



City of Westminster

Shareholder Committee Report

Decision Makers:

Shareholder Committee

Date:

27 November 2023

Classification:

General release except for Appendix 2 which is exempt from disclosure as it contains information relating to the financial or business affairs of a particular person (including the authority holding that information) under paragraph 3 of Schedule 12A of the Local Government Act 1972.

Title:

Westminster Builds Mid-Year Update.

Wards Affected:

All

**Fairer Westminster
Summary:**

Fairer Housing – Delivering more truly affordable homes.

Key Decision:

No

Financial Summary:

Accounts for 2022/23 have been audited and finalised. Westminster Builds remains a going concern with planned acquisitions for 2023/24 bolstering the portfolio of intermediate homes to 106. The company is forecast to make an operational profit of £0.3m in 2023/24

Report of:

James Green, Jake Bacchus, – Westminster Builds Directors

1. Executive Summary

- 1.1. Westminster Builds manages 63 intermediate rent homes at the end of September 2023, purchased from Council developments. The company has also overseen, through its joint venture with Linkcity, the successful completion of Luton Street, a development of 171 homes including 62 affordable.
- 1.2. The company expects to manage 106 intermediate homes by the end of 2023/24
- 1.3. Accounts for 2022/23 have been audited and finalised. These are summarised in section 4.
- 1.4. The company is pursuing several workstreams in 2023/24 to improve efficiency and financial position.

2. Recommendations

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

3. WB Background & Policy Context.

- 3.1. Westminster Builds (WB) is the trading name of two companies: Westminster Housing Investments Limited (WHIL) and Westminster Housing Developments Limited (WHDL). The Council is the sole shareholder of WHIL, which in turn is the sole shareholder of WHDL. Therefore, WB is wholly owned by the Council, who also provide 100% of the company's funding through a combination of shareholder loans, development and acquisition finance and a working capital loan
- 3.2. WB was set up in 2018 to help increase the delivery of affordable housing to those who live and work in Westminster but cannot afford the cost of housing appropriate to their needs. It gives the Council an additional option when considering how it best delivers the schemes planned within its capital programme.
- 3.3. It enables the Council to embark on schemes which, for example, have a more commercial dynamic to them and to enter into joint ventures and other delivery vehicles, or to hold intermediate and market rental homes in order to diversify the council portfolio of tenures.
- 3.4. Following a director resignation on 30th October 2023, the board is currently non-quorate and therefore cannot make decisions. The power to appoint is delegated to the serving directors under the Articles of Association. A new interim director has been appointed and will be formally approved by the Committee via the usual governance method.

4. Accounts Update for 2022/23

- 4.1. The final company accounts for 2022/23 have been finalised and audited. A summary of the profit and loss account for the year is presented below. The full accounts are included in Appendix 1.

4.2. The company returned an operating profit of £0.167m which was broadly in line with the 2022/23 Business Plan forecast of £0.163m. A pre-tax profit of £3.365m was also reported.

Table 1 – Operational Profit and Loss Account 22/23

	2023 (£000's)
Rental Income	455
Misc Income	145
Total Income	600
Administrative expenses	(433)
Total expenditure	(433)
Operating surplus	167
Fair value movement in investment property	3,871
Net Interest	(673)
Profit before tax	3,365
Corporation Tax	(277)
Profit after tax	3,088

4.3. Acquisition loans provided by WCC are the key driver behind the net interest cost of £0.673m. Also included within this balance are interest income and expenditure relating to funding Luton Street.

4.4. All interest-bearing loans relating to the delivery of Luton Street between LLP and WB and WB and WCC have been repaid in full and therefore do not represent a liability risk for the Council.

4.5. Each year an external property revaluation exercise is undertaken, in accordance with accounting regulations, which leads to a revaluation adjustment in the Profit and Loss. In 2022/23 the value of properties owned by WB increased by £3.871m. This is an accounting adjustment only and is exempt from any potential Corporation Tax.

4.6. Corporation tax of £0.277m is due to be paid to HMRC. This is because of the company's allocation of accounting profit from the Luton Street scheme.

5. Update on Key Activities for 2023/24

5.1. The company has continued to deliver on its business plan commitments and is approaching 100% occupation rates across its intermediate rent portfolio, with 62 of 63 let.

5.2. The legal and financial processes have concluded to transfer eight two bedroom homes at West End Gate back to the Housing Revenue Account to be used as social housing. The company will now see the benefit of reduced interest payments on the original loan.

- 5.3. Final legal processes are now complete on the acquisition of eight one-bedroom homes at West End Gate to be let at London Living Rent levels. These will be advertised through the Homes for Westminster website.
- 5.4. The company will also acquire 35 one-bedroom homes at 300 Harrow Road before the end of 2023. These homes will all be let at London Living Rent.
- 5.5. By the end of 2023/24, the company aims to hold 106 homes in its portfolio.
- 5.6. WB has supported the Council through its review of housing supply and notes that a Cabinet Report is being brought forward to establish a Housing Supply Strategic Board. WB's board will continue support the Council's objectives for delivering truly affordable housing and will await any recommendations relating to the business and operation of the company.
- 5.7. The Shareholder Committee approved a report in March 2023 stating the need for a new registered provider in WB's structure to secure GLA grant for the Council and company. This for-profit registered provider will allow homes built by the Council and managed by Westminster Builds to attract grant, in turn increasing the delivery of affordable housing across Westminster. A new company has been incorporated at Companies House and the application process for registered provider status is underway.
- 5.8. The 2023/24 Business Plan, reflecting on the Truly Affordable Housing Strategy, refocused the primary operation of the company to provision of intermediate rent homes. The Business Plan states a need to streamline overheads to reflect this change. A thorough review of running costs, resourcing requirements and the company's operation has been undertaken and contributed to the current year improved performance highlighted in paragraphs 6.5 and 6.6 below.

6. Performance Report – P6 2023/24

- 6.1. As at P6 of 2023/24, the company owned 63 properties. Properties acquired by site are:

Table 2 – Homes in portfolio

Scheme	Financial year completed	No. of units
Farm Street	21/22	14
West End Gate (Phase 1)	21/22	21
Jubilee	22/23	19
Parsons North	22/23	9
Total		63

- 6.2. The company has continued to work closely with WCC Housing who let and manage homes on the company's behalf. WCC Housing attend all WB Board Meetings and provide updates on occupancy levels, as well as any operational issues being encountered. The Board are proactive in assisting to resolve these to ensure occupancy levels are kept at a maximum.

- 6.3. There is generally a lot of positive interest in the Intermediate Rental properties on offer. Since letting commenced in December 2021, 62 properties have been let and occupied by the same residents. The rental levels, location and high specification of build make the properties very popular within the community. Numerous key workers and Westminster residents have benefitted. The first round of 2-year renewals is approaching and every resident has expressed an interest in renewing their tenancies for a further 2 years.
- 6.4. A workstream is underway with WCC Housing to identify key KPIs to report to the Board. This will allow WB to track and assess the impact of indicators such as void periods and rent arrears. An update on this will be reported to the next Shareholder Committee meeting and included in the next iteration of the Business Plan.
- 6.5. The company's business plan budgeted an operational loss of £0.255m in 2023/24. Table 3 shows the profit and loss position as at P6 and the expected full year position of a £0.296m profit, which is an improvement against business plan. This is due to lower interest payments due to direct acquisitions (further details in 6.7 below) and higher bank interest received.
- 6.6. It should be noted that the company is also due a profit of 60% from the LLP for of the sale of homes at the Luton Street development. The final amount of this profit and the taxation implications are still being calculated and considered. The Business Plan assumed a return on investment of £12.390m. The first cash tranche of this profit was received by the company on 27th September 2023.

Table 3 – Operational Profit and Loss – 2023/24

	P6 Actual to Date	Full Year		
		Forecast	Budget	Variance
Rental Income	415	1,011	937	74
Misc. Income	170	288	-	288
Total Income	585	1,299	937	362
Administrative expenses	(147)	(319)	(394)	(75)
Total Expenditure	(147)	(319)	(394)	(75)
Operating Surplus/ (Deficit)	438	980	543	437
Net Interest	(332)	(684)	(798)	(114)
Profit/(loss)*	106	296	(255)	323

*Does not include profit from Luton Street LLP

- 6.7. Discussions on how to utilise this profit to minimise future reliance on council financing have been productive. The company intends to purchase homes at 300 Harrow Road using its own internal funds. This is particularly pertinent at a time when interest rates have increased considerably and may result in a non-profitable scheme were WB to borrow from the Council at a rate of c7-8%.

- 6.8. The Business Plan and the Council's capital strategy give flexibility for the company to retain profit to help fund future developments and acquisitions in this way, which will lead to improved performance and increased profit, and consequently, less reliance on Council borrowing.
- 6.9. The company is also considering other debt restructuring options to enable it to maintain its overriding commercial principles. Appendix 2 shows the loans currently outstanding and a demonstration that funds have been used for the outcomes for which they were originally given.
- 6.10. The planned activity demonstrates that the company remains financially viable, and a going concern, over the medium term once it reaches a critical mass of units under management. The company is also exploring further opportunities to acquire completed homes both from WCC and external providers to deliver its obligation to the Council in support of its Fairer Housing priority.
- 6.11. However, ensuring that the company overhead and financing is scaled and structured to meet the needs of the company and controlled where possible is key to that longer term viability. The work undertaken by officers to analyse these costs is evidenced in the improved projected performance by the end of 2023/24.

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

gnash@westminster.gov.uk

Appendix 1 – 2022/23 Draft Accounts

Appendix 2 – Loan Schedule