Wrekin Housing Group Limited

Financial Report for the Year Ended 31st March 2021

Wrekin Housing Group Limited ('Wrekin', 'the Group') is pleased to announce its consolidated results for the year ended 31st March 2021.

This report is for information purposes only.

1. Headlines

1.1 Despite the impact of the Covid-19 pandemic and the first national lock-down being introduced just days before the start of the financial year, the Group produced a strong performance for the year in both financial and operational terms. In summary:

- Following an initial period when responsive repairs services were restricted to the provision of essential repairs only, the Group very quickly returned to a position of being able to deliver its "same day" repairs service to customers as usual;

- The Group continued to provide care and support services to customers of those services throughout the pandemic, adopting COVID-secure methods of working;

- After a short period of closure at the beginning of the lockdown period, all the Group's construction sites opened up and the development programme remained substantially on track, with 277 new homes completed during the year (86.6% of the original target, with the remaining properties being completed in early 2021/22);

- Approximately 25% of the original 2020/21 planned maintenance programme, which could not be delivered during the first quarter of 2020/21, will be rolled forward to 2021/22 but all essential compliance, health and safety and regulatory elements of the programme were prioritised and successfully completed during the year;

- The Group received £625,000 under the government Coronavirus Job Retention Scheme.

1.2 In April 2020 the Group carried out additional stress testing on its business plan to model the likely potential impacts of the pandemic and identified mitigating actions to deal with them, principally relating to more substantial rescheduling of non-critical planned maintenance work. Procedures for the reporting of financial information to the executive management team and the Board have been enhanced. In fact, with income collection rates being maintained at pre-pandemic levels and costs being well-controlled within the agreed budget, those mitigating actions did not need to be deployed.

1.3 The recoverability of income was not adversely affected by the pandemic and levels of arrears and bad debts were maintained at pre-pandemic levels throughout the year. Rent losses from void properties were higher than in previous years, due to lettings being suspended during the first few months of the pandemic, but performance in this area is now back to pre-pandemic levels.

1.4 During the year, the Group issued £25m of the £50m retained bond. The issue achieved a price of 108 basis points over gilts, providing an all-in cost of funds of 1.92%.

1.5 In February 2021 the Group had its scheduled In Depth Assessment from the Regulator of Social Housing. As a result of this assessment the Group's regulatory judgement was reconfirmed as G1 (Governance) and V1 (Financial Viability) in April 2021.

1.6 In August 2021 Standard and Poor conducted their annual review of the Group's credit rating and this was reconfirmed as A (Stable).

2. Financial and Operating Highlights

2.1 The Statement of Comprehensive Income for the year ended 31st March 2021 and the Statement of Financial Position as at 31st March 2021, together with the comparatives for the prior year are set out in Appendix 1.

2.2 Other supporting financial information for the year ended 31st March 2021 and the corresponding comparatives are set out in Appendix 2.

2.3 A number of key financial performance indicators and financial loan covenant calculations, based on the results for the year ended 31st March 2021 and the corresponding comparatives are set out in Appendix 3.

2.4 The financial and operating highlights are as follows:

Income and Expenditure

- Turnover for the year is £95,709k (2020: £92,093k)
- Turnover from social housing lettings for the year is £76,242k (79.7%) (2020: £73,533k (79.8%))
- Operating surplus for the year is £26,289k (2020: £27,784k)
- Operating margin is 27.5% (2020: 30.2%)
- Interest payable for the year is £15,955k (2020: £69,965k, including £52,067k loan breakage costs
- Surplus for the year before tax is £10,399k (2020: £41,911k deficit)
- Interest cover is 2.00 (2020: 0.45)

Balance Sheet and Capital Expenditure

- Wrekin owns and manages 13,041 units (2020: 12,965 units). It also retains the residual freehold interest in 648 properties previously disposed of under the Right to Buy or Right to Acquire provisions (2020: 643)
- Housing properties at cost (excluding accumulated depreciation) are £764,528k (2020: £716,636k)
- Investment in existing and new housing properties for the year is £55,832k (2020: £54,566k)
- New social housing units developed during the year is 277 (2020: 251)
- Total debt is £489,649k (2020: £523,228k)
- Gearing (Assets) is 59.7% (2020: 62.0%)
- Net debt per unit is £35,212 (2020: £34,514)
- Income and expenditure reserves are £34,868k (2020: £31,907k)

3. Results Overview

3.1 During the prior year of 2019/20 the Group completed its major refinancing exercise. As part of that exercise it incurred £52,067k of costs to break existing fixed rate loans, leading to a deficit for 2019/20 before tax of £41,911k. Without the breakage costs the Group would have recorded a pre-tax surplus of £10,156k, compared with the pre-tax surplus for 2020/21 of £10,399k.

3.2 Turnover increased by 3.9% in 2020/21, to £95,709k, but operating costs increased by 8.3%, from £67,962k in 2019/20 to £73,604k in 2020/21. Operating surplus therefore reduced from £27,784k (a margin of 30.2%) to £26,289k (a margin of 27.5%). This was mainly due to the fact that the Group booked an impairment charge of £2,439k in 2020/21 in respect of two of its housing schemes that have been earmarked for demolition and redevelopment. This charge has also had a significant impact on the margin from social housing lettings and the social housing cost per unit metrics.

3.3 There has been a significant year on year increase in the pension fund deficit with the Shropshire County Pension Fund, an LGPS pension, of £9,899k. To limit future liabilities the Group took the decision to close the scheme to new entrants with effect from 1 September 2020, replacing this scheme with a new defined contribution scheme for employees joining the Group after that date.

3.4 Surpluses on disposal of housing assets (which covers properties sold under the Right to Buy and Right to Acquire provisions) reduced from £3,674k in 2019/20 to £1,664k in 2020/21. Whilst the number of Right to Acquire and Right to Buy sales remained broadly constant in both years, the 2019/20 figure was increased due to the Group's participation in the pilot Voluntary Right to Buy scheme in 2019/20, which came to an end at the beginning of the 2020/21 financial year.

3.5 In 2020/21 the Group booked an increase in the fair value of assets of £2,520k (a reduction of £21k in 2019/20). This relates to the Group's small portfolio of market rent properties which were revalued by an independent external valuer during the year.

3.6 The Group met its financial loan covenants (interest cover and gearing) with a considerable degree of headroom against funders' requirements.

4. Property Development Programme

4.1 The Group has an ambitious development programme which aims to deliver just over 2,300 new homes over the period from 2020/21 to 2024/25, with the majority of those homes being developed via the Group's development subsidiary, Strata Housing Services Limited. The Group is on track to deliver this plan, having completed 277 new homes in 2020/21, mostly for rent at affordable and social rent levels, together with a small number of shared ownership properties, and a further 2,096 forecast to be completed over the next 4 years.

4.2 During 2020/21 the Group continued to deliver its Asset Renewal Strategy, under which older, uneconomic properties are sold on the open market as they become void, with the proceeds reinvested to support the development programme. 73 properties were sold in 2020/21 under this strategy, which was the 16th year of its operation. The aim of the strategy at its inception was to ensure that the Group added three new properties for every two disposed of under the strategy. In fact, it has been considerably more successful than this, with an average of 2.68 new properties added for each property sold.

5. Funding Facilities

5.1 During the year, the Group issued £25m of the £50m retained bond. The issue achieved a price of 108 basis points over gilts, providing an all-in cost of funds of 1.92%.

5.2 Total loans (net of loan issue costs) stand at £489,649 (2020: £523,228). The reduction in loans during the year primarily represents the repayment of revolving bank facilities as cash collateral was replaced with property security.

5.3 At the year end, the Group's loan portfolio was made up as follows:

Funder	Fixed/Variable	Facility Amount £'000	Drawn Amount £'000	Undrawn Amount £'000	Final Repayment Date
Bond	Fixed Rate	250,000	225,000	25,000	22/10/2048
Nat West	Fixed Rate	21,560	21,560	0	29/03/2040
Nat West	Fixed Rate	25,640	25,640	0	31/03/2036
Santander	Fixed Rate	70,000	70,000	0	22/10/2029
Nat West	Variable Rate	50,000	0	50,000	22/10/2029
AIB	Variable Rate	40,000	30,000	10,000	22/10/2026
Nat West	Fixed Rate	23,800	23,800	0	31/03/2026
Lloyds	Variable Rate	75,000	75,000	0	22/10/2024
First Abu Dhabi Bank	Variable Rate	50,000	0	50,000	22/10/2023
Total		**606,000**	**471,000**	**135,000**	
Discounts/Premiums on issue (net)			(1,225)		
Fair value adj.			19,874		
Total			**489,649**		

6. Outlook

6.1 The organisation has managed the impact of the pandemic well and the outlook is relatively positive with continuing opportunities for growth through the Group’s development programme. The Group is well-placed to deal with the implementation of the new fire and building safety regulations, having only 3 high rise blocks in its portfolio, none of which present any issues with regard to cladding. As a result of its long-standing, significant development programme and Asset Renewal Strategy, the Group is also well-placed to ensure that all its properties meet at least EPC Band C energy ratings by 2030. Achieving the net zero carbon target by 2050 presents a significant challenge to the Group, as it does to the sector as a whole, particularly against the backdrop of inflationary pressures on construction and repairs materials and shortages of skilled labour, but a significant amount of work has already been undertaken in developing the Group’s approach in this area.

6.2 The confirmation of both the Group’s strong regulatory judgement and its credit rating were significant achievements over the last few months and a recognition of the strength of the Group’s current position.

The Group signed its financial statements for the year ended 31st March 2021 in August 2021. These are available on the Investor Information section of the Wrekin Housing Group website at https://www.wrekin.com/Pages/Corporate/investor-information.

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Disclaimer

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This unaudited announcement contains certain 'forward-looking' statements reflecting, among other things, our current views on markets, activities and prospects. Actual and audited outcomes may differ materially. Such statements are a correct reflection of our views only on the publication date and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Forecast financial results quoted are unaudited. We do not undertake to update or revise such public statements as our expectations change in response to events.

Appendix 1

Consolidated Results for the Year Ended 31st March 2021

Consolidated Statement of Comprehensive Income	**2021 £'000**	**2020 £'000**	**Movement £'000**
Turnover	95,709	92,093	3,616
Operating Costs	(73,604)	(67,962)	(5,642)
Gain on Sale and Disposal of Housing Properties	1,664	3,674	(2,010)
Movement in the fair value of assets	2,520	(21)	2,541
Operating Surplus	**26,289**	**27,784**	**(1,495)**
Interest Receivable and similar income	65	270	(205)
Interest payable, financing and similar costs	(15,955)	(69,965)	54,010
Surplus/(Deficit) Before Tax	**10,399**	**(41,911)**	**52,310**
Taxation	(122)	1	(123)
Surplus/(Deficit) for the Year	**10,277**	**(41,910)**	**52,187**
Actuarial (Loss)/Gain on Pension Schemes	(7,316)	(5,306)	(2,010)
Total Comprehensive Income / (Expense) for the Year	**2,961**	**(47,216)**	**50,177**

Consolidated Statement of Financial Position	**2021 £'000**	**2020 £'000**	**Movement £'000**
Fixed Assets	675,701	637,560	38,141
Current Assets	45,426	88,714	(43,288)
Current Liabilities	(25,055)	(21,744)	(3,311)
Net Current Assets	**20,371**	**66,970**	**(46,599)**
Total Assets Less Current Liabilities	**696,072**	**704,530**	**(8,458)**
Longer Term Liabilities	(599,719)	(621,037)	21,318
Pension Schemes Liabilities	(60,639)	(50,740)	(9,899)
Total Net Assets	**35,714**	**32,753**	**2,961**
Restricted Reserve	846	846	0
Income and Expenditure Reserve	34,868	31,907	2,961
Total Reserves	**35,714**	**32,753**	**2,961**

Appendix 2

Other Financial Information for the Year Ended 31st March 2021

Other Financial Information	2021 £'000	2020 £'000	Movement £'000
Turnover from Social Housing Lettings	76,242	73,533	2,709
Surplus on Social Housing Lettings	20,139	24,657	(4,518)
Amortisation of Government Grants	982	894	88
Depreciation of Housing Properties	(12,663)	(12,038)	(625)
Depreciation of Other Assets	(685)	(696)	11
Capitalised Major Repairs	6,159	7,677	(1,518)
Investment in New Build Properties	49,673	46,889	2,784
New Social Housing Units Developed	277	251	26
Total Units Owned and Managed (Units)	13,041	12,965	76
Total Units Owned (Units)	12,970	12,872	98
Historic Cost of Properties (excl. Accumulated Depreciation)	764,528	716,636	47,892
Cash and Cash Equivalents	32,944	78,966	(46,022)
Total Debt	(489,649)	(523,228)	33,579

Appendix 3

Key Financial Performance Indicators and Financial Covenants for the Year Ended 31st March 2021

Key Financial Performance Indicators	2021	2020
Turnover from Social Housing Lettings [1]	79.7%	79.8%
Operating Margin on Social Housing Lettings [2]	26.4%	33.5%
Social Housing Costs per Unit (£) [3]	£3,803	£3,433
Operating Margin [4]	27.5%	30.2%
EBITDA-MRI to Net Interest [5]	2.05	0.46
Net Margin [6]	10.7%	(45.5%)
Return on Capital Employed [7]	3.8%	3.9%
Interest Cover [8]	2.00	0.45
Gearing (Assets) [9]	59.7%	62.0%
Net Debt per Unit [10]	£35,212	£34,514

Notes

1 Turnover from social housing lettings / Turnover

2 Operating surplus on social housing lettings / Turnover from social housing lettings

3 Revenue and capital social housing costs (excl. Depreciation and amortisation) / Total units owned and managed

4 Operating surplus / Turnover

5 Adjusted operating surplus / Net interest payable

(Adjusted operating surplus = operating surplus + depreciation of housing properties + depreciation of other assets - capitalised major repairs - amortisation of government grants)

6 Surplus / (Deficit) for the year (excl. Refinancing costs) / Turnover

7 Operating surplus / Total assets less current liabilities

8 Adjusted operating surplus / Net interest payable

(Adjusted operating surplus = operating surplus + depreciation of housing properties - capitalised major repairs - amortisation of government grants)

9 Net financial indebtedness / Historic cost of properties (excl. accumulated depreciation)

(Net financial indebtedness equals total loans - cash and cash equivalents)

10 Net financial indebtedness / Total units owned