Land and Property Committee

Date: 18 March 2025

Item: Finance Report – Period 10, 2024/25

This paper will be considered in public

1 Summary

1.1 This paper sets out Places for London's financial results to the end of Period 10, 2024/25 (1 April 2024 to 4 January 2025). It reports on the four of the five core financial objectives for Places for London, as set out below.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The five core financial objectives for Places for London are:

(a) deliver the budgeted dividend;

(b) deliver a core trading margin of 40-50 per cent by 2026/27;

(c) continue to invest in our portfolio to drive long-term income growth;

(d) maintain adequate levels of liquidity to deliver our development targets; and

(e) deliver a 7.5 per cent total return to TfL (as shareholder) each year (reported annually).

3.2 Forecasted results for this financial year show a strong operational performance, despite a significant overlay challenge to achieve the dividend. The capital delivery forecast indicates that spending will exceed Budget due to increased investment in capital projects, aimed at generating higher income in the future.

4 Objective 1 – Delivering the Dividend

4.1 Table 1 sets out the Places for London Income Statement, showing continued better than Budget performance for Period 10 (8 December 2024 to 4 January 2025).

4.2 Year-to-date, operating surplus stands at £24.9m, exceeding Budget by £4.2m. The Budget for the final quarter assumed a number of one-off savings which have been delivered earlier in the year. As a result, by year-end our over-performance will fall to £0.5m.

4.3 The Budget included a £10m income and operating expenditure stretch. The income element of the stretch has been met through historical reconciliations, uncovering additional income opportunities in the office portfolio (£0.5m) and cost recovery from bus operators at some bus garages (£1.2m).

4.4 Direct property costs are higher than Budget due to unmaterialised savings in security costs.

4.5 Central operating costs totalled £30.1m, £2m below Budget, mainly due to underspending on consultancy.

4.6 Expenditure on digital is lower than anticipated, resulting in a full year underspend of £3.4m. Delays arising from the cyber incident (which necessitated a review of our integration plans) have led to a reprioritisation of the project's delivery schedule.

4.7 These delays have allowed the digital team to thoroughly evaluate and challenge the business's needs, reducing upfront consultancy costs and leverage technology synergies with TfL. The project team are considering re-deploying savings to speed up the delivery next year at the same overall project cost.

4.8 Following client contribution on Fenwick, our project costs are lower than Budget, additionally we have reprofiled the feasibility activity on several other projects.

4.9 Our Budget assumed we would draw down on our debt facility this year, but project delays mean this will not happen this financial year.

4.10 Our strong year-to-date performance ensures we will exceed the projected dividend. This means a dividend of £12.7m will be payable to TfL, some £1.6m higher than initially anticipated.

Table 1: Income Statement, Places for London

Income Statement	**Year To Date**			**Full Year**		
(£m)	**Actuals**	**Budget**	**Variance to Budget**	**Quarter 3 Forecast**	**Budget**	**Variance to Budget**
Retail	28.1	28.1	0.0	36.8	37.0	(0.2)
Arches	9.0	9.4	(0.3)	12.0	12.3	(0.3)
Offices	10.8	10.1	0.7	14.1	13.9	0.2
Residential	1.0	0.9	0.1	1.3	1.2	0.0
Car Parks	15.9	15.6	0.4	21.4	20.5	0.9
Industrial	1.5	1.1	0.4	1.5	1.5	0.0
Bus Garages	5.0	3.9	1.2	6.0	4.4	1.6
Infrastructure	3.9	3.8	0.1	4.5	5.0	(0.5)
Other	0.9	1.8	(0.9)	1.0	2.6	(1.6)
Gross Property Income	**76.2**	**74.6**	**1.6**	**98.4**	**98.3**	**0.2**
Direct Property Costs	(18.5)	(17.6)	(0.9)	(26.4)	(22.2)	(4.2)
Net Property Income	**57.7**	**57.0**	**0.7**	**72.0**	**76.1**	**(4.1)**
Margin (%)	**76%**	**76%**		**73%**	**77%**	

(£m)	Actuals	Budget	Variance to Budget	Quarter 3 Forecast	Budget	Variance to Budget
Non Property Income	0.1	-	0.1	-	0.0	(0.0)
Central Operating Costs	(30.1)	(32.1)	2.0	(39.9)	(42.6)	2.7
TfL Management Fee	(6.6)	(6.5)	(0.1)	(8.5)	(8.5)	(0.0)
Trading Surplus	**21.1**	**18.4**	**2.7**	**23.6**	**25.0**	**(1.3)**
Margin (%)	**28%**	**25%**		**24%**	**25%**	
Project Income (including JV Dividends - Build to Sell)	2.5	2.3	0.2	2.7	2.8	(0.1)
Project Costs	(5.3)	(6.6)	1.3	(7.8)	(9.3)	1.5
Net Operating Surplus	**18.3**	**14.2**	**4.1**	**18.7**	**18.5**	**0.1**
Margin (%)	**24%**	**19%**		**19%**	**19%**	
Adjust for Build to Sell Dividend receipts				(1.5)	(1.8)	
Interest Payable				(0.4)	(1.5)	
Taxation (calculated at the applicable rate)				(4.2)	(4.2)	
Forecast Dividend				**12.7**	**11.1**	
Net Operating Surplus (excluding Management Fee)	**24.9**	**20.6**	**4.2**	**27.3**	**27.0**	**0.3**

5 Objective 2 – Delivering a 40-50 per cent Core Operating Margin by 2027

5.1 The core operating margin is benchmarked against publicly quoted property companies achieving operating margins in this range. It excludes specific costs and development income such as management fee and build for sale profits.

5.2 Places for London management has taken steps to keep general and administrative spend constant over the remainder of the plan. This includes controlling our headcount by securing the agreement of the Director and Chief Executive of Places for London before any recruitment activity takes place, as well as reprioritising pre-feasibility spend to focus on housing delivery.

5.3 Table 2 shows the achievement of a 41 per cent core operating margin by 2026/27.

Table 2: Income Statement – Core Trading Margin, Places for London

Income Statement	Full Year	Quarter 3	Forecast
(£m)	**2024/25**	**2025/26**	**2026/27**
Trading Surplus	**23.6**	**29.1**	**39.8**
TfL Management Fee	(8.5)	(8.1)	(8.5)
Core Trading Surplus	**32.4**	**37.3**	**48.6**
Margin (%)	**33%**	**34%**	**41%**

6 Objective 3 – Deliver Capital Investment

6.1 Table 3 highlights year-to-date net capital stands at £33.1m, a £28.6m adverse variance to budget.

6.2 Capital Income stands at £76.8m, £43.7m below the Budget, primarily due to delays in asset disposals and residential income which have been reprofiled to future years. The £10.7m of year-to-date Asset Management Disposal adverse variance has since completed.

6.3 The main residential disposal year-to-date variance is the delayed completion of Phase 2 of Bollo Lane, Acton, which has since completed beyond Period 10 and therefore is not reflected in the figures contained in this report. The remaining balance is due to revised phasing of land disposals into later years.

6.4 Capital Expenditure is £109.9m, which is £15.1m below Budget, comprising:

(a) asset investment totalled £40.4m, £3.5m above the Budget, primarily due to increases scope of works in retail projects such as Whitechapel and Seven Sisters. Full year overspend of £8m is due to scope changes and overly aggressive optimism bias correction assumptions in the business plan;

(b) residential expenditure was £20.6m, significantly below the Budget of £39.3m. This was mainly due to delays in property purchases, such as Ash Grove and Vallance Road, and re-phased works at sites in Portree Street;

(c) commercial expenditure totalled £48.7m, slightly above Budget by £1.8m. This was due to overspend in Platinum projects (Bank, Paddington, Southwark) and delays in feasibility works at South Kensington and Pentonville; and

(d) other expenditure was £0.1m, £0.9m below Budget due to delays in various smaller projects and re-phased works.

Table 3: Capital Account, Places for London

Capital Account	**Year To Date**			**Full Year**		
(£m)	**Actuals**	**Budget**	**Var to Budget**	**Q3 Forecast**	**Budget**	**Var to Budget**
Income						
Asset Disposals	0.3	11.0	(10.7)	13.3	12.0	1.3
Residential	15.9	49.1	(33.2)	41.1	54.1	(13.0)
Commercial	60.0	60.4	(0.4)	60.2	60.5	(0.3)
Other	0.6	-	0.6	0.6	-	0.6
Total Capital Income	**76.8**	**120.5**	**(43.7)**	**115.2**	**126.5**	**(11.3)**
Expenditure						
Asset Investment	(40.5)	(37.7)	(2.8)	(52.2)	(43.8)	(8.4)
Residential	(20.6)	(39.3)	18.7	(41.4)	(48.0)	6.7
Commercial	(48.7)	(46.9)	(1.8)	(60.4)	(52.2)	(8.2)
Other	(0.1)	(1.0)	0.9	(1.1)	(1.3)	0.2
Total Expenditure	**(109.9)**	**(124.9)**	**15.1**	**(155.1)**	**(145.3)**	**(9.8)**

Capital Account	Year To Date			Full Year		
(£m)	Actuals	Budget	Var to Budget	Q3 Forecast	Budget	Var to Budget
Net Capital						
Asset Investment	(40.1)	(26.7)	(13.5)	(38.9)	(31.8)	(7.1)
Residential	(4.7)	9.8	(14.5)	(0.3)	6.0	(6.3)
Commercial	11.3	13.5	(2.2)	(0.2)	8.3	(8.5)
Other	0.5	(1.0)	1.5	(0.5)	(1.3)	0.8
Total Net Capital	**(33.1)**	**(4.4)**	**(28.6)**	**(39.9)**	**(18.8)**	**(21.1)**

7 Objective 4 – Maintain sufficient liquidity to deliver the development programme

7.1 Places for London maintains adequate liquidity to deliver on development targets. Our 2024/25 year-end cash balance is forecast to be £31m.

7.2 From next year onwards, we maintain our £10m minimum cash balance as we expect to start drawing down debt in early 2025/26. This is set out in Appendix 1, Table 1.

7.3 Cash balances are forecast to remain positive throughout the remainder of 2024/25. Table 1 (set out in Appendix 1) highlights that initial debt draw is forecast in the beginning of 2025/26. At the end of 2025/26, a material increase is expected due to key milestones being reached on Southwark purpose-built student accommodation (PBSA). Table 2 of Appendix 1 highlights that throughout 2026/27, debt is expected to continue as we invest in schemes such as Southwark PBSA and Bollo Lane.

7.4 At the end of 2025/26, Places for London will have around £116m of undrawn facilities. By Period 11 of 2026/27, we will need an additional facility of £200m in place as net debt will exceed our current facility and end 2026/27 at £251m. In the next financial year, we will evaluate our refinancing options while acknowledging the potential for optimism bias in our Joint Venture debt expenditure.

7.5 Operating cashflow (cash generated from the core business) remains positive on an annual basis and grows each financial year, reflecting our growing income and robust cost management.

7.6 Investing cashflow (cash outflow/inflow on capital expenditure net of any disposals) is forecast to turn positive in Period 8 2025/26 driven in large part by a land receipt from Paddington and increase in Period 13 2025/26 due to Southwark PBSA.

7.7 Financing cashflow (cash movements associated with debt financing and intercompany payments) grows throughout 2025/26 and 2026/27 as we begin drawing down debt.

7.8 As at the end of Period 10, two of Places for London's joint ventures had a debt facility, Earls Court Partnership at £120m and Wembley Park at £9m, of which Places for London's proportionate share is £49.3m. Consolidating this off-balance sheet debt with the on-balance sheet debt (£nil), gives a total consolidated debt balance of £49.3m and a gearing of 2.7 per cent on a consolidated basis.

7.9 During February, Platinum completed on the £125m loan facility with HSBC for the financing of the Bank over station development. Drawing under the facility are not expected to start until March 2025.

8 Objective 5 – Total return to TfL (as shareholder) of 7.5 per cent

8.1 This objective is reported annually once the final asset valuation has been confirmed. Therefore, there is no update this quarter.

List of appendices to this report:

Appendix 1: Places for London Cashflow Movements for 2025/26 and 2026/27

List of Background Papers:

None.

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