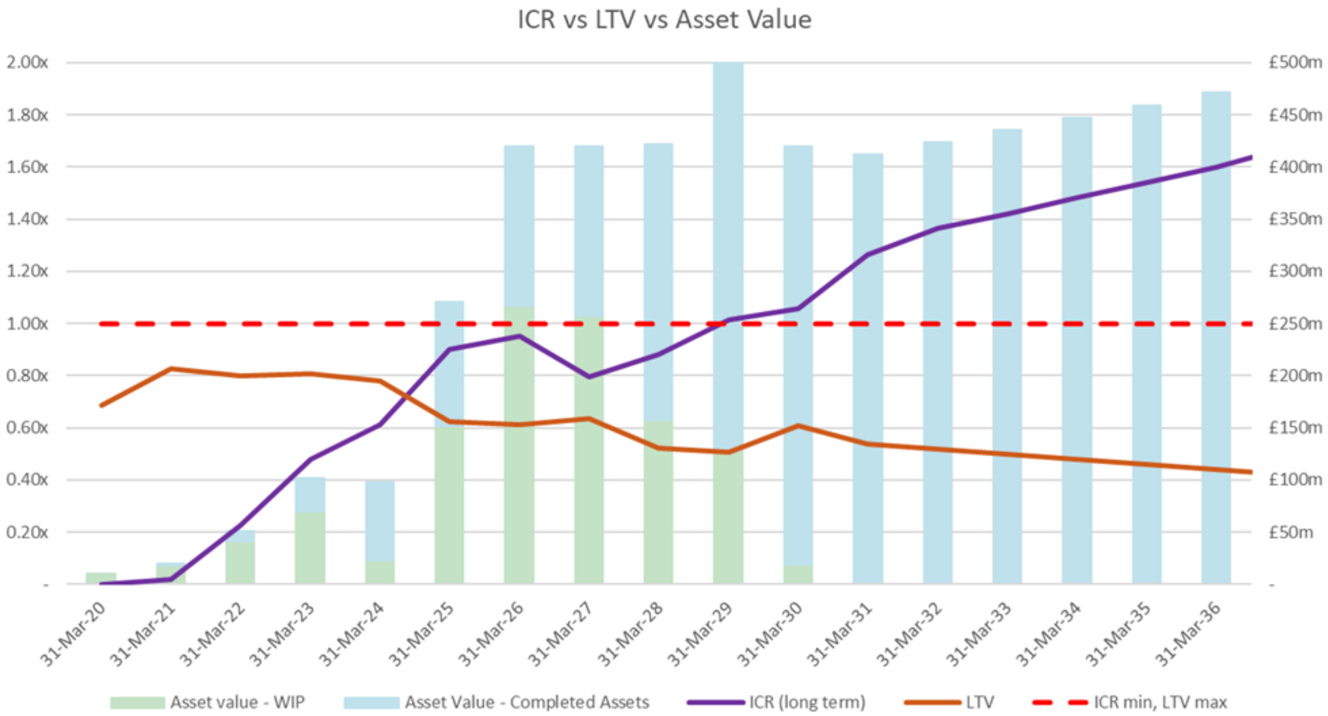
1 These are areas along the major transport corridors radiating from London where due to growth in the economy there is an increased demand for homes. It includes the Cambridge – Oxford Arc.

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

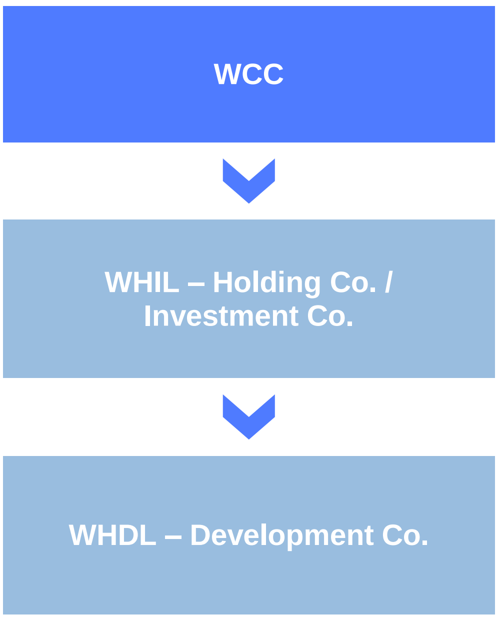
Formation of Westminster Builds

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.

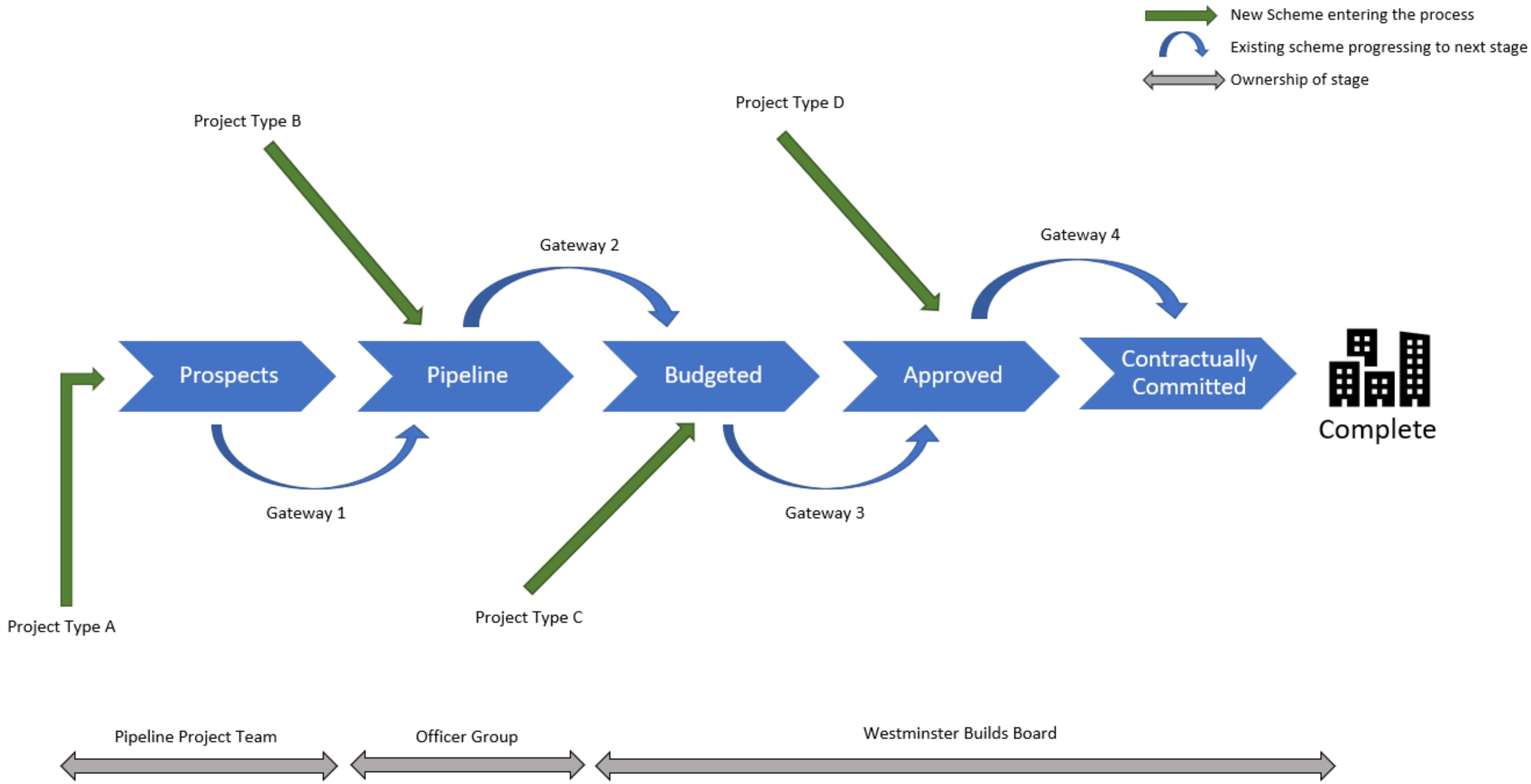
Budgeted – A scheme which the WB Board has agreed should be included within the budget provision within the WB Business Plan.

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

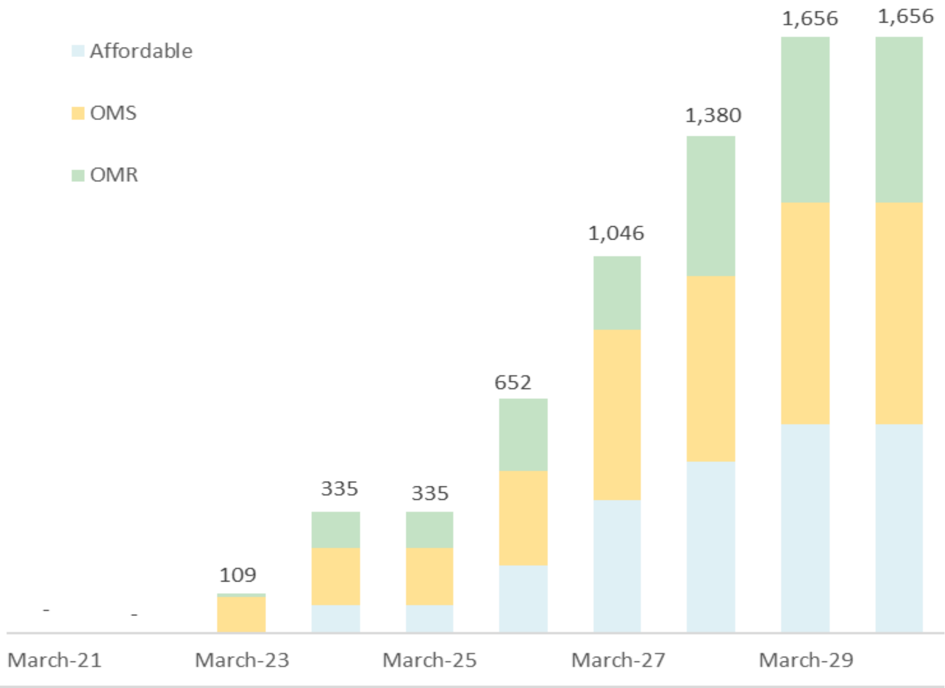
3.10 As stated above, over the course of the projections in this Business Plan period, WB will develop just under 2,000 new homes. Development schemes will be undertaken through WHDL and acquisition/on-going rental activity through WHIL. Over the course of the Business Plan period (the unit numbers below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

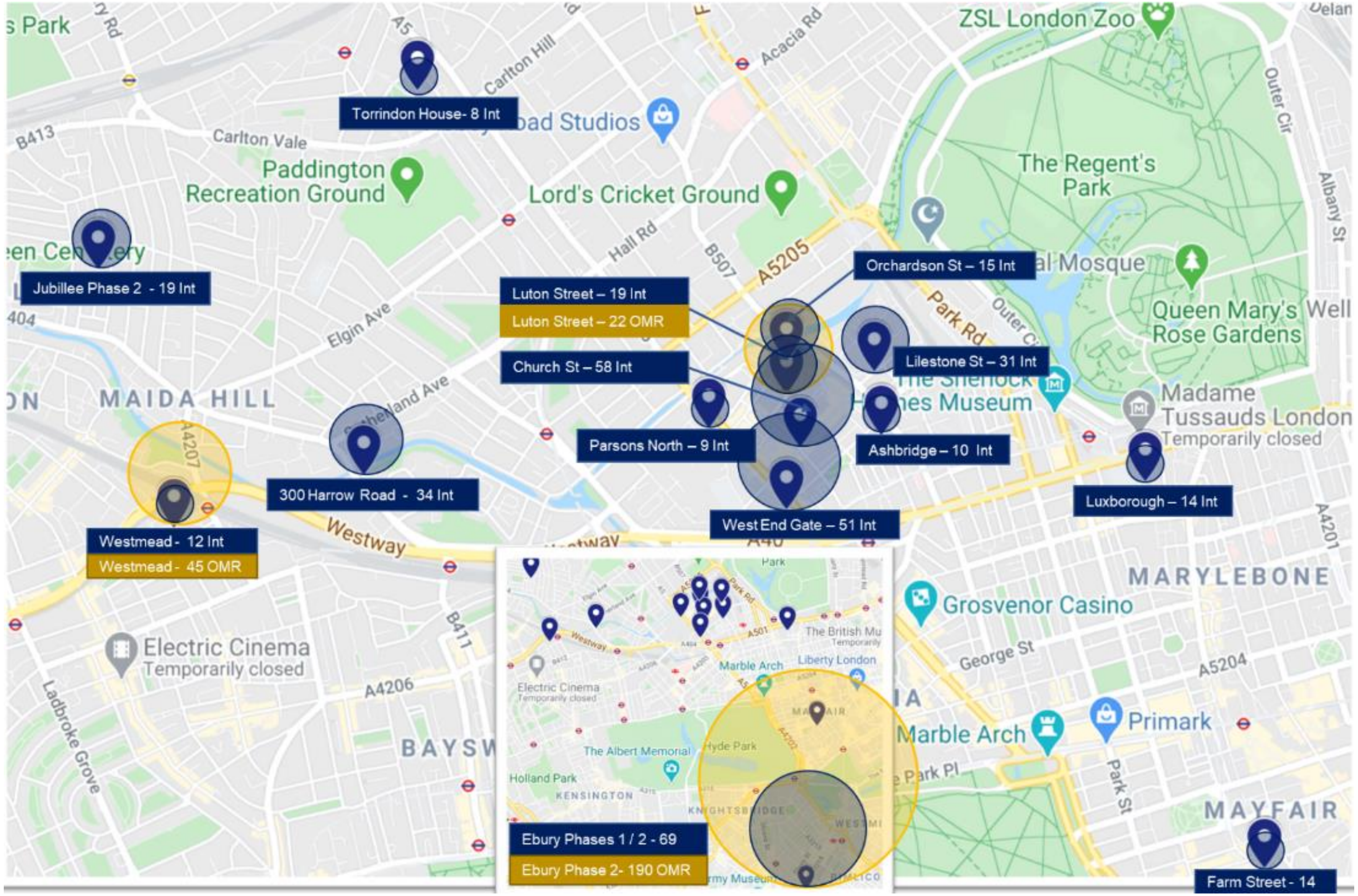


3.13 As development schemes progress and WHIL acquires homes the portfolio of homes under management grows. Figure 8 below shows the growth in intermediate and market rent homes under management from 2021 through to December 2029. At the end of the core Business Plan period, 2026, the rental portfolio 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

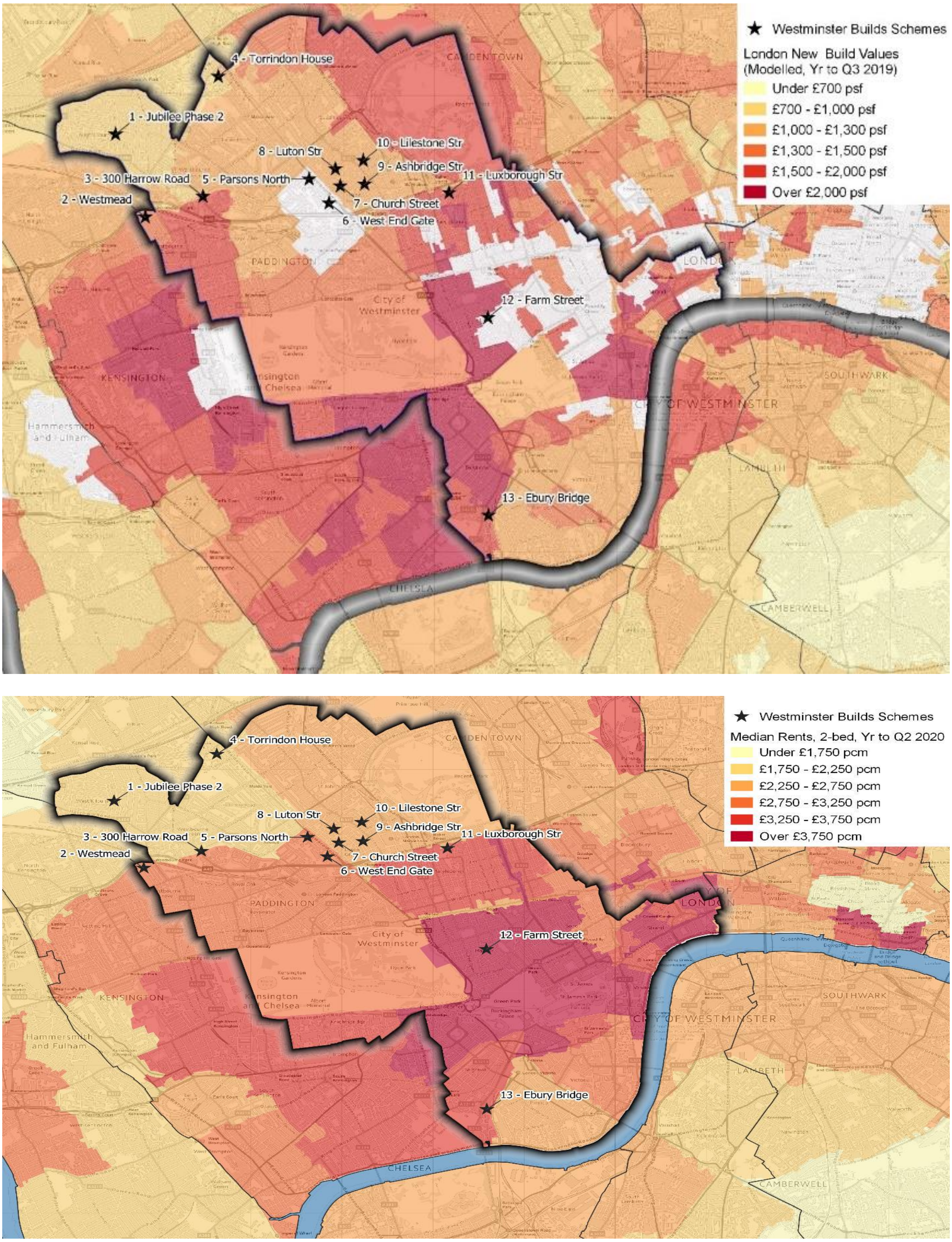
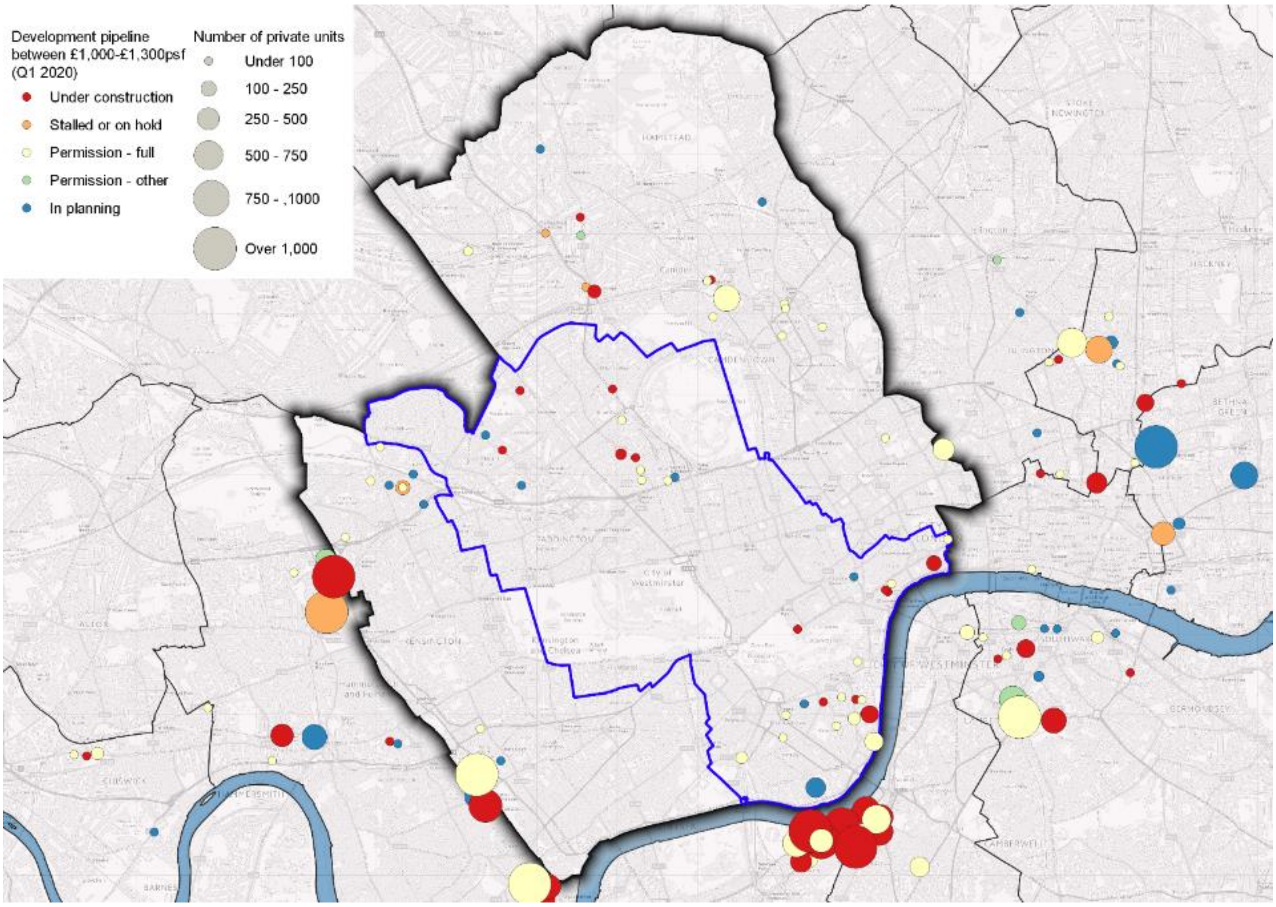


Figure 11: Current Development Pipeline across London; 2020



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

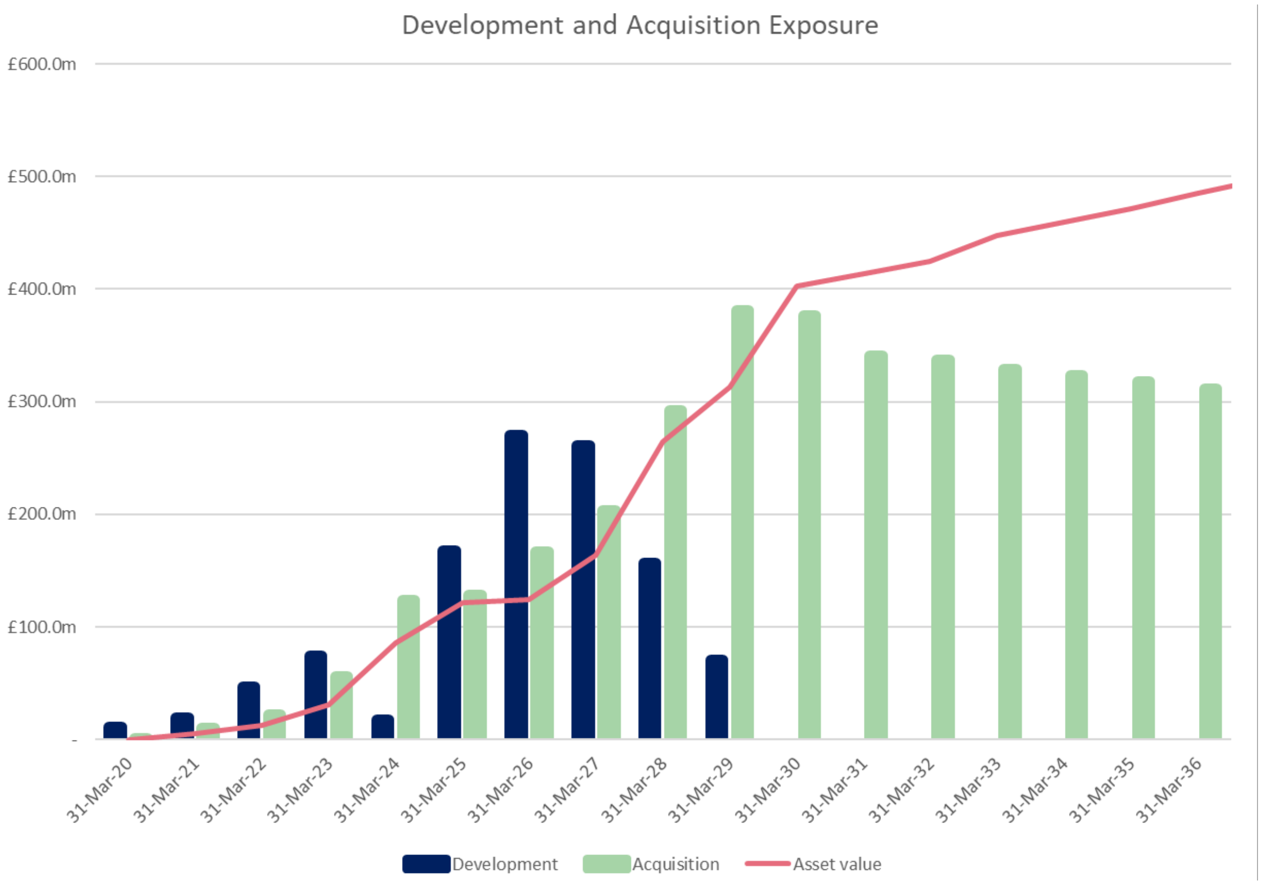
6.20 The graph below shows the level of funding requirement split between development (dark blue) and acquisitions (light green). The development phase funding is repaid from the following sources subject to the specific scheme:

- 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.

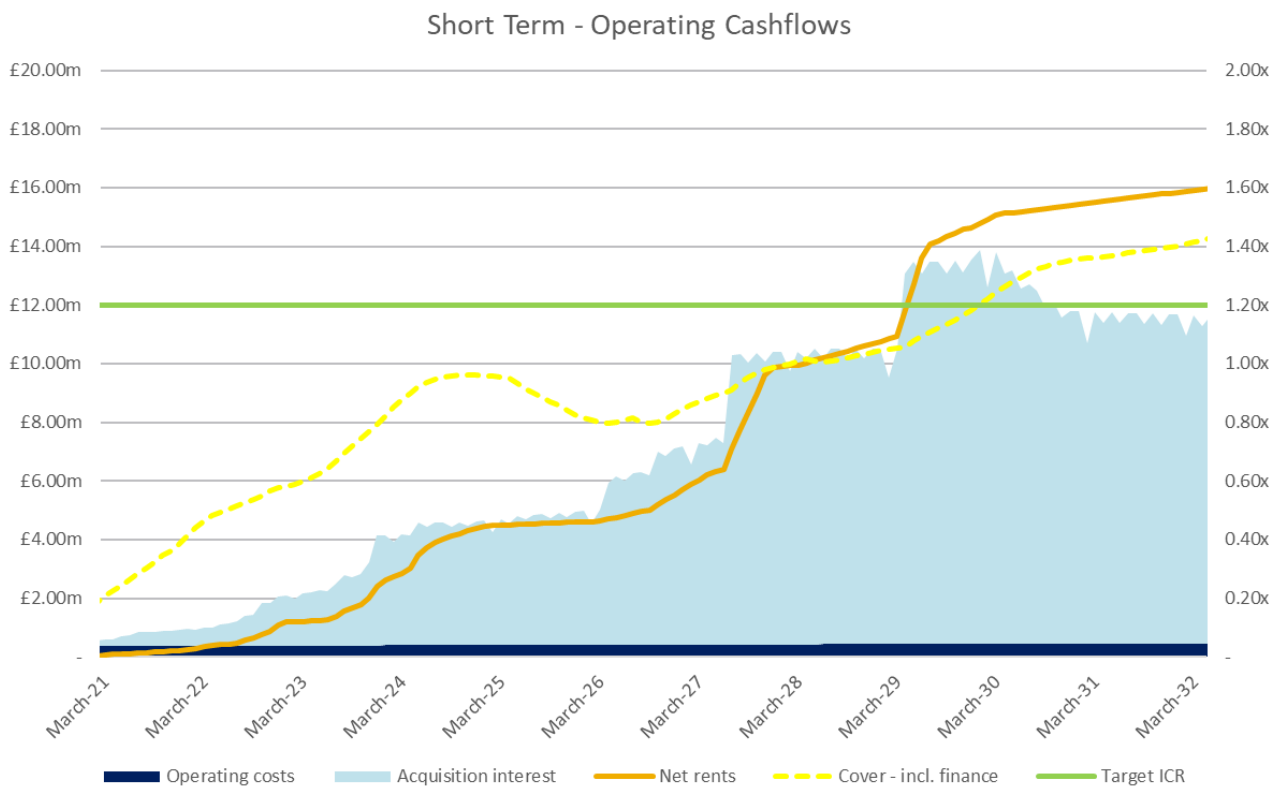
6.24 During the early years of the Business Plan it will be critical to ensure that meeting an ICR of 1.20 is not pushed back which would leave WB in a position where it would struggle to meet debt costs in the event of reduced income, for example, due to higher voids or bad debts.

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.

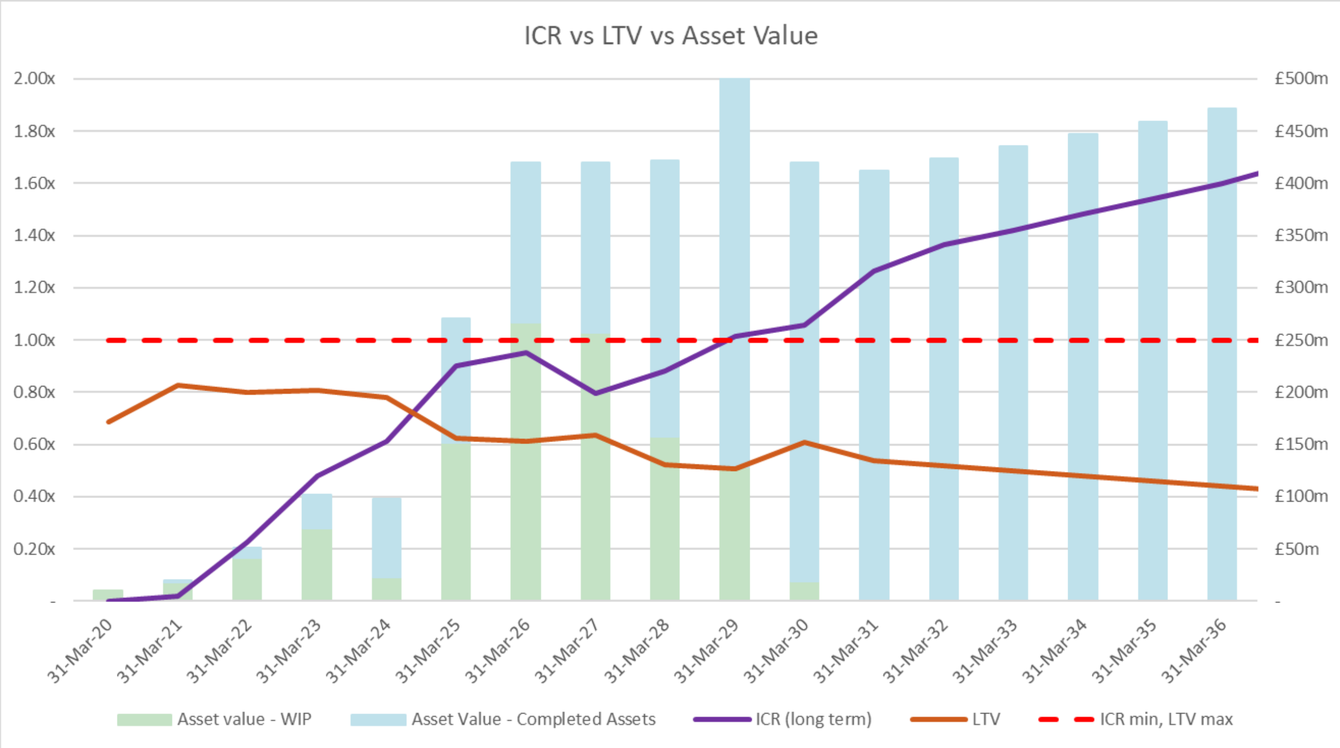
6.29 The graph below plots LTV and ICR against WB's assets, consisting of work in progress (WIP) and completed homes. It demonstrates how leveraged the Company is (LTV), how affordable that position is (ICR) and the underlying value of the Company's (assets) and how the liquidity of that value improves 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%

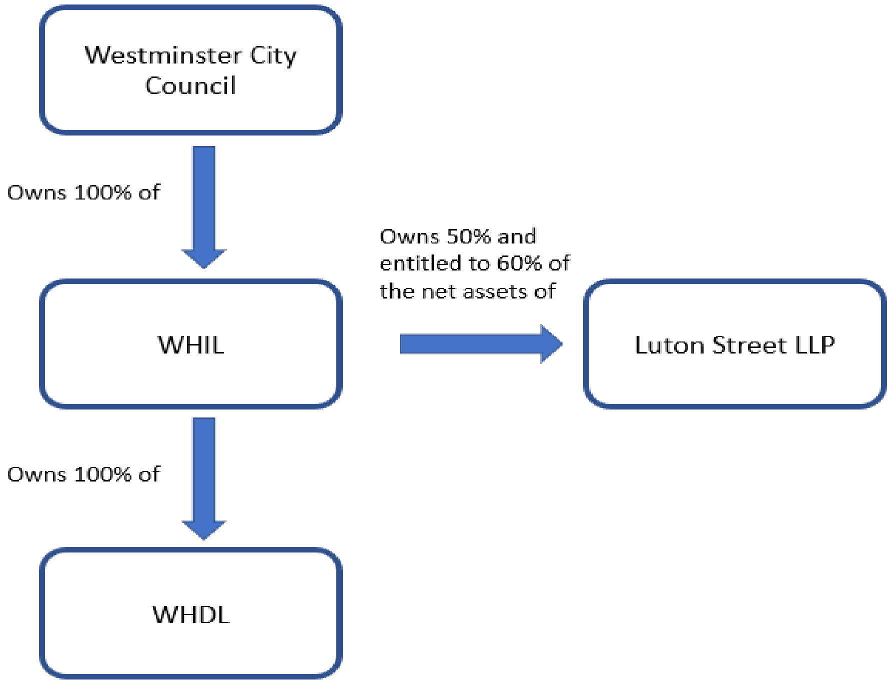
7. Funding Strategy

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

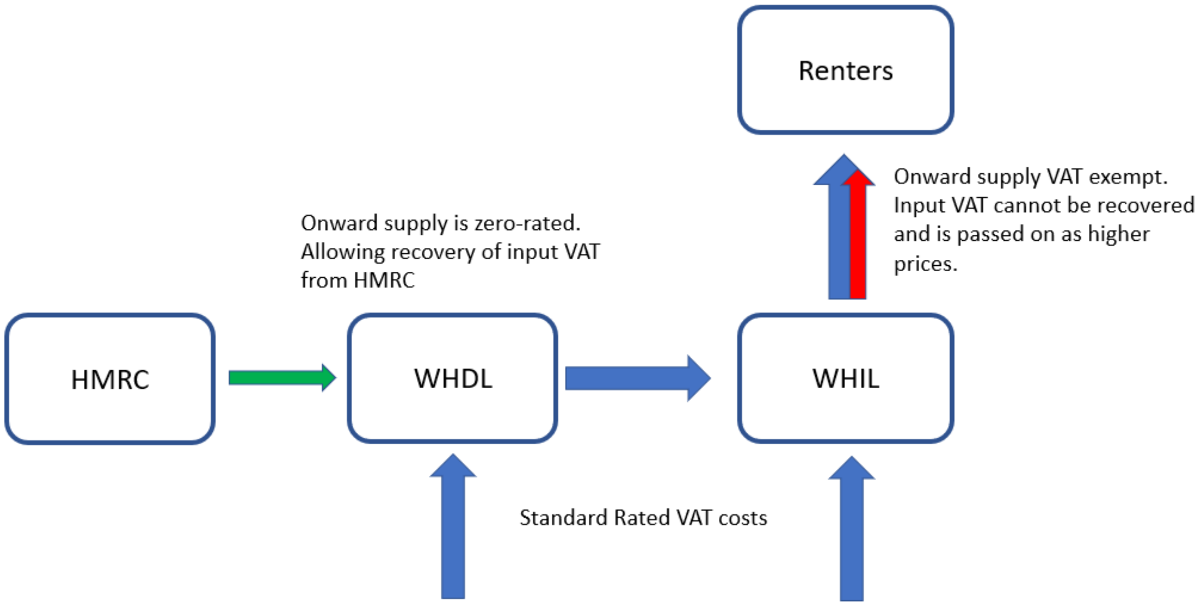
8.1 As a normal commercial organisation WB is subject to full UK taxation.

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

	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		
Project Name		Intermediate	MR						Planning Appl	SoS	PC	Sales/letting	End Sales / letting	Budget	Approved for delivery	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.

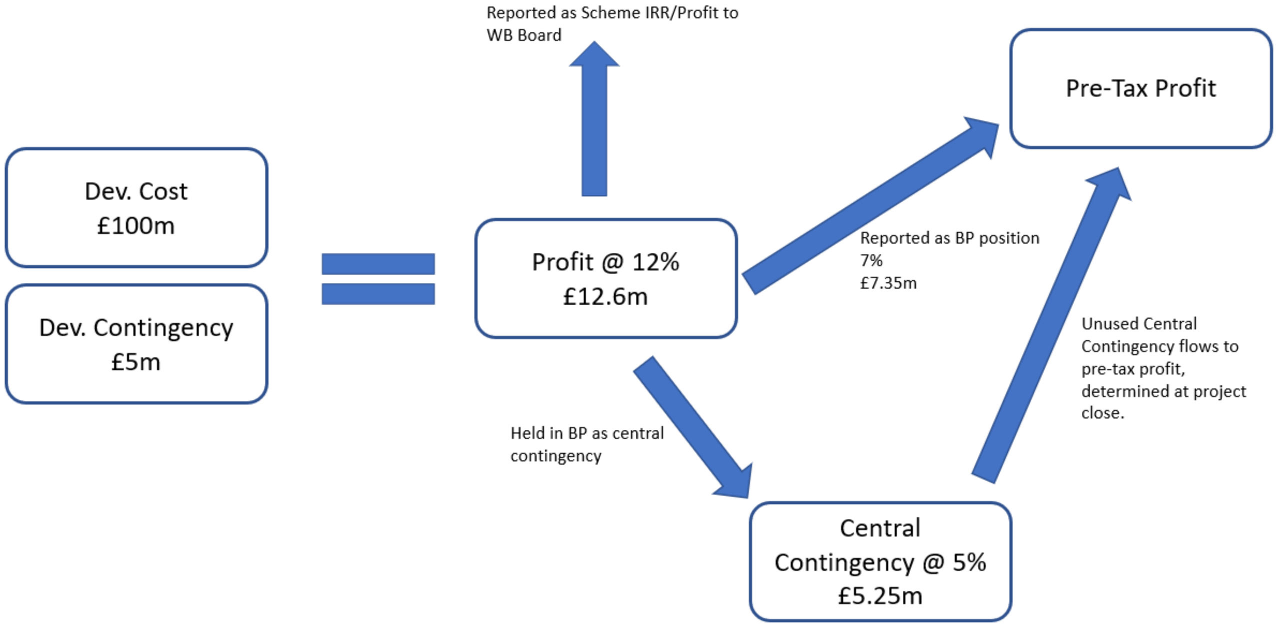
Table 2 – Project and Central Contingency

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.