Housing 21

Housing 21: Unaudited trading update for the year ended 31 March 2023

Housing 21 is today issuing a trading update for the year ended 31 March 2023 which includes various financial and operational information. The financial information is unaudited and provided for information purposes only.

Housing 21 is a leading, not for profit, provider of Retirement Living and Extra Care and our core purpose and commitment is to provide high quality housing with care or support enabling older people of modest means to live well with dignity and autonomy.

Highlights

- We completed on 289 new properties, acquired 427 properties from Notting Hill Genesis, created 16 additional properties through remodelling existing schemes and disposed of 51 properties giving a net increase of 681 properties in the year taking our overall property portfolio to 22,885 owned and/or managed properties (31 March 2022: 22,204)
- Turnover increased 12.1 percent to £251.5 million (2022: £224.4million), namely due to an increase in service charge income which is profit neutral.
- Operating surplus (1) was down 14.6 percent to £26.4 million (2022: £30.9 million)
- Gearing as at 31 March 2023 was 40.7 percent (31 March 2022: 42.6 percent) (2)
- EBITDA-MRI interest cover was 130.9 percent (2022: 126 percent(3))
- Liquidity horizon currently extends to April 2025.

Notes

[1] Operating surplus includes first tranche and outright sales of newly developed properties and other gains on property sales.

[2] Gearing calculated using the Regulator of Social Housing's gearing metric which excludes monies held on short term deposit; adjusting for this and the value of private finance initiative and public private partnership assets, primarily within Oldham Retirement Housing Partnership Limited, gearing was 35.1 percent (31 March 2022: 31.4 percent).

[3] 2022 EBITDA-MRI excludes £14.0 million of break costs incurred in the repayment of the legacy RPI debt. Including this, the EBITDA MRI is 83 percent.

Operating review

We continue to operate in a difficult financial and political environmental, often impacted by factors outside of our control. We're acutely aware of the impact the cost-of-living crisis is having on our residents and our employees but through the establishment of our award winning Heling Hands Fund, which aims to offer a one-off grant for emergencies or an unexpected bill, the expansion of our 'Tenancy Guru' service whose aim is to maximise benefits available and claimed additional £5million of benefits for our residents this year alone and offering a mid-year pay award to our lowest paid employees has helped them navigate these difficult times.

Despite these challenges we finished the year with an outturn of £26.4 million (2022: £30.9 million) and with higher returns on our investments giving an overall outturn of £9.7 million (2022: £11.9 million, excluding exceptional items). This includes impairments of £1.6 million, split between £0.8m on our market rent portfolio and £0.8m on a development scheme, and a £1.2 million cumulative adjustment to income on one of our PFI projects due to higher inflation forecasts in the coming years impacting when income is recognised, however the project remains profitable. Excluding these, our outturn would have been £12.5 million which is better than expected.

Our development programme performed largely in-line with budget in terms of completions and we completed on 289 properties across six schemes and continue to work towards delivering at least 400 properties per annum. Starts on sites were down on the previous year due to delays in planning, grant approvals and the upward trend in construction prices making the financial viability of schemes coming forward challenging. We have a very healthy programme of prospects and hope that in future we will be able to meet our development goals, despite the continuing challenges of planning approvals and other pressures. First tranche and outright sales were behind budget, but underlying demand remains strong. We are not reliant on these sales to meet our banking covenants or our treasury golden rules.

Whilst there was a slight drop in new developments, we did see a strong increase in acquisition opportunities and in February 2023 we purchased seven Extra Care schemes (427 properties) from Notting Hill Genesis together with the care contracts.

We have also taken the opportunity to review our portfolio and have taken the decision to sell a small portfolio of market rent stock for older persons and expect these to be sold by September 2023. When costs to dispose are included, we are expected to make a loss of £0.8million and as such have included an impairment to a similar value in our year-end outturn.

At 31 March 2023 there were 304 units void (31 March 2022: 284 units). Despite this small increase in the number of properties, income lost through voids (re-let and major repairs) was 1.7 percent for the year ending 31 March 2023 (31 March 2022: 2.2 percent) as we are seeing more back-to-back lets, reducing the time our properties are empty.

Despite achieving better care rate increases than budget, we are still experiencing some challenges with our care services. Agency usage is still higher than we would like but did reduce in the second half of the year. We remain committed to attracting more Care Workers into the sector by professionalising care as a career through initiatives such as the industry-first Extra Care Academy and the 50p hourly enhancement for qualified employees introduced this year.

We continue to be at the forefront of the housing sector for energy efficiency and 99.4 percent of our properties achieved at least Energy Performance Certificate (EPC) C at 31 March 2023 (31 March 2022: 99 percent). This is significantly ahead of the Government's 2030 target and 32 percent of our properties are at EPC B level and all new developments are expected to achieve this higher standard. The properties not yet achieving the minimum standard are where residents have refused the works and will be completed once the property becomes vacant or work is being undertaken as part of a wider project,

Financial review

Turnover, costs and surpluses

A summary of financial performance for the 12 months ended 31 March 2023 compared to the same period in the prior financial year is set out below.

12 months ended 31 March	2022 £m	2023 £m	Change
Turnover	**224.4**	**251.5**	**12.1%**
Social housing lettings	152.4	178.6	17.2%
Shared ownership first tranche sales	22.4	20.0	(10.7%)
Other social housing activities	6.0	6.8	13.3%
Care services	38.2	42.5	11.3%
Other non-social housing activities	5.5	3.6	(34.5%)
Operating costs and costs of sale	**(194.1)**	**(225.4)**	**16.1%**
Gain on disposal of other housing properties	0.6	0.3	(50.0%)
Operating surplus	**30.9**	**26.4**	**(14.6%)**

Turnover increased 12.1 percent to £251.5 million (2022: £224.4 million) primarily reflecting higher service charge income (however this is profit neutral and is offset by higher service charge costs), higher care income from contractual price increases, the annual inflationary rent increase and the impact of new properties coming on board.

Overall costs increased ahead of turnover, by 16.1 percent to £225.4 million (2022: £194.1 million) in part because of an increase in planned maintenance (which was expected), the impact of our growth over recent years and inflation increasing our cost base. The biggest increase was in service charges, but these are fully recovered from our residents. Care costs increased due to high rates of agency employees and people costs increased due to an unbudgeted mid-year pay award. Depreciation has also increased from the onboarding of new schemes.

Growth and investment

In the 12 months ended 31 March 2023, development spend amounted to £59.7million (2022: £48.2million). Six schemes completed comprising 289 properties (199 rent; 66 shared ownership and 24 outright sale). We have another 11 schemes on -site, comprising 519 units (470 rent and 49 shared ownership) however three developments have paused while new contractors are sought following the administration of the original contractor. This often results in higher costs to completion and remediation works, triggering an impairment assessment. In year we have recognised an impairment of £0.8 million on a development in Cornwall.

At least five more schemes are expected to commence construction by 31 March 2024. We work alongside Homes England to help deliver our growth ambitions and continue to have grants approved through their continuous market engagement programme, in addition to working with local authority partners to access additional support. For the year just gone, we received £15.9million (2022: £23.5million) in capital support.

In addition, we spent £30.3million investing in our existing properties and £64.5million acquiring properties from other register providers and buying back shared ownership and leasehold properties.

Treasury and financing

	31 March 2022	**31 March 2023**
Gross debt	£689m	£680m
Cash including short term investments	£225m	£129m
Net debt	£464m	£551m
Housing property value	£1,315m	£1,434m
Gearing	42.6%	40.7%
Cash and undrawn committed facilities [(1)]	£236.1m	£132.5m
Liquidity horizon	June 2024	April 2025

Notes
[(1)] Cash for these purposes includes only unrestricted cash

At 31 March 2023, Housing 21 had net debt of £551 million (31 March 2022: £464 million) and gearing, as measured using the Regulator of Social Housing's ('RoSH') value for money gearing metric, of 40.7 percent (31 March 2022: 42.6 percent). However, including short term investments and the value of private finance initiative and public private partnership assets, primarily within Oldham Retirement Housing Partnership Limited (debt associated with these projects is included in the RoSH gearing calculation), gearing was 35.1 percent (31 March 2022: 31.4 percent).

Our liquidity at 31 March 2023 is sufficient to meet all forecast financing needs until March 2025, considering projected operating cash flows, forecast investment in new and existing properties, debt service costs and maturities and forecast grant receipts.

In May 2023, we agreed a new £50 million revolving credit facility. We plan to raise additional finance later in the current financial year to ensure on-going compliance with our Treasury Golden Rules.

Standard and Poor's credit rating

On 25 July 2022, S&P affirmed the rating for Housing 21 as 'A-' with a stable outlook.

RSH

Housing 21 is rated G1/V1 by the Regulator of Social Housing, reaffirmed in November 2022.

Outlook

In the next 12 months we will continue to grow, partly through acquisition, with the purchase of an additional 547 units already agreed. The economic environment remains challenging with inflation not falling as fast as expected and interest rates still rising. We expect our outturn for 2023/24 to increase to £13.3 million. We were exempt from the RoSH' seven percent rent cap, so our rents will rise by 11.1 percent, which reflects September 2022 CPI plus one percent. However, we have made a charitable donation of £200 to each household, excluding our leasehold portfolio and those households managed on behalf of other organisations, along with expanding our Helping Hands Fund to help with the rising cost of living.

We are currently in consultation with the ExtraCare Charitable Trust regarding a potential merger, with a decision expected by the end of 2023.