

Appendix 2



Financial Report for Period 6

WCH Financial Report: Month-end Management Accounts

Period (P6) – 2023/24

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WCH Executive Summary

Income and Expenditure summary	YTD Actual (£000's)	YTD Budget (£000's)	YTD Variance (£000's)
Total Income	2,599	2,542	57
Total Expenditure	(2,183)	(1,608)	(575)
Net operating surplus/(deficit)	416	934	(518)
Amortisation and depreciation	(655)	(709)	54
Gain on sale of assets	-	-	-
Capital Programme – Stock refresh	-	(799)	-
Net interest payable	(125)	(154)	29
Total surplus/(deficit)	(364)	(728)	364

Investment activities	Units	£000's	Completion
In borough purchases (WCH stock)	-	-	YTD
Disposals	-	-	YTD

The YTD position at P6 is a deficit of (£364k) which is £364k favourable to the YTD budget.

Net operating variance.

The net operating adverse variance of (£518k) is due to:

- £57k favourable to budget income, primarily derived from £80k favourable to budget miscellaneous incomes and £91k favourable to budget tenant service charges.
- (£575k) higher than budgeted expenditure is primarily due the adverse to budget variance of £141k for repairs expenditure, and £173k higher than budgeted service charges.

Amortisation and depreciation

Amortisation and depreciation are £54k favourable to budget due to accounting estimates.

Gain on sale of assets

There have been no purchases or sales of WCH stock at this time.

Interest payable

Net Interest payable is £29k favourable to budget. This is because the 23/43 profiled budget took account of an additional loan of £2.7m to be taken in year. The loan facility has now been adjusted to £1.9m to be drawn down as needed throughout the life of the MOT yard project. The Cabinet Member report for this facility has been approved and it is hoped to have the loan agreement signed and the facility in place in April. We have also been receiving healthy bank interest, totalling to £29k at P6.

Key Performance indicators

Debt covenant update

The loan agreement between WCH and WCC states that “The Net Operating Income shall not be less than 115% of the Net Interest Payable for the most recently ended Financial Year, and not less than 125% for the current and following Financial Years as calculated on a projected basis.”

YTD Net Operating surplus is £416k and Interest payable of (£154k); therefore, interest cover for 23/24 is 270% which exceeds the loan covenant.

Notable Variances and Key Notes

- Income is down from P4 to P6, from a favourable variance of £116k to £19k respectively, a movement of (£97k). This is mainly driven by an adverse rental variance of (£158k) in P6. Rental statements are produced on a weekly and monthly basis, but WCC have not yet provided a month end statement for September and for P6 a 3-week statement was used, therefore missing a final week of rent. On a weekly average this would total to £76k. Rent invoices are calculated cumulatively so this disparity will be included in the P7 invoice. There will also be new income streams throughout the rest of the year such as: Victoria Wharf 2 properties lettings, additional corporate property and any WCH stock purchases.
- Expenditure has continued to rise from P4 to P6, increasing by (£252k). Explanation of the key drivers of the adverse variance and some offsetting reclaimable invoices are detailed below:
 - (£173k) adverse service charges. The service charge bill from WCC forecasts to £160k over budget at year end which makes up the majority of the figure. £40k of out of borough fees relates to last financial year but was invoiced this year.
 - Repairs overspend of (£141k), the current figure is gross to match the intercompany reconciliation with WCC and is yet to be invoiced. When invoiced by WCC this is net of VAT and will reduce by 20% or £23k. There is also a large increase in the number of repairs from last year. At P6 in 2022 there were 2298, currently at P6 in 2023 there have been 3258. This greatly contributes to variance to budget and is under investigation.
 - The stock refresh programme has had the first two invoices paid totalling £185k. Some of this may be capitalised as agreed with the contractors during tender but capitalisation is down to the opinion of the auditor and capitalised costs will be calculated and allocated at year end. If we assumed 80% of works were carried out this year at a cost of £1.68m this would leave an operating deficit of approximately (£800k), (assuming full revenue costing and the current surplus of £416k being forecasted to £832k at year end).
 - Miscellaneous direct expenditure is (£114k) adverse to budget but consists of £40k of Ebury regeneration costs which can be reclaimed from WCC.
 - Regarding overhead expenditures, legal costs are currently (£48k) adverse to budget, but similarly to direct expenditure £20k of these costs relate to regeneration properties and are reclaimable from WCC.
- Totalling from above, £40k of late invoices, £23k savings on VAT, £40k of regeneration invoices that are reclaimable from WCC and the £20k of claimable legal costs, total's £123k that would be added onto the current P6 surplus. This new surplus would total to £539k but will not be fully realised until year end.
- WCH cash balance at P6 reads a healthy £2,690k and will be boosted by the suspense balance which is made up of monies to be reimbursed from regeneration properties, namely 1 Westbourne House £1,114k and 23 Lea House SDLT of £135k. However, this will be partially offset with the purchase of 4 Rye House (£578k) which is also in suspense as monies have already been provided by WCC. After this net favourable movement of £671k is adjusted for, the P6 cash balance would be £3,361k. The balance is subject to variance and will likely decrease after the purchase of WCH stock throughout the year. This will be continually monitored to adhere to WCH cash limitations.

To summarise, if P6 were to be forecasted to year end, WCH would have an £832k operating surplus but would be (£1,112k) adverse to budget due to expenditure overspends. This also depends on stock refresh programme uptake and capitalisation. WCH would also produce a bottom-line deficit of (£728k), which would be £728k favourable to budget, this is also heavily dependent on capitalisation of stock refresh which is currently forecasted to (£1,598k), although this is currently very unlikely. Without the capital stock refresh scheme budget line, WCH would be forecast a (£946k) variance.

Although a lot of the above is detailing increases in expenditure variances and its impacts, a forecasted £832k favourable operating surplus at year end demonstrates that WCH continues to perform very well at an operational level. It must also be noted that adjustments to this figure to reach the final deficit line, such as depreciation are accounting adjustments and do not affect the performance of the company on a cash basis.

Income and Expenditure statement – 30th September 2023

	Note	YTD Actual £'000	YTD Prof Budget £'000	Variance £'000	%	Annual Budget £'000
Income						
Rent	1.1	1,905	2,063	(158)	(8)	3,750
Tenant service charges	1.2	215	124	91	74	248
Temporary accommodation	1.3	335	329	6	2	659
Miscellaneous Income	1.4	144	64	118	448	188
Total Income		2,599	2,580	19	1	4,844
Direct expenditure						
Housing management fees	1.5	122	172	50	(29)	344
Service charges	1.6	593	420	(173)	41	840
Repairs	1.7	269	128	(141)	110	257
Refurbishments	1.8	373	282	(91)	26	578
Stock refresh programme	1.9	191	116	(75)	65	487
Provision for tenants in arrears	1.10	45	36	(9)	25	72
Miscellaneous direct expenditure	1.11	216	114	(114)	26	283
Total direct expenditure		1,809	1,268	(541)	43	2,860
Overhead expenditure						
Legal	1.12	116	68	(48)	71	141
Audit and finance	1.13	40	38	(2)	5	76
Community projects	1.14	20	23	3	(13)	45
Miscellaneous indirect expenditure	1.15	17	32	15	(47)	61
Total overhead expenditure		193	107	(32)	21	323
Total staff expenditure		181	179	(2)	2	323
Total expenditure		2,183	1,608	(575)	36	3,515
Net operating surplus/(deficit)		416	972	(556)	(57)	1,329
Amortised grant income	1.16	508	478	30	6	956
Depreciation	1.17	(1,163)	(1,187)	24	(2)	(2,373)
Net amortisation and depreciation		(655)	(709)	54	(8)	(1,417)
Sale of assets	1.18	-	-	-	-	-
Cost of assets sale		-	-	-	-	-
Replacement component costs		-	-	-	-	-
Net gain/(loss) on disposal of assets		-	-	-	-	-
Capital Programme – Stock Refresh		-	(799)	(799)	(100)	(1,598)
Financing interest						
Interest income	1.19	-	-	-	-	-
Bank Interest		29	-	29	100	-
Interest payable	1.20	(154)	(154)	-	-	(308)
Net interest payable		(125)	(154)	29	(29)	(308)
Total surplus/(deficit)		(364)	(690)	326	53	(1,994)

WCH Income and Expenditure Notes

Income

- 1.1** YTD rent income of £1,905k is (£158k) adverse to the YTD budget. Though the 23/24 budget has been set with a more prudent approach than in previous financial years and profiled based on the past three years of trends, rental income is still greatly affected by several factors including timing differences between tenant payment and recognition on the housing management system, loss of income through property voids and normal tenant churn. For example, when the monthly statements that provide the rental information to finance are produced, they are not always the exact month end. Depending on the final working day of the month, one statement might be available for the 31st of a given month, where the next period might be dated for the 3rd of the following month, (e.g.: 31/07 followed by 03/08) the second statement might include monthly payments made on the 1st of the month which the first does not. When the 23-24 budget was profiled, this factor was taken account of, by comparing three years' worth of data, however we have found it is a more complicated pattern than a yearly cycle, given that different amounts of people may pay weekly/fortnightly/monthly than there had been in the previous years. Finance will continue to investigate and monitor the trends in rental income.
- 1.2** YTD tenant service charge income represents payments received from tenants; however, they are not recovered pound for pound against costs incurred by WCH under 1.6 below as not all service charges incurred by a landlord can be passed on to social housing tenants.
- 1.3** YTD Temporary Accommodation income of £335k is £6k favourable to budget.
- 1.4** YTD Miscellaneous income of £144k is £80k favourable to budget. The figure is mainly comprised of regeneration completion fees. The figure relates to fees that are claimed quarterly.

Expenditure

- 1.5** YTD Housing Management expense fees of (£122k) are £50k favourable to budget.
- 1.6** YTD Service charge expenses of (£593k) are (£173k) adverse to budget.
- 1.7** YTD Repairs expense of (£269k) is (£141k) adverse to budget. Repairs costs continue to be reviewed by WCH operational management and finance to ensure there are no miscoding's.
- 1.8** YTD Refurbishments expense of (£373k) is (£91k) adverse to budget. The budget will re-align at P12 when the yearly component charge working paper is completed.
- 1.9** YTD Stock refresh programme expense of (£191k) is (£75k) adverse to budget. All costings for the stock refresh programme will be posted as expenditure here until year end. Work will then be completed with the auditors to finalise which costs can be capitalised and which will remain as revenue. The budget line here and the capitalised stock refresh will align in P12.
- 1.10** YTD Provision for tenants of £45k is (£9k) adverse to budget. It is due to the 22/23 decrease in current tenant arrears of (£186k) and the former tenant arrears decrease of (£80k). This balance is calculated on the current and former tenant arrears in-year movement (50% of current tenants and 95% of former tenants). The previous months current tenant arrears were (£186k) and the former tenant arrears were (£110k).

- 1.11** YTD Miscellaneous direct expenditure of (£216k) is (£114k) adverse to budget. The balance is comprised of (£30k) of utility costs as well as (£53k) of communal cleaning costs and (£88k) of labour services. There are also (£2k) of Council tax costs, (£10k) incentives to tenants and (£33k) of one-off costs.
- 1.12** YTD Legal expenditure of (£116k) is (£48k) adverse to budget. £20k of this relates to reclaimable fees for regeneration property purchases on behalf of WCC.
- 1.13** YTD Audit and Finance expenditure of (£40k) is (£2k) adverse to budget. The reported balance is comprised of (£23k) finance fees payable to WCC and WestCo, (£15k) audit costs and (£2k) of financial software costs.
- 1.14** YTD Community Projects expense of (£20k) is £3k favourable to budget. This figure is an accrual to spread the cost of the final invoice throughout the year but will be amended in P7.
- 1.15** YTD Miscellaneous indirect expense of (£17k) is £15k favourable to budget. The reported balance is comprised of valuation expenses of (£12k), and (£5k) of insurances, payroll support costs and staff training.
- 1.16** YTD Amortisation on grant income of £508k is £30k favourable to budget.
- 1.17** YTD Depreciation of (£1,163k) is £24k favourable to budget due to accounting estimates.
- 1.18** There is a nil balance on gain/(losses) on disposal of assets.
- 1.19** YTD Interest income of £29k relates to interest on the bank accounts. This will continue to be monitored whilst interest rates are favourable.
- 1.20** YTD interest payable of (£154k) is comprised of the following:

	£'000
Loan 1a - 4.2% repayable by 36/37	27
Loan 1b – 4.2% repayable by 36/37	45
Loan 2 - 5.69% repayable by 26/27*	82
Total	154

*The agreement provides for the £2.1m remaining to be repaid to be negotiated between WCH and Westminster City Council at the end of the 23/24 financial year.

WCH Balance Sheet

30th September 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Housing stock	2.1	141,556	141,539
Developments under construction	2.2	5,905	5,212
Accumulated depreciation		(22,526)	(21,363)
		124,935	125,388
Current assets			
Trade receivables	2.3	365	160
Accrued income	2.4	362	720
Debtors –tenants in arrears	2.5	266	355
Provision for tenants in arrears	2.6	(170)	(215)
Short term assets		-	12,962
Suspense	2.7	671	752
Prepaid expenses	2.8	838	-
Cash	2.9	2,690	3,895
		5,022	18,629
Current liabilities			
Trade payables	2.10	(130)	-
Accrued expenses	2.11	(2,110)	(14,376)
Deferred income and grants	2.12	(12,030)	(12,004)
Loans repayable within 1 year		(954)	(954)
RBKC Rent Creditor	2.13	(65)	(2)
VAT liability		(12)	(37)
		(15,301)	(27,373)
Net current assets/(liabilities)		(10,279)	(8,744)
Long term liabilities			
	2.14		
Loans		(5,374)	(5,374)
Long term deferred grants		(110,258)	(110,258)
Amortised grants		10,152	9,644
		(105,480)	(105,988)
Net assets/(liabilities)		9,176	10,656
Reserves			
Retained earnings opening balance		10,957	10,423
Surplus/(deficit) for the year		288	534
Total reserves		11,245	10,957

WCH Balance Sheet Notes

Assets

2.1 Housing stock balance of £141,556k has increased by £17k from P12 22/23.

2.2 Development's balance of £5,905k is comprised of the following:

	£'000s
MOT Yard	4,621
Westminster Voids (to be allocated to Fixed Assets in P12)	-
Leo court (including retention)	51
Bloomfield Mews	889
Others	344
Total	5,905

2.3 Trade Receivables has a balance of £265k, £105k higher than at P12 22/23.

2.4 Accrued income breakdown:

	£'000
Monthly rent (Inc. prepayments)	461
Shared ownership future sale (25%) (3 x £50,000)	150
7 Flaxley close equity loan payable by leaseholder to WCH	86
TA (in borough)	(246)
Z	Z
TA (Out of borough)	(89)
Total	362

2.5 The Debtors – tenants in arrears balance of £266k reflects current and former tenant arrears which have remained stable since 22/23. The current balance is comprised of £186k of current tenant arrears and £80k of former tenant arrears.

Note there will be a discrepancy between the arrears position reported by finance and the KPI report. The financial report is drawn up based on a financial statement circulated by Westminster Housing IT, the statement is a direct download of the Orchard system, and the period for this statement runs from the 3rd working day of each month to the 3rd working day of the following month. This creates a timing difference with the housing management team's reports. The Housing management team report one working day after the 18th of the month to account for different factors that affect whether they report a tenant as in arrears or not, including but not exclusive to:

- Delay in posting of Housing Benefit payments,
- Delay in the rent team posting payments,
- Delay in standing orders (e.g., if the payment date is a weekend).

2.6 The Provision for tenants in arrears balance of (£170k) directly relates to 2.5 above and is calculated as 50% of current tenant arrears plus 95% of former tenant arrears.

2.7 The Suspense balance is £671k at P6.

	£'000s
Monies received from WCC	
4 Rye House	(578)
Monies paid by WCH awaiting reimbursement from WCC	
23 Lea House SDLT	135
1 Westbourne House	1,114
Total	671

2.8 The Prepaid expenses balance is £838k at P6. This is comprised of the Service Charges and Major works invoices and will be reduced throughout the year through the income and expenditure statement.

2.9 The cash at bank balance is £2,690k, a decrease of £1,204k from P12 22/23.

Liabilities

2.10 The Trade Payables balance is £130k at P6.

2.11 Accrued expenses breakdown:

	£'000
Other accrued expenses Inc. John Aird Court £221k, Leo Court retention of £6k and Ladbroke Grove phase 2 retention of £161k.	(695)
Loan interest	(154)
Regen properties movement	-
7 Flaxley House Equity loan payable to WCC	(86)
Other services provided by WCC (Management fees/Finance fees)	(448)
51 Doneraile House – Monies to be returned to WCC	(727)
Total	(2,110)

2.12 Deferred income balance of (£12,030k) has decreased by £26k from P12 2022/23, the balance is comprised of Affordable Housing grants of (£11,641k) currently under review, prepaid rents of (£156k) and tenant deposits of (£233k).

The Affordable Housing grants balance is comprised of the following:

	£'000
Spot acquisitions to be recycled	(4,716)
Capital receipts to be assigned	(3,337)
Page Street to be recycled	(2,683)
Poplar Harca	(905)
Total	(11,641)

2.13 RBKC Rent Creditor of (£65k) relates to rental income received from WCC for the key worker scheme which will be passed on to RBKC. The invoice has now been raised for P5 and P6.

2.14 The YTD long term loan breakdown:

	£'000
Loan 1a - 4.2% repayable by 36/37	(1,226)
Loan 1b – 4.2% repayable by 36/37	(2,048)
Loan 2 - 5.69% repayable by 32/33	(2,100)
Total	(5,374)

WCH Statement of Cash flows

For Period 6 ended 30th September 2023

	2023
	£'000
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Cash flows from operating activities	
Cash (absorbed by)/generated from operations	(340)
Interest paid	(125)
Net cash (outflow)/inflow from operating activities	(465)
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Investing activities	
Purchase of tangible fixed assets and developments	(710)
Proceeds on disposal of tangible fixed assets	-
Interest received	(29)
Net cash used in investing activities	(739)
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Financing activities	
Grants recycled	-
Social Housing Agreement grants received/(returned)	-
Greater London Authority grants received/(returned)	-
Net cash used in financing activities	-
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Net (decrease)/increase in cash and cash equivalents	(1,204)
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Cash and cash equivalents at beginning of year	3,895
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Cash and cash equivalents at end of year	2,691
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Appendix 1: Year to Date property acquisitions and disposals

Property acquired	£'000
	-
Total	-
Property disposed	£'000
	-
Total	-

Appendix 2: Regeneration properties purchased and sold to WCC in 23/24

Property	£'000
11 Westbourne House	808
23 Pool House	694
21 Doneraile House	673
7 Lambourne House	507
18 Rye House	666
Total	3,348

Please also see suspense account (2.7 above) for properties where monies have been received but the purchase has not yet been made or where purchases have been made and WCH are awaiting reimbursement from WCC.