March 2022

Westminster Builds Business Plan

Business Plan 2022 - 2023

Westminster Housing Investments Limited and Westminster Housing Developments Limited

Building a better future

IN ASSOCIATION WITH

City of Westminster

Contents

Introduction from the Chair

In introducing this Business Plan, I would like to reflect on the changes that have affected Westminster Builds (WB) during the current year. None of us could have appreciated the intensity and duration of the pandemic which has changed all our lives in so many ways. More directly this has been a year of change for WB. We have acquired and are now letting our first homes and will be managing 71 homes at the beginning of the period covered by this plan. Over the coming year we will take on 37 further homes and be well on our way to breaking even for our operational expenses. Working with Westminster City Council, we are going through a process of reviewing the role of WB as part of the Westminster family. This has led to us concentrating our focus and activities on the delivery of homes within the city and ensuring the successful delivery of key regeneration sites in Westminster. This plan reflects this approach.

In the past year the Council has created a new Shareholder Committee to give greater focus and clarity to the oversight of its subsidiary entities. We welcome the new governance arrangements introduced by the Council as our sole shareholder to give more direction to our work and more support for the delivery of the tasks set for us. A significant step for us, too, is the development of a new financial plan and business model which will be implemented in 2022/23.

Finally, I would like to pay tribute to the dedication, determination, and drive of Barbara Brownlee, our first Managing Director, who oversaw the creation of Westminster Builds and its development into an effective part of the Council’s programme to deliver City for All. I and all her former colleagues wish her well in her new role as Chief Executive of Soho Housing Association.

Cllr Jacqui Wilkinson, Chair of Westminster Builds

1. Executive Summary

1.1 The Westminster Builds Business Plan is to be agreed and approved by the Board and the Council as a shareholder on an annual basis. The previous 2021/22 Business Plan was agreed by the Cabinet in July 2021. Going forward the business plan will be approved by the Council's newly formed Shareholder Committee.

1.2 WB was set up in 2018 to help increase the delivery of affordable housing to those who live and work in Westminster but cannot afford the cost of housing appropriate to their needs. It gives the Council an additional option when looking at how it best delivers the schemes planned within the capital programme. It enables the Council to embark on schemes which for example have a more commercial dynamic to them and to enter into joint ventures for scheme delivery, or to hold intermediate or market rental homes which are then not subject to right to buy. Should any market sale homes not find a buyer then the company can also decide to hold onto these and rent them out until the market recovers.

1.3 The company has had a successful start. Its joint venture with LinkCity is progressing the Carrick Yard development at Luton Street at pace and has achieved impressive sales to date. In 2021/22 the company took possession of its first 14 homes at Farm Street, with further acquisitions at West End Gate, Parsons North and Moberly/Jubilee contributing to a management portfolio of 71 intermediate units by the end of 2021/22 and potential for a further 37 acquisitions planned for 2022/23. Let at sub-market rents these homes will be genuinely affordable to households on modest incomes.

1.4 The company is entering a period of consolidation, building its management portfolio and the processes and procedures needed to support it. While retaining its development aspirations set out in previous business plans, at the Council's direction WB has paused any plans for out of borough activity and removed these from the business plan projections and is instead focusing its core business on sites based in Westminster.

1.5 Reflecting this, the 2022/23 business plan document sets out to demonstrate the successes and achievements to date and its current and projected financial performance as well as the company's strategy to continue the implementation of the core of its 2021/22 business plan.

1.6 Over the coming year in 2022/23, the company expects the Carrick Yard development to reach practical completion, with purchasers able to move in over the summer, and the sales programme to near selling out. As of 31 January 2022, 63 of the 109 market sale homes on the site had been reserved with a deposit, with interest rising significantly following opening of the show home in January 2022.

1.7 The company is finalising the contractual arrangements for the development of 300 Harrow Road and is exploring a further development opportunity at Westmead. In addition, the company will increase the number of homes held for rent with 37 acquisitions anticipated across sites at Ashbridge, Luton Street, and West End Gate Phase 2.

Financial Summary

1.8 Westminster Builds is a business still in its start-up phase. In the early years of the business plan the company is steadily increasing its portfolio of units under management and moving towards a position whereby net income from those units fully covers the operational costs of the company.

1.9 In 2021/22, the company is forecast to incur a net loss in year of £101k and a cumulative loss position for the company of £201k. The company is forecast to produce a further loss in 2022/23 which then moves to a net profit position in 2023/24 when the company's share of profits from the Luton Street joint venture materialises.

1.10 The company has previously set out three key financial tests against which to assess its longer-term performance and these continue to be important factors against which to assess the revised plans for the company:

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

1.11 Whilst the removal of the out of borough schemes from the projections has reduced the planned level of capital expenditure by £300m the company continues to meet its financial targets. The company's LTV peaks at a ratio of 0.8x by the end of 21/22 before quickly improving to 0.5x the following year. It then stays within a range of between 0.35x and 0.57x until 2029/30 during which time key development activity is being undertaken. The LTV then reduces annually beyond this point reflecting the gradual pay back of acquisition loans and rise in asset values through assumed rental income inflation. The company is expected to reach an Interest Cover Ratio (ICR) of 1.0 in December 2029 and the target of 1.2 in October 2030. This is a slight improvement on last year's plan where the company was forecast to achieve an ICR of 1.2 in June 2030.

1.12 Paragraphs 5.25 through 5.32 provide further analysis of the impact of removing out of borough projects from the business plan.

1.13 The third test is a clear route to long term financial independence and whilst WB's debt and equity peaks at £250m in 2028/29, it is projected to be fully repaid by 2060, just two years later than set out in the previous business plan.

2. Background & Achievements

Formation of Westminster Builds

2.1 Westminster Builds was established following a Cabinet Report in December 2017, as a response to help deliver the Council's ambition to increase the supply of affordable housing within Westminster.

2.2 In June 2018 Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL) were incorporated at Companies House. Both WHIL and WHDL are now collectively known under the brand of 'Westminster Builds'. This single brand creates an identify that is distinct from the Council whilst remaining part of the Westminster family.

2.3 Increasing the delivery of affordable housing across Westminster is critical for the Council's ambition to create a City for All, an ambition that Westminster Builds (WB) is at the heart of delivering. Since its establishment in 2018, WB has played a key role in extending the resources available to the Council to build and maintain high quality, genuinely affordable housing.

2.4 In the four years since its incorporation Westminster Builds has grown and developed from its initial business plan of four exemplar schemes, to a company with a track record of delivery and sales demonstrated by this business plan. The company has also taken its first strides in building a management portfolio of truly affordable homes for Westminster residents.

Westminster Builds' Objectives

2.5 Westminster Builds was created in 2018. At the time the Council's development aspirations were facing restraint from the HRA borrowing cap and the resources available to the Council. The creation of a housing subsidiary offered an opportunity to extend the resources available to the council and maintain delivery.

2.6 Westminster Builds remains committed to its greatest strength, a strong connection and shared objectives with Westminster City Council. The founding objectives set down by the Council in its 2017 Cabinet Report remain central to everything the company strives to achieve:

- Extend the Council's resources by working with the Council to deliver the regeneration and new build or acquisition opportunities identified by the Council
- Operate on a commercial basis but offering new tenures extending the range of provision available to Westminster residents
- Work to the scale and pace set by the Council.
- Work to the Council's quality standards to help ensure quality housing is provided for all income ranges.

2.7 Westminster Builds is wholly owned by the Council and ensures the Council maintains control of its valuable assets by offering an alternative to private developers or registered providers. The company also provides a lender margin to the general fund on its lending, creating an ongoing revenue stream for the Council.

Governance and Organisation

2.8 The governance and controls are set out in the Articles of Association, Draft Memorandum of Agreement, through the Board and the Shareholders Committee. While Westminster Builds consists of two companies it acts as one organisation with a single board that meets bi-monthly. The Board comprises four directors who provide oversight, influence, and future direction for the company.

The current Board membership is:

- Cllr Jacqui Wilkinson (Chair)
- James Green (Interim MD)
- Stephen Muldoon (Finance Director)
- Neil Wightman (Director)

2.9 While the Board is responsible for the day-to-day running of the company and is the decision-making body, the shareholder retains ultimate control. At present, the company does not employ any staff or directors directly and so directors have dual roles in both the Council and the company. This dual role helps ensure the purpose of the company remains closely aligned to the ambitions of the Council.

Achievements to Date

2.10 In matching the Council's ambition the company has operated with agility and pace, striking a £100m joint venture deal at Luton Street within its first full year of operation. A deal that has gone from strength to strength, building upon the Council's relationship with Linkcity to deliver a scheme that outsold the market in 2020's first Covid lockdown. With sales that cross-subsidise the delivery of 62 new affordable homes as well as a brand-new sports centre, there is significant investment in the nascent Church Street Green Spine and refurbishment works for local residents.

2.11 Other notable achievements to date include:

- Intervention at Jubilee Phase 2 to unlock the delivery of 54 homes and a new sports hall, increasing the quantity of affordable homes delivered by 19.

- Acquisition of homes at Farm Street, West End Gate and Parsons North, expanding the affordable tenancies offered by the Council to residents. The completion of all these acquisitions mean that WB will be in possession of 71 homes for letting at intermediate rent.

- Approval of 300 Harrow Road's Full Business Case with the project expected to transfer across to the company by 31st March 2022.

Changes and development since the last Business Plan

2.12 In the 18 months since the Board approved the 2021/22 business plan there have been a number of changes:

- In July 2021 Barbara Brownlee resigned as Managing Director, James Green has informally stepped into that role on an interim basis and Neil Wightman has been appointed to the board.
- The Council has established a Shareholder Committee to provide oversight and direction for all its subsidiaries which includes Westminster Builds. This is a member led committee.
- At the direction of the Council, WB has paused its pipeline opportunities and refocused on supporting the delivery of the Council's existing pipeline. The budgeted expenditure of £148m and projected income associated with these opportunities have therefore been removed from the business plan.
- While the Council continues to consider its options for the delivery of Church Street Site A, the company has removed the scheme from its business plan. However, the Council has retained a budget for partnership delivery in the general fund which could be made available to the company.
- A number of smaller acquisitions have been added and removed from the business plan to reflect the Council's latest development programme.
- The Council continuously reviews its development programme and changes to schemes, programme and tenure mixes have been reflected in this revised business plan.
- Cashflows and programmes have been updated to reflect the latest project positions, cost plans and commercial structures.

3. Risk and Market Commentary

3.1 Westminster Builds has operated in a time of uncertainty and change, both political and economic. At its incorporation, Brexit remained a significant uncertainty weighing on London's economic future. The outbreak of Covid-19 in March 2020 widened the range of opinions on the capital's housing market, with a move towards larger properties and gardens as well as an exodus to towns as working from home rules were extended.

3.2 While, at the time of writing, Covid-19 appears to be moving from pandemic to endemic, the economic fallout of supply chain and energy cost issues have led to significant inflation which threaten to reduce standards of living. These have been exacerbated by Russia's illegal invasion of Ukraine and the significant sanctions placed on Russia by UK and other countries.

3.3 Appendix 3 sets out a summarised version of WB's risk register, which is reviewed regularly.

War in Ukraine

3.4 The war in Ukraine has introduced significant additional uncertainty to an already volatile marketplace. Primarily impacting oil and energy prices, as governments and companies boycott Russian exports, it will also impact manufacturing, transportation, and on-site activities.

3.5 As countries across the globe impose sanctions and companies start to divest from Russia, there will likely be a significant economic impact as well as a slowing of investment and borrowing fuelled by economic nervousness.

3.6 In addition to gas and oil, Russia is a major producer of steel, aluminium and timber and Ukraine is a major producer of steel. The price of steel is a major factor in the cost of construction projects, as an example concrete reinforcement bars (rebar) are already at unprecedented prices and on very long lead-in times, and the current situation will further impact this.

3.7 There are concerns that travel interruptions in the region may spread across eastern and central Europe, this will put further pressure on an already fragile supply network. The construction team continue to liaise closely with contractors and consultants to get a broad view of market activity and confidence to inform risk assessments at project and programme level, but the developments relating to in Eastern Europe are too recent, volatile and uncertain to understand their impact fully and so are unable to be adjusted for in this business plan.

Residential Market Commentary

3.8 Throughout the pandemic the housing market has remained strong, supported by the stamp duty freeze and low supply. The House Price Index for City of Westminster increased by 9% in the 12 months to November 2021. While this metric is positive for the company's financial viability, it underlines the importance of its objective of providing truly affordable housing to those who live and work in Westminster.

3.9 Westminster Builds has instructed Savills to undertake a full market report, with a summary appended to the main business plan. However, these individual schemes continue to undertake regular market reviews:

- 300 Harrow Road – JLL Red Book - £43m
- Ebury Phase 2 – JLL – Refresh under way to inform Outline Business Case
- Westmead – Knight Frank - £38m

3.10 WB has also sought advice from Pinnacle Housing on private rent provision at Westmead and receives regular reports from each project's sales agents through the project team. The sales leads for each project are:

- Luton Street – Alex Baker
- 300 Harrow Road – Michelle Kane
- Westmead – Alex Baker
- Ebury Phase 2 – Michelle Kane

Construction Risks

3.11 The combined impact of leaving the European Union, Covid-19 and the global supply chain crisis has created material and labour shortages as well as pushing inflation to recent highs. A number of contractors are pushing for risk sharing clauses in future contracts as well as increasing contract values.

3.12 Material Shortages:

- The materials shortages and price increases continue to be a risk/issue across the programme. In terms of Luton Street, West End Gate and Parsons North, all three sites have recently warned that they are experiencing difficulties in sourcing materials, which may manifest as delays to Practical Completion.
- The development team are working with the supply chain to regularly check-in on what impact this is having on the programme, and to seek opportunities for mitigations, such as alternative suppliers or products. The team are also looking at opportunities for placing early orders. Stockpiling is a less effective option, with many of the pre-Brexit stockpiles now exhausted / depleted as a result of the pandemic. We are also ensuring as we enter into main works contracts that there are provisions for additional time but that the main contractor takes the risk in terms of any price impacts. These tend to be standard provisions that are being applied within the sector.

3.13 Labour Shortages:

- As with the materials shortage, labour shortages are becoming a much greater issue. Berkley Homes, Bouygues, Osborne and United Living are all reporting difficulties in securing sufficient labour (particularly bricklayers, plumbers and electricians). Again, this issue has the potential to slow-down production and impact completion dates, it is also a significant factor in the higher tender prices being returned. As with the materials shortages some of the live sites have warned that this issue has the potential to delay practical completion. As above, we are adopting standard contract terms within all contracts that we are negotiating through this period to enable extensions of time but with the contractor taking the pricing risk. This will not necessarily be the case on older contracts.

3.14 Price increase and inflation:

- As well as the impact to dates on our live sites, we are already seeing significant increases in tender returns. Main contractors are reporting difficulties in securing tenders from sub-contractors; where the sub-contractors are providing quotes these are much higher than anticipated and time limited. This is compounded by unprecedented rises in material and labour input costs.
- On Package B of the Infills programme (Torridon) our main contractor Osbourne has struggled to get a consistent level of responses from the market across all package returns and has only received single returns on a number of cases. However, some major packages such as M&E and ground works have received multiple returns, which can make the VFM exercise more difficult to justify and lead to increased reliance on consultant cost plans.
- Based on industry reporting and in headline terms, tender prices are increasing by 4.5%-5% in Q2 2021 and 3% in Q3 2021. Both materials and building costs are anticipated to rise by 15% from Q2 2021 to Q2 2026 (next 5 years).

4. Current and Planned Activity

Performance During 2021/22

4.1 During 2021/22 the company has been in a period of consolidation, focusing on delivery of the company's existing development schemes at Luton Street and Jubilee, working up plans for development at 300 Harrow Road and undertaking the company's first intermediate unit acquisitions across sites at Farm Street, West End Gate and Parsons North.

4.2 The company has also been engaged in a range of activity progressing future development and acquisition plans, working with the Council to establish clear governance arrangements and strengthening the operation of the business.

4.3 Other activity includes:

- Approval of the full business case for development scheme at 300 Harrow Road and review of commercial structure for delivery through the company
- Development of a management agreement with WCC for the management and maintenance of the company's intermediate units
- Implementing recommendations from a recent internal audit report for the company
- Financial modelling review -Summer 2021
- Appointment of new financial modellers -Spring 2022
- Working capital facility arranged with WCC
- Draw down of loan and equity to support live development schemes and new acquisitions for 21/22
- Scheme specific tax and state aid reviews to support decision making
- The Council has set up a Shareholder Committee to oversee activity within all of its subsidiary companies including Westminster Builds

4.4 The table below highlights key targets and metrics set out in the previous business plan against how the company has performed during 2021/22.

Figure 1: 2021/22 Performance Against Targets

Target by March 2022	Business Plan	Forecast	Performance
Homes Under Management	**42**	**71**	**+ 29**
• Phased completion of West End Gate has brought forward 29 units previously expected to complete in 2022/23.			
WHDL Schemes under Construction	**3**	**2**	**- 1**
• Schemes have progressed in the Council while a review of delivery through WHDL was concluded, this has resulted in 300 Harrow Road remaining within WB, however further work linked to overall viability has delayed the transfer of Westmead.			
Pipeline Acquisitions Under Contract	**49**	**0**	**- 49**
• Following a Westminster City Council decision, the out of borough pipeline programme was put on hold.			
Cumulative Capital Expenditure	**£69.6m**	**£61.7m**	**- £7.9m**
• Removal of Pipeline (£5.5m) and alterations to 300 Harrow Commercial Structure (£11m) offset by bringing forward the acquisition of 29 homes at West End Gate (£7m) and re-profiling of costs at Luton Street (£4m)			
Debt Drawn	**£40.8m**	**£44.9m**	**+ £4.1m**
• The changes to the commercial structure on Harrow Road have reduced the grant allocated to Westminster Builds, increasing the total debt, despite capex reducing.			
Sales Secured	**0**	**59**	**+59**
• The sales relate to Luton Street, previously the business plan did not include a profile for off-plan sales, assuming instead 20% were sold at practical completion and a further 70% over the following year, a purposefully prudent approach. To date (Jan '22) 59 of the 109 (54%) homes have been exchanged.			
Units Let	**42**	**10**	**-32**
• Lettings have been agreed on a total of 10 out of 14 intermediate units at Farm Street. The shortfall relates to Parsons North and Jubilee, where delays to completion mean WB will not receive these units until late February, early March 2022			

4.5 Further details of each of the development and acquisition schemes undertaken during 2021/22 are shown below:

Development Schemes: Luton Street (Carrick Yard)

4.6 2020/21 marked an exciting chapter in Westminster Builds' development. Following the creation of a joint venture with LinkCity at Luton Street in Q3 of 2019/20, the development has progressed at pace and the sales programme commenced. The site, now branded as Carrick Yard, a nod to its history as a Coal Yard and the local artist Andrew Carrick Gow, launched into a difficult market as the first Covid-19 lockdown began to ease. Despite this its international launch, which followed a local launch and period of UK exclusivity, was highly successful, earning the accolade of London's bestselling scheme during lockdown.

4.7 WB's joint venture at Luton Street with LinkCity continues to deliver at pace and to a high standard. The sales programme remains on track to achieve 70-80% sales before completion. In January 2022, 3 social rent townhouses at Fisherton Street completed and the remaining 169 homes including 59 affordable at the main site expect to follow in Summer 2022.

Developments: 300 Harrow Road

4.8 The company has been working closely with the project team of 300 Harrow Road, a development in Westbourne Ward including 112 new homes. The project's full business case was approved by the Council in July 2021 and officers are now working with the Council to finalise its transfer to Westminster Builds.

4.9 The company has worked closely with the Council to review the value for money offer and the commercial structures for delivering developments through Westminster Builds. As a result, 300 Harrow Road has been recommended for delivery through Westminster Builds, and it is intended that Westmead and Ebury Phase 2 will follow as those schemes develop.

Acquisitions: Jubilee

4.10 The summer of 2020 saw the commencement of Jubilee Phase 2, with the company forward funding the acquisition of 19 homes which are due to complete in March 2022. The 19 units will be rented at a discount to market rent increasing the number of affordable homes delivered by the scheme.

Acquisitions: Farm Street

4.11 The first acquisition by the company at Farm Street required a significant shift from the theoretical to the practical and involved building the groundwork and setting the precedent for all future schemes to follow. The acquisition of 14 homes at the award-winning Farm Street was achieved in October 2021.

Acquisitions: West End Gate

4.12 In November 2018 the Council agreed to purchase 130 new affordable (s106) homes from Berkerley at their West End Gate scheme. 93 of those units were social homes and 37 intermediate. In October 2021 the Council then agreed for Westminster Builds to acquire 37 intermediate units in two tranches, 29 units in Block B in 2021/22 and a further 8 units in a second tranche. The remaining 8 intermediate homes in blocks E/F will finish construction next year.

Acquisitions: Parsons North (Venice Court)

4.13 Parsons North is a Council mixed-tenure development scheme comprising 60 homes. Of the 19 affordable homes built, WB will be acquiring the 9 intermediate rent, with the remaining 10 retained by the Council as social rent. The scheme also includes 41 market sale.

4.14 Following Council approval of the scheme Full Business Case in September 2019, construction began and is due to complete in February 2021. WB Board approval to acquire the homes was obtained on 4th November 2021 and the units are programmed to transfer to the company in Q4 2021/22.

Planned Activity for 2022/23

4.15 During 2022/23 Westminster Builds plans to expand its rental portfolio with acquisitions programmed at Ashbridge and Luton Street, as well as the second phase of West End Gate. In total this will increase the units under management by 37 to 108 (71 in 2021/22). The company also plans to progress development on 300 Harrow Road and work with the Council on developments at Westmead and Ebury Phase 2 as it works up its business cases and explores delivering those sites on behalf of the Council.

Acquisitions: Ashbridge

4.16 Part of the Council's AAC projects building 77 homes across 3 sites linked through planning, Ashbridge consists of 24 affordable homes, of which 14 are intermediate and are earmarked for acquisition by Westminster Builds.

Development: Westmead

4.17 Westmead is currently working through viability and procurement and is subject to change and approval. However, the business plan presents a shift from private rental towards a for sale scheme. At the time of its Outline Business Case, March 2020, sentiment favoured a rental product for Westmead, reflecting the development's single core shared by social, affordable, and private tenants, and the advice suggested that the renters would be less averse to this arrangement than outright purchasers. However, Knight Frank, the sales agent, has revised their position and in the meanwhile the gap between rental and sales prices have widened to make sale a more favourable option.

4.18 The shift to sale had increased profitability in the short run but the trade-off is that the rental portfolio has reduced by 41 private homes.

Acquisition: Ebury Phase 1 and Development: Ebury Phase 2

4.19 Ebury is the Council's ambitious estate regeneration project in the south of the borough, delivering 781 homes across two phases. Construction has commenced on phase one which the Council is self-developing. WB has entered into an agreement for lease to acquire the 44 Intermediate rent homes on this phase, less any offered to returning leaseholders.

4.20 A number of delivery routes are being considered for phase two, which are subject to a business case and approval. However, the Business Plan includes a WB led delivery of phase 2 with significant retained assets including 178 market rent homes.

4.21 The full programme of schemes covered as part of this business plan and units being delivered is shown in the table below.

Figure 2: WB Development and Acquisitions Programme

Project name / scheme name		WB total homes	Retained			Developed and sold	
			Int. Rent retained	Market Rent retained	Sale to HRA/LA	Sale by WHDL	Sale by Third Party
Contractually Committed schemes – *Legals complete*		**179**	**70**	**0**	**0**	**0**	**109**
Luton St / Carrick Yard	JV	109					109
Jubilee	Acq.	19	19				
Farm Street	Acq.	14	14				
West End Gate	Acq.	37	37				
Approved schemes – WB Board *has agreed to deliver/acquire scheme*		**227**	**98**	**41**	**27**	**61**	**0**
300 Harrow Road	Dev.	112	34		17	61	
Westmead	Dev.	65	14	41	10		
Parsons North	Acq.	9	9				
Torridon House Car Park	Acq.	8	8				
Luxborough Street	Acq.	14	14				
Pimlico (Balmoral)	Acq.	19	19				
Budgeted schemes – *WB Board has allocated funds in BP*		**739**	**260**	**178**	**141**	**160**	**0**
Luton St Intermediate	Acq.	19	19				
Ashbridge Street	Acq.	10	10				
Ebury Bridge Ph.1	Acq.	28	28				
Ebury Bridge Ph.2	Dev.	555	76	178	141	160	
Lisson Grove Programme	Acq.	46	46				
Church Street Ph2 – Site A	Acq.	58	58				
Lydford	Acq.	8	8				
Brunel	Acq.	15	15				
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	Acq.						
Total		**1,145**	**428**	**219**	**168**	**221**	**109**

Sales Programme

4.22 The company's sales programme currently consists of two schemes, Luton Street which is live and 300 Harrow Road which has not launched to the market yet.

4.23 Luton Street comprises 109 private units known as Carrick Yard. After launching in the summer of 2020 into a difficult market the scheme initially sold well, bolstered by an international launch. The scheme has subsequently had a second, smaller scale, international launch to help drive sales on the run into practical completion.

4.24 To date (as of 31st December 2021), 59 of the 109 (54%) have been reserved. The sales team are targeting 80% of the homes to be reserved by practical completion, July 2022, and are hopeful that the launch of the show home and a reinvigoration of the local sales strategy will help drive the remaining sales.

4.25 Sales values to date at Carrick Yard remain above the business plan metric of £1,200 per ft^2.

4.26 300 Harrow Road consists of 61 for sale units across a development of 112 homes and have been valued at £42m.

Acquisition Programme

4.27 As previously noted, the company's programme of acquisition of affordable homes from the Council is underway. The first homes from Farm Street transferred in October 2021 following a significant amount of work setting up the legal and financial framework for these transfers. These acquisitions were followed by purchases of units at West End Gate and Parsons North.

4.28 In total the company has plans to acquire a total of 405 homes over the business plan period. The table below sets out the timeline of future acquisitions and the build-up of the company's management portfolio:

Figure 3: Forecast Acquisitions over Business Plan Period

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Future Years
Farm Street	14						
West End Gate Phase 1	29						
Parsons North	9						
Jubilee Phase 2	19						
Luton Street		19					
Ashbridge Street		10					
West End Gate Phase 2		8					
Torridon House			8				
Westmead			14				
Luxborough Street			14				
300 Harrow Road			34				
Ebury Bridge Ph.1			28				
Pimlico B					19		
Church Street Ph.2 - Site A						58	
Ebury Bridge Ph.2							76
LGP - Lilestone Street							15
LGP - Orchardson Street							31
Annual Total	**71**	**37**	**98**	**0**	**19**	**58**	**122**
Cumulative Total	**71**	**108**	**206**	**206**	**225**	**283**	**405**

Management Arrangements & Lettings Progress to Date

4.29 There is a management agreement in place with the Council whereby the Westminster Housing team take on the management and maintenance of the units acquired at Farm St, West End Gate and Parsons North. Through the management contract, Westminster Housing and their intermediate tenancy team, Westminster Homeownership are also responsible for finding tenants in line with the Council's priorities as set out in the S106 agreement. These tenancies will be Assured Shorthold Tenancies (ASTs). Acquisitions across Farm Street, West End Gate and Parsons North have completed in the second half of 2021/22. The position for each scheme in terms of planning for and managing the letting of individual units is summarised below:

- Farm Street: As of February 2022, lettings have been agreed on 10 out of the 14 units, with 6 homes now occupied. The remaining units are being actively marketed.
- West End Gate: Marketing of 29 of the intermediate rent homes in Block B of West End Gate has commenced alongside the 79 Council-owned social homes in Block B and D. New tenants are expected to occupy the units early in 2022/23.
- Parsons North: Westminster Homeownership have begun marketing the 9 WB intermediate units at this site. The management of the estate and externals of the block will

be undertaken by the Council's appointed managing agent, currently Pinnacle. The maintenance of the affordable core, including lifts and major repairs will be undertaken by Westminster and recharged to WB.

Risk Management

4.30 The Board have undertaken a series of extensive risk workshops led by independent professional advisors, which resulted in a comprehensive risk register being compiled including decisions taken.

4.31 The Board regularly reviews the key risks to the company. Broadly these can be categorised as corporate risks, those relating to the operation and management of the business, and project risks, which are specific to individual schemes or programmes. The table set out in Appendix 3 summarises the key corporate risks of the company as well as risks that are present in all or the majority of projects in the company's business plan.

5. Financial Highlights

5.1 Westminster Builds is a business still in its start-up phase. While significant progress has been made on shaping its commercials and financial arrangements, it has only just begun to build an income generating portfolio from which it can start to move towards financial independence. In this start-up phase the company is heavily reliant on debt and shareholder loans provided by the Council.

2021/22 Scheme Expenditure

5.2 The value of development scheme and acquisition expenditure during 2021/22 is forecast to total £40.5m, this is £7.6m above budgeted expenditure for the year of £32.9m largely due to the accelerated expenditure profiles for key schemes.

Figure 4: 2021/22 Forecast Capital Expenditure Against Budget

2021/22	Budgeted Expenditure	Forecast	Variance
	£'000	£'000	£'000
Luton Street	14,065	16,825	2,760
Jubilee	2,755	3,979	1,224
300 Harrow Road	3,722	7,585	3,863
Westmead	1,854	192	(1,662)
Acquisitions -Farm Street	2,800	2,750	(50)
Acquisitions -West End Gate	5,543	6,970	1,427
Acquisitions -Parsons North	2,183	2,183	0
Total Expenditure	**32,922**	**40,484**	**7,562**

2021/22 forecast expenditure includes:

- £12m expenditure on acquired units at Farm St, West End Gate and Parsons North
- £21m on payments into the Luton Street JV and Jubilee scheme development
- £7.6m forecast spend on the 300 Harrow Road development

The Variance against budget is a result of the following:

- Additional variations at Luton Street leading to an overspend of £640k, funded via a new facility, as well as an updated contractor profile bringing forward expenditure.

- Revised treatment of expenditure at Jubilee, to reflect gross expenditure, whereas the business plan netted off grant funding.
- Revised timing of CIL payments and other scheme expenditure on the Harrow Road
- Review of procurement route on Westmead has delayed the project.
- Revised split of West End Gate's acquisition cost, reflecting that the units purchased in 2021/22 command higher rents than those following next year.

Capital Expenditure Plans 2022/23 and Beyond

5.3 Planned capital expenditure across the business plan period has reduced significantly from £832m in the previous plan to £531m in the current plan. This is largely due to the removal of the out of borough pipeline schemes (£148m) and Church Street Site A (£94m).

5.4 The table below sets out planned expenditure by scheme over the next 5 years. The table sets out development scheme costs and planned acquisitions together with company-wide contingencies held against both categories of schemes.

5.5 Over the next five years the company plans to undertake a significant proportion of the activity in the business plan, completing the developments at 300 Harrow Road, Westmead and Ebury Phase 2a and completing a further 212 unit acquisitions to bring the number of units under management to 283. Gross expenditure over that time totals £369m including contingency. Many of these schemes are set out in section 4 above.

Figure 5: Planned Capital Expenditure over Next 5 Years

Westminster Builds: Annual capital cost programme 2022/23-2026/27	£'000 2022/23	£'000 2023/24	£'000 2024/25	£'000 2025/26	£'000 2026/27	£'000 5 year total
Development Costs						
300 Harrow Road	£9.1m	£20.7m	£0.2m	£0.6m	£0.1m	£30.6m
Westmead	£3.0m	£22.9m	£4.0m	-	-	£29.9m
Ebury Phase 2a	£7.7m	£33.5m	£43.0m	£58.0m	£1.8m	£144.1m
Ebury Phase 2b	£1.6m	£5.1m	£25.0m	£25.3m	£30.4m	£87.4m
Ebury Phase 1	-	£7.4m	-	-	-	£7.4m
Acquisitions						
Luton Street Intermediate (HRA intermediate	£4.0m	-	-	-	-	£4.0m
Pimlico (HRA intermediate)	-	-	-	£4.6m	-	£4.6m
Luxborough	-	£3.4m	-	-	-	£3.4m
Torridon House	-	£1.3m	-	-	-	£1.3m
Ashbridge	£1.8m	-	-	-	-	£1.8m
West End Gate Phase 2	£2.2m	-	-	-	-	£2.2m
300 Harrow Road - Int	-	£8.9m	-	-	-	£8.9m
Church Street - Site A	-	-	-	-	£13.6m	£13.6m
Lydford	-	-	£2.0m	-	-	£2.0m
Brunel	-	-	-	£4.1m	-	£4.1m
External Investments						
Luton Street	£8.5m	-	-	-	-	£8.5m
Total Capital Expenditure	**£38.0m**	**£103.1m**	**£74.3m**	**£92.6m**	**£45.9m**	**£353.9m**
Contingency						
Contingency on Developments	£1.1m	£4.1m	£3.6m	£4.2m	£1.6m	£14.6m
Contingency on Investments	£0.4m	-	-	-	-	£0.4m
Total Capital Expenditure inc Contingency	**£39.5m**	**£107.2m**	**£77.9m**	**£96.8m**	**£47.5m**	**£369.0m**

Profit and Loss Projections

5.6 The statement below shows the 2019/20 and 2020/21 audited profit and loss position for WHIL and projections for the following 5 years to 2025/26. It shows that the company has produced a cumulative loss of £100k up to the end of 2020/21. This is projected to rise during 2021/22 and 2022/23 with the company moving into a profit position in 2023/24 when the Luton Street LLP distributes its profits.

Figure 6: Profit and Loss Projection for next 5 years

£'000	Actual	Actual	Forecast				
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Rental Income	0	0	79	1,165	1,874	2,925	3,417
Other Income	67	128	140	140	15	0	0
Return on Investments	0	0	0	0	12,645	0	0
Gross Profit	67	128	219	1,305	14,533	2,925	3,417
Cost of Sales	0	0	0	(373)	(600)	(936)	(1,093)
Administrative Expenses	(134)	(494)	(416)	(770)	(785)	(801)	(817)
Profit/(loss) before Interest and Tax	(67)	(366)	(197)	163	13,149	1,188	1,506
Interest Receivable*	280	110	794	335	0	0	0
Interest Payable**	0	(56)	(698)	(957)	(1,535)	(2,062)	(2,407)
Profit/(loss) before Tax	213	(313)	(101)	(459)	11,614	(875)	(901)
Cumulative Profit /(loss) before tax	**213**	**(100)**	**(201)**	**(660)**	**10,954**	**10,080**	**9,179**

*Luton Street LLP. Under the arrangement the cash interest payments by the JV will not be received until practical completion and the sale of homes, however it is recognised in the year it is incurred and capitalised against the debt.

** Relates to interest payable on acquisitions or funding for JVs (in the year its paid). Excludes interest on developments which is capitalised and flow to WHDL's P&L as part of the profit on disposal calculations.

5.7 The company is currently forecast to have a net loss in 2021/22 of £101k. The forecast loss in the previous business plan was £657k higher. Rental income for the year is lower than previously forecast following delays to the acquisition of homes. However, this has also resulted in lower than forecast interest payable costs. The additional facility of £640k at a rate of 8%, as well as accelerated draw downs, has increased interest receivable and in turn interest payable as WB has called down upon additional finance from the Council.

5.8 Finally administrative costs for the company are expected to be lower than previously forecast, driven in part by a slimmer, more focused administrative structure. The comparison up to 2023/24 is shown in the table below.

Figure 7: Profit and Loss Forecast and Comparison with Previous Business Plan

	Previous Years 2020/21	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	£'000	£'000
Previous BP Profit / (Loss)	(146)	(758)	(996)	5,153	3,253
New BP Profit / (Loss)	(100)	(101)	(660)	11,614	11,743
Movement	46	657	336	6,461	8,490

Funding Requirement

5.9 Westminster Builds incurs costs associated with running the business, undertaking development and construction activities as well as acquiring and managing new homes for intermediate and market rent. Whilst it generates income from open market sales and rental income, there is also a significant funding requirement which is planned to be met through debt and shareholder loans from the Council as shown in the table below.

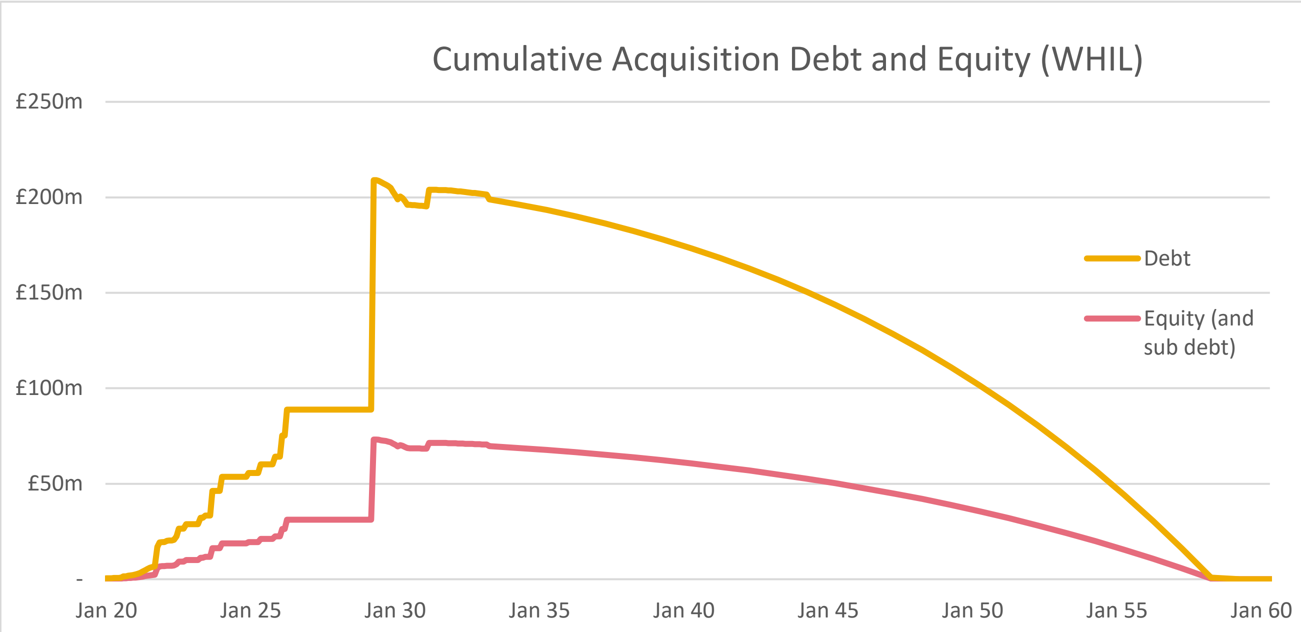
Figure 8: Capital Expenditure and Funding over the Business Plan Period

Capital Sources and Uses	WHDL	WHIL
Costs		
Development costs	(£381.3m)	
Development costs through investments		(£43.7m)
Acquisition costs excluding acquisitions from WHDL		(£84.3m)
Acquisition costs from WHDL		(£133.1m)
Central contingency	(£19.1m)	(£2.2m)
Company overheads	(£4.1m)	
Tax	(£3.1m)	
Income		
Market sales income (includes exit sales)	£283.9m	
Income from sales to WHIL	£133.1m	
Return from investments		£55.2m
Net rental income (all tenures)		
Grant	£17.1m	
Net capital spend	**£181.6m**	
Peak Council Development Exposure	*£169.5m*	
Peak Council Acquisition Exposure	*£215.4m*	
Peak council exposure	*£252.6m*	

5.10 The peak debt requirement during the business plan period in relation to development is £170m and acquisitions £215m. This has reduced significantly from the previous business plan in line with the reduction in capital expenditure on out of borough developments and Church Street Site A as previously explained.

5.11 The graph below shows the cumulative debt and equity position each year until 2060. It shows that debt peaks in January 30 but is fully repaid by January 2060.

Figure 9: Cumulative Debt and Equity

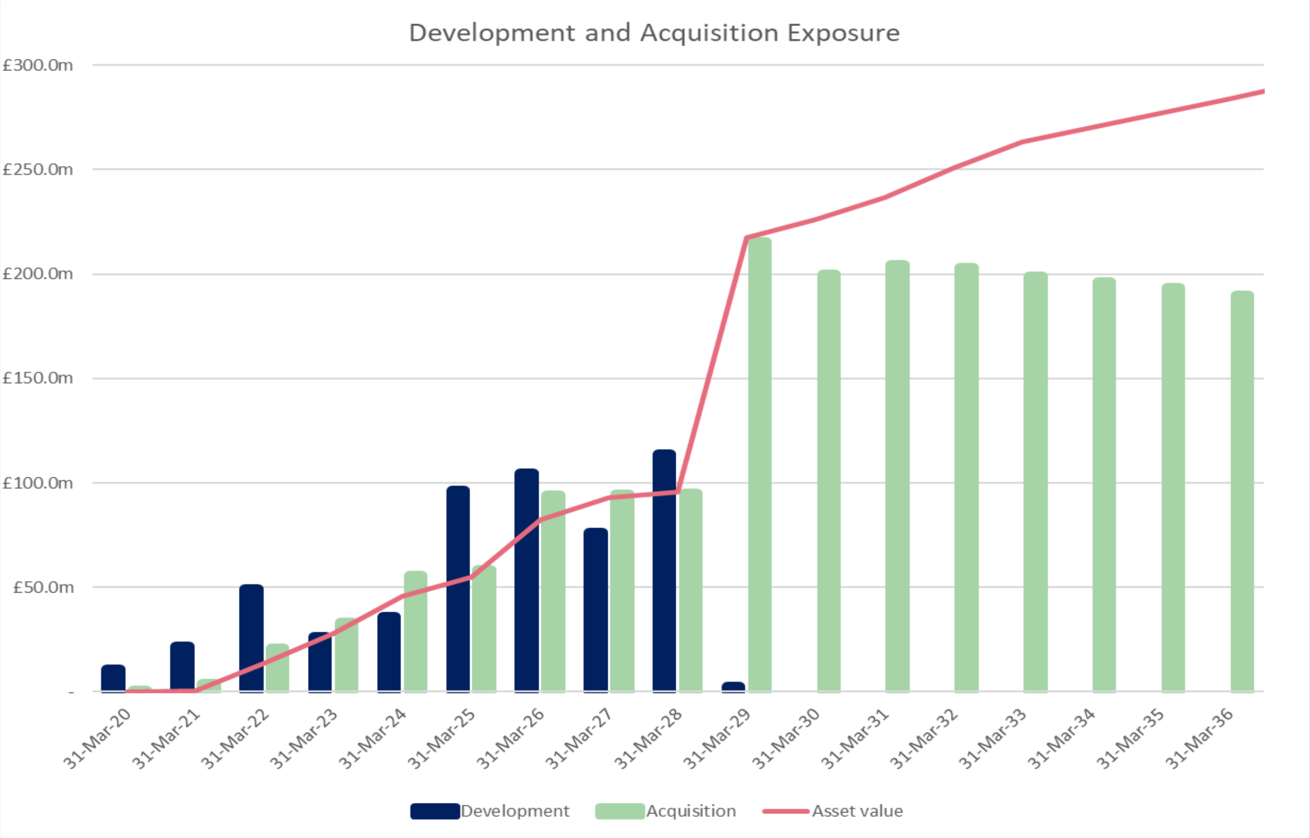


5.12 The graph below shows the level of funding requirement split between development (dark blue) and acquisitions (light green). The development phase funding is repaid from the following sources subject to the specific scheme:

- 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

5.13 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 debt of £215m is substantial but it should be noted that this is used to acquire income generating assets. As these homes are occupied, the proceeds from the net rental income are used to service debt costs.

Figure 10: Asset Values and Debt



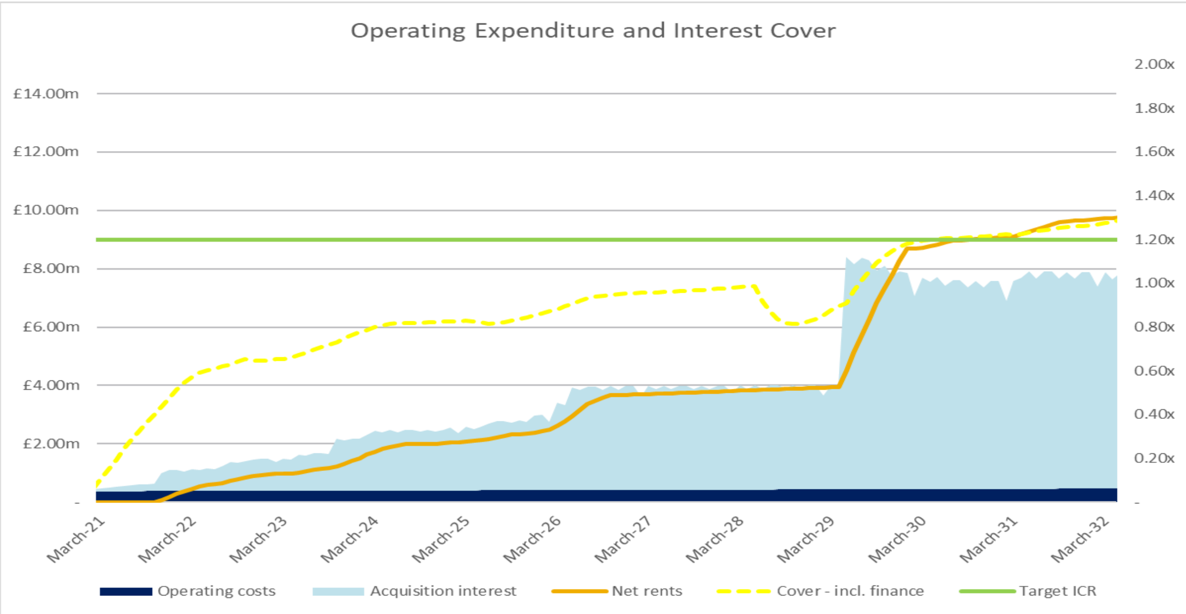
Cashflow Forecast

5.14 Cashflow is critical to any company, and it is particularly relevant to WB as a new company without reserves to fall back on. The early years of the business plan are particularly challenging as the company slowly builds up its rental units within WHIL and begins to embark on its planned development schemes.

5.15 The business plan operates on a nil cash balance basis, drawing debt when required and repaying it when the company is in surplus. WB has a metric of achieving a 1.2 Interest Cover Ratio, which means it can meet its interest cost and still have an operating cashflow to either repay debt or meet other costs.

5.16 The graph below shows the operating cashflows for WHIL over the next 10 years excluding WHDL (where all cashflows are capitalised). The blue shaded area represents the ongoing revenue costs of the company consisting of operating costs (dark blue) plus interest incurred on debt (light blue). Whilst net rental income from units acquired (orange) makes a contribution towards those costs, it takes until January 2030 before there is sufficient income for annual company costs to be fully covered from revenue. At this time the company will hold a portfolio of 575 units made up of 397 intermediate and 178 market rent. The spike in interest costs in 2029 represents completion of Ebury Phase 2 and the associated acquisition of intermediate and market rent homes from that development.

Figure 11: Interest Cover Analysis over next 10 years



Rental Model for Acquisitions within WHIL

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

5.18 The operational costs arising from managing and maintaining this portfolio is expressed as a percentage of gross income. The standard assumption used within the business plan is 32% and includes an allowance for potential income lost i.e., voids. This also includes an assumed annual contribution into a sinking fund for the future major repairs needed to the portfolio of properties.

5.19 The company has a management agreement in place with Westminster Housing for the management and maintenance of units at its first three intermediate rent acquisitions sites, Farm Street, West End Gate and Parsons North.

5.20 The standard gross to net assumption of 32% will be refined over time following experience on these initial sites. Management information from these sites will be key to understanding where this assumption may need to be varied going forwards in future iterations of business plan modelling.

Performance against Financial Benchmarks

5.21 The 2021/22 Business Plan was built on a medium-term business plan that achieved long term profitability, reflecting the pace at which the Council wants to operate. The Business Plan set three financial tests to ensure affordability:

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

5.22 The table below sets out projections for company performance against these metrics over the next 10 years. By 2031/32 it shows the company's LTV at 0.55x and its ICR above target at 1.21. By comparison the 2021/22 business plan showed the company's LTV at 0.52x and its ICR at 1.37. Debt peaks at £148m in January 2026 but then that reduces down to £93m by the end of that financial year.

Figure 12: Forecast Performance Against Metrics

Business Plan KPIs	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Debt (£m)	16.0	44.9	20.8	50.2	89.3	93.1	76.4	95.4	126.6	130.9	133.2	132.1
Loan to Value	0.78	0.79	0.79	0.47	0.56	0.58	0.46	0.35	0.44	0.48	0.57	0.55
Interest Cover Ratio	0	0.15	0.59	0.66	0.81	0.83	0.9	0.96	0.99	0.89	1.19	1.21

5.23 Long term financial independence for Westminster Builds as a target aims to provide freedom to the company, and the Council as lender, on how the company is funded over the long term. By demonstrating the ability to repay debts in full, the company can progress knowing it has a range of financing options open to it, such as refinancing outside the Council, leveraging its balance sheet to undertake more development or acquisitions or alternatively be debt free and utilising surplus to invest in and maintain existing stock.

5.24 In line with the previous business plan, Westminster Builds remains on track to repay its debts by the end of the Business Plan period, i.e. March 2060, just two years later than the previous business plan.

Financial Impact of Changes to Business Plan

5.25 The financial impact of the changes made to the business plan since the previous year's iteration as set out in page 8 is shown in the table below.

Business Plan KPIs	Business Plan 21/22	Business Plan 22/23	Variance
Total Capital Expenditure*	**£832.3m**	**£530.6m**	**- £301.7m**
Peak Debt	**£508.8m**	**£250.9m**	**- £257.9m**
WHIL Stabilisation (ICR 1.2x)	**April 2031**	**October 2030**	**- 6 Months**
Debt Repaid	**March 2060**	**March 2060**	**-**
Overall Geared IRR	**6.94%**	**6.74%**	**- 0.20%**
Return On Capital Employed (ROCE) - Development	**1.32x**	**1.21x**	**- 0.11x**
Return On Capital Employed (ROCE) - Acquisitions	**6.84x**	**6.80x**	**- 0.04x**

*Includes programme contingency of £32m (21/22) and £21m (22/23)

5.26 The key changes highlighted above have impacted the scale of activity in the business plan but have a much smaller impact on its key metrics.

5.27 Planned capital expenditure has fallen by £302m to c£530m. This movement is predominately driven by the removal of Pipeline (out of borough) projects (£148m) and Church Street Site A (£94m). Further changes in the structures and tenure mixes of projects has led to a £23m fall in the capital cost of Ebury Phase 2 and £19m in 300 Harrow Road.

5.28 The removal of and changes to these schemes have reduced the peak debt of the company from £509m to £251m, although the timing of that peak remains unchanged at March 2029, just prior to the profit from the development of Ebury being fully realised.

5.29 The modest change in metrics highlights two key ideas. Firstly, that the previous business plan took a cautious view on the returns from the out of borough projects. This considered approach ensured that the business plan remained affordable even if opportunities did not develop as planned. As a result, the total removal of these projects has had a minimal impact on the business plan.

5.30 The second key factor is the business plan period, 40 years, and the resulting dominance of long-term acquisitions on the metrics. This can be seen by a larger fall in the ROCE for developments only.

5.31 Throughout 2021/22 the company has worked closely with the Council to understand the cost of managing and maintaining rental homes. This has resulted in management costs rising from a standard assumption of 28% to 32%. The intention is that future iterations of the business plan will have site specific rates, however the 4% shift in costs has reduced the company's cashflow and its ability to repay debt, demonstrated by the fall in IRR and ROCE.

5.32 Overall, the company remains profitable, and its strength of balance sheet means it can fully repay its debt by 2060.

Climate Agenda

5.33 Westminster Builds is committed to delivering on the Council's ambition for Westminster to be carbon neutral by 2040. Significant energy efficiency improvements have been achieved across Council schemes in recent years, reducing our environmental impact while helping protect residents from the worst impacts of energy cost increases. However, there is much more to do to reach net zero.

5.34 WB has supported the removal of gas boilers at Luton Street, Jubilee and 300 Harrow Road. The additional costs at Luton and 300 Harrow Road were funded by project contingencies. WB also notes the Council's review of other schemes with gas boilers and welcomes action to introduce air source heat pumps at Ashbridge.

6. Shareholder Perspective

Financing Assumptions

6.1 The business plan activity is funded through debt and equity investment into the company from the Council as sole lender and shareholder. The business plan applies a set of standard assumptions to that financing which are then assessed further for individual development schemes and acquisitions at the point at which they are arranged. The key assumptions within the business plan are listed below:

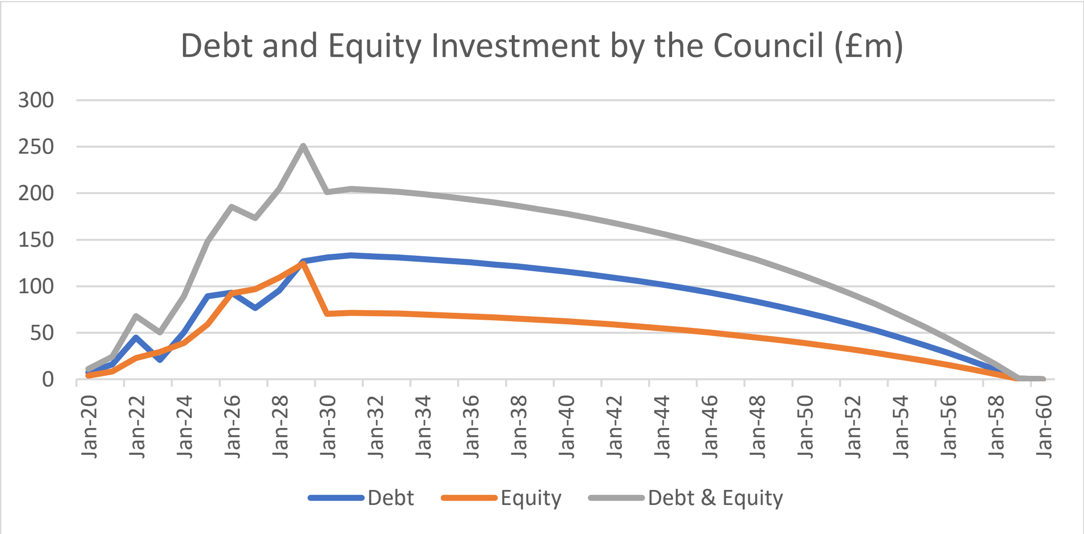
- The first 35% of funding will be a shareholder loan as quasi equity and the remaining 65% as senior debt
- Shareholder loans are provided at 0% interest rate and senior debt for acquisitions at 5.5% and for developments at 6%
- Development finance will be repaid from receipts of the development, first repaying senior debt then shareholder loans
- 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

6.2 The model also assumes that profits will be retained by the company and not paid out to the shareholder via a dividend. These profits are then used to lower the debt requirement to fund future schemes.

Financing Requirement for the Council

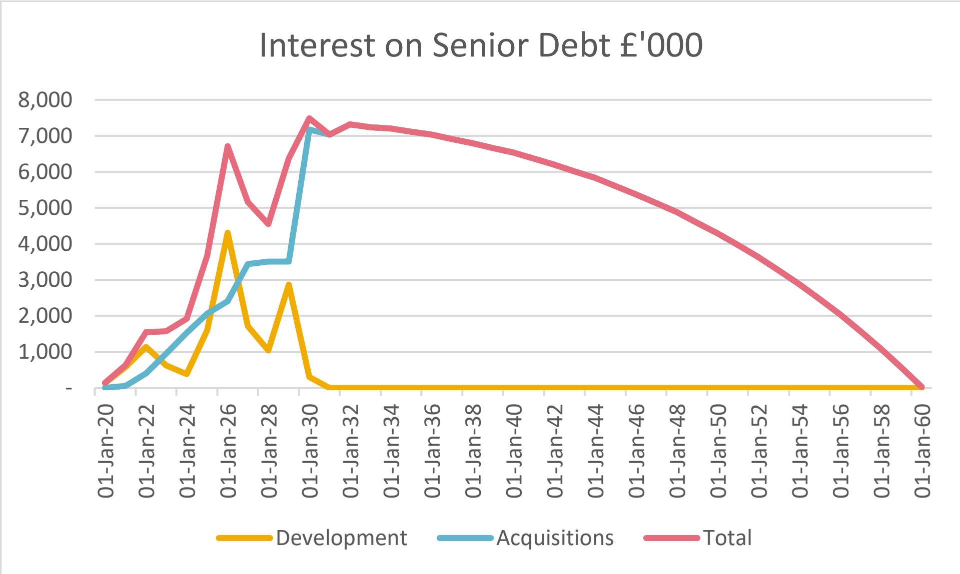
6.3 Over the life of the business plan the financing required from the Council peaks at £250m. Of that total peak investment, the senior debt required is £133m.

Figure 13: Debt and Equity Investment by WCC into the Company



Interest paid over to the Council over the life of the business plan in relation to that senior debt is £185m. This includes interest due annually on long term investment loans supporting the acquisition of units but also capitalised interest on development loans which is payable once a development is complete and the senior debt is repaid. Annual interest due to the Council over the business plan period up to 2059/60 is shown in the graph below.

Figure 14: Annual Interest due to the Council on Senior Debt



* This includes interest on both acquisition loans and capitalised interest on development loans which will be paid to the council when the loan is due to be repaid

Luton Street

6.4 Luton Street continues to have strong sales outperforming expectations within the previous business plan. As at January 2022 contracts have been exchanged on 59 homes to date with a value of £59m. There remains strong interest in the scheme, and the LLP is targeting at least 70% exchanged before practical completion, a strong achievement. Based on exchanges to date the LLP will repay its £56m senior debt on practical completion of the scheme. This significantly de-risks the council's investment in the project.

6.5 Sales values to date have exceeded the business plan position and are forecast to return a profit of over £21m, of which Westminster Builds will receive a 60% share. This exceeds the FBC position of £8m. This demonstrates Westminster Build's successful intervention in a stalled development to provide new homes in the borough whilst also achieving value for the shareholder.

2022/23 Investment Position

6.6 The projected investment of WCC in WB as at the end of 2021/22 is £67.9m. In terms of providing reassurance of how this is supported by assets within WB, it will by that point have £12m in the form of bricks and mortar – the acquisitions of Farm Street, Parsons North and West End Gate -

£10.2m as an advance payment on the acquisition of 19 intermediate units at Jubilee, £9.7m in assets under construction at Harrow Road and £36m on-loaned to Luton Street Development LLP for the development at Carrick Yard. As stated above, the strong levels of exchanges would indicate that this investment at Luton Street (debt and equity) is not underperforming and will be repaid in full across 2022/23 and 2023/24 along with any profit achieved. Thus, the Council can be reassured that the investment in WB at this juncture remains sound.

Appendices

Appendix 1: Business Plan Schemes – Programme and Governance

WB is aligned with the Council's processes through the preparation and approval of business cases. The approvals process for WB follows that of the Council, using Strategic, Outline and Full Business Cases, as projects move through the approval process. To distinguish the paper to WB Board from the Business Case submitted to the Council, WB uses the term Investment Case. These along with the Council equivalent stage are summarised below:

Gateway	Westminster Builds	WCC
1	Strategic Investment Case (SIC)	Strategic Outline Case (SOC)
2	Outline Investment Case (OIC)	Outline Business Case (OBC)
3	Full Investment Case (FIC)	Full Business Case (FBC)

On a project level, the company has developed governance structures and processes which mirror the Council's own governance, to ensure its activities are adequately controlled. It is aligned with the Council's Capital Review Group and business case process to ensure the Council is fully informed of proposed transactions between WB and WCC. All capital expenditure decisions are considered and voted upon by the directors with a quorum of three.

The diagram below sets out the key bodies responsible for the strategic and operational management of the company:

- Setting the objectives for the company, giving direction and taking decisions reserved for shareholder
- Reporting and recommendations to Cabinet
- Holds the Board and its Directors to account
- Approves the company's business plan

- Monitoring financial and operational performance and risks
- Decision making body
- Sets the company's business plan
- Chair holds individual directors to account and empowers them to act

- Day-to-day operational management and performance
- Resourcing, regulator and statutory compliance
- Enacts decisions of the board and reports back

- Operational and administrative staff
- Scheme management, delivery and operation

Appendix 2: Business Case Assumptions

A range of assumptions have been applied in the business plan to enable the development of financial forecasts for the company. The table below summarises those key assumptions.

Business Plan Assumptions	
WHDL Finance Rate	6%
WHIL Finance Rate	5.50%
Gearing	65% Debt 35% Equity
Development Contingency	10% at OBC
	5% at FBC
CPI	2%
IMR Growth	CPI+1%
OMR Growth	2%
HPI	2%
Operating Cost	£375k per company per annum
Acquisition Yield	IMR - 4% OMR - 3.75%
Management Cost	IMR - 32% OMR - 29%

Scheme specific assumptions such as build costs, values for open market sales and rent and phasing which are site specific will vary between schemes. These assumptions are developed and applied using experience and knowledge from other schemes undertaken by the Council, independent specialist advice such as market value assumptions and market data. Assumptions are stress tested as part of the individual business case and wider business planning processes.

Appendix 3: Risk Management

The table below sets out a summarised version of the

the key corporate risks of the company as well as risks that are present in all or the majority of projects in the company's business plan.

Risk	Mitigation	Risk rating
Corporate Risks		
Over time the company's objectives, future goals and vision may lose alignment with those of the Council expressed through Shareholder Committee	Continuous and transparent discussions with Council officers and the Shareholder Committee. Regular reporting of progress and outcomes with decisions properly documented. Annual approval of the Company's business plan by the Shareholder Committee and reporting against business plan.	
Lack of effective/robust governance from the Council	Continued close alignment of the company's governance with the Council's existing framework to ensure scrutiny of decisions. Continuous communication for on-going projects and reports to WCC boards (i.e. GPH Board, CRG) and to the Shareholder Committee Maintaining primacy of the Council and shareholder in decision making	
Insufficient resource to deliver both new homes and long-term management service.	An SLA between WB and the Council will define the level of service expected and the duties and responsibilities of both parties. Working with WCC to scope out future requirements, enabling the Council to build the capacity required for long term management	
Business plan is not viable, or scheme/ development risks are not well managed	The business plan will be supported by extensive modelling and sensitivity analysis around key assumptions, with the support of expert advice. Scheme proposals within the business plan will be subject to further scrutiny through the Board as well as WCC's Capital Review Group and approval processes.	
Unforeseen risks experienced by	The WB Board receives regular updates on the issues coming out of the recent reports on the difficulties being experienced by some local authority companies,	

Risk	Mitigation	Risk rating
other Local Authority companies	so that the lessons learnt from these experiences can be applied at Westminster.	
Project Risks		
Increased project costs due to market factors	Brexit and Covid-19 have caused significant shocks to both the construction and housing market leading to increased build costs, risk of interest rate increases, and a slowdown in housing market. WB continues to evaluate the market with each project undergoing scenario and sensitive modelling in addition to having appropriate levels of contingency in place.	
Homes prove difficult to rent or sell	Viability appraisals are supported by independent Red Book valuations and external advice from market experts to ensure schemes progress with homes priced and designed to suit the market. This engagement with market professionals continues throughout the development with external sales advice, marketing support and pricing reviewed constantly by the sales team, with a view to mitigate through bulk sales or conversions to rental if required.	

Appendix 4: Treasury Management

Business Plan Funding Assumptions

The business plan applies a standard set of assumptions to the funding of development and acquisition sites. In practice when funding arrangements are being agreed for specific acquisition or developments sites the Council obtains state aid and legal advice to set an appropriate set of commercial terms and interest rates between the Council and the company. The key assumptions are listed below:

- The first 35% of funding will be via a shareholder loan and the remaining 65% will be in the form of senior debt
- Senior debt for development schemes attracts an interest rate of 6% and acquisition schemes 5.5% reflecting the decreased risk and increased quality of collateral
- Development finance will be repaid from receipts of the development, first repaying senior debt then shareholder loans
- If WHIL acquires built units from a WHDL development, the company will refinance the investment through a separate loan 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

New Loans Agreed During 2021/22

New senior debt and shareholders loans agreed between the Council and the company during 2021/22 total c£12m. This funding has been used to support the acquisitions at Farm Street, West End Gate and Parsons North and is split £7.8m senior debt and £4.2m shareholders loans. The loans have been agreed for a period of 50 years reflecting the life of the assets and are scheduled to be repaid over that period. Interest rates agreed in practice on those loans have been set between 4.69% and 5.25%, which is below the standard assumption applied within the business plan and hence the plan is prudent in respect of this assumption.

Working Capital Facility

The company has access to a working capital facility of up to £2m from the Council to meet operational expenses whilst it grows and expands and begins to bring in a revenue stream from its acquisition units and profits from its development schemes. Interest is charged on that facility at 8% above the base rate so it will be important to ensure that cashflows are managed where possible to minimise the call upon this facility.

All business cases for acquisitions allow for a sinking fund to be set aside for the future repairs and maintenance of rental units. This forms part of the deduction of 32% from the gross rental income allowed for in the business plan for managing and maintaining these assets. In the initial years after acquisition the call against this fund should be relatively low which will mean that the company will be able to benefit from cash held within this fund to help towards minimising the need to access the working capital facility.

Treasury Strategy

The aim over the longer term is to ensure that the company is as cash efficient as possible. The way in which it achieves this will depend on the interest rate environment in which the company is operating. In the current backdrop of low interest rates, the strategy is to use any cash inflows to the company to lower the need for external borrowing. Initially any excess cash will be used to reduce the need to access the working capital facility, further into the business plan period when the working capital facility is no longer needed, this will refocus on reducing the level of longer-term external debt needed to finance development schemes or acquisitions.