Mid-Year Review 2014-15

Update on Strategy and Financial Projections

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Wheatley Group

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Wheatley Group

With a turnover of £200million and housing stock of 46,000 units, Wheatley is by far Scotland's largest housing provider. By using our collective size, scale and expertise, the Group and its subsidiaries are already making major contributions to housing and community regeneration on a local, regional and national scale.

Wheatley Group's ambition is to improve the lives, homes and communities of its tenants, factored homeowners and the people it works with. We make a major contribution locally and nationally by:

// remaining rooted in local communities;

// keeping tenants and factored homeowners at the heart of local decision making;

// working ever more closely with partners and stakeholders; and

// maximising the opportunities created by our scale, financial capacity and the expertise of staff, management and Boards.

Wheatley is leading the way in Scotland for outstanding customer focus and satisfaction, excellent service provision and award-winning performance across its areas of operation. Our aim now is to become universally recognised across the UK as a leader, not only in delivering excellent services and providing quality affordable housing, but also in regenerating and sustaining communities. Our progress was recognised recently when we were ranked as the seventh best housing organisation in the UK – and the only Scottish representative in the top 50 – by 24housing.

The 'Wheatley Way' is to listen to what customers and stakeholders tell us, invest wisely and help bring great ideas to life.

Each of the Group's subsidiaries is committed to providing existing and new customers with:

// warm, dry, modern homes in cleaner, greener, safer communities;

// affordable rents and a growing range of excellent, innovative, value-for-money services;

// support to improve their families' lives through everything from employment and training opportunities to digital inclusion and community programmes and activities;

// more specialist care and services, tailored to their changing individual needs;

// and practical help and advice to mitigate the impacts of welfare reform.

Our staff make this happen. We recruit, train, develop and retain people passionate about continuously improving the living conditions of their customers. We work in a "ThinkYes" culture, where staff are empowered to deliver excellence and innovation at every turn, and we maintain the highest levels of morale and motivation. Wheatley Group was listed 36th in the Sunday Times top 100 best not-for-profit companies to work for in 2014 and we aim to strengthen that position.

At Wheatley, we never stand still. The recent integration of Loretto Care, along with Loretto Housing Association, is enabling us to develop and expand the range of care and support services for people in our communities, helping them sustain their tenancies and live independently for longer. This builds on the Group's well-established, and top-rated, sheltered and very sheltered housing services.

Investing in our future
Maximising our financial capacity and leverage over the next three years will enable the Group to strengthen and grow its asset base by almost 10,000 units across various tenures. The development of new funding models, including generating additional private investment and leveraging in public funding, will enable the Group to build or acquire thousands of new homes across Central Scotland, augmented by the addition of a further 4,000 units through partnerships. Wheatley will also realise around £14m of cash-flow efficiencies by maximising income and cost savings across the Group between 2013–16.

By implementing these ambitious plans, Wheatley Group will consolidate its position as the new force in housing, community regeneration, care and support services and property management.

In financial terms the Group is performing strongly, a robust £102m of net rental income has been generated for the period to date.

Strong performance
Since its creation two years ago, Wheatley Group has developed its reputation and presence across the housing, regeneration and care sectors and is now widely recognised as a sector leader in Scotland and, increasingly, in the UK. This has been achieved while remaining faithful to the vision of the founding members – GHA, Cube, YourPlace and Lowther – that every Wheatley partner would remain rooted in their local communities and retain their own identity while benefiting from the scale, size and capacity the Group brings.

The Group has been strengthened considerably over the last 12 months with the arrival of two new partners, West Lothian Housing Partnership and Loretto Housing and Care, augmenting our ability to offer a wide range of support services to vulnerable customers, expanding our portfolio of quality housing stock and creating opportunities for further development. Dunedin Canmore is also expected to become a member of the Group, enhancing our footprint and capacity in the east of Scotland and strengthening Wheatley's unique position as the chosen strategic partner for a number of local authorities as well as the Scottish Government.

Our operating models have established a platform to expand the services we offer to people who are at risk, provide practical solutions for customers who continue to live with hardship and to understand our customers better so that we can support them to meet the challenges they face.

In financial terms the Group is performing strongly, a robust £102m of net rental income has been generated for the period to date. These revenue levels, underpinned by a continuing focus on cost management and the early achievement of efficiency targets planned for future years will see the Group outperform the budgeted net operating position by £4m this year.

The risks and opportunities resulting from new partners, the introduction of new technology platforms, changing funding structures, new governance arrangements and an uncertain political environment have been addressed effectively through leadership and strong governance. Wheatley has been established as a dynamic, vibrant organisation that has the confidence of government, partners, communities and funders.

Meeting customers' needs
The environment for affordable housing and care is continually changing. We are developing our financial resource capacity and our assets, as well as the skills of our people, so that we can respond effectively to this evolving environment and, importantly, provide excellent services which meet our customers' needs and expectations.

A Group Strategy for Care was developed in early 2014 and is at early stages of implementation. Performance of the Group in relation to the key deliverables within our Group Strategy has been strong and as at the midpoint of the 2014–15 financial year we are already ahead of schedule on delivering the key objectives contained in them, including:

// asset growth plans through new partnerships and investment in new homes have been achieved;

// customer satisfaction across all subsidiaries improved – with satisfaction levels of over 90% in GHA;

// a single platform to support customer relationship management and multi-channel digital services has been introduced;

// new finance arrangements to support future investment are imminent.

Our strategic partnership with the Scottish Government for the delivery of 2,800 new homes over the next seven years – supported by an agreed grant commitment over that period.

Platform for growth
The Group's capacity to manage growth has exceeded expectations, leaving us strongly positioned as we look forward to the next stage of our development. Our strategic partnership with the Scottish Government for the delivery of 2,800 new homes over the next seven years – supported by an agreed grant commitment over that period – is without parallel in the social housing sector, giving us certainty of funding over the medium term.

Our business model continues to be low-risk, focused on affordable housing, with no build for sale activity. Higher grant rates and a different context for social housing policy compared with England, with strong political support for subsidised affordable house building, enhance our ability to plan ahead with confidence.

Our AA- (stable) credit rating from Standard & Poor's reflects not only the Group's inherent financial strength, asset base and strong access to liquidity, but also the strength of our strategic relationship with the Scottish Government. With currently 17% of all housing association stock – shortly to rise to around 20% as Dunedin Canmore joins the Group – we are four times larger than any other Scottish housing group. This systemic importance supports strategic agreement on key policy areas with the Scottish Government, reflecting our desire to play a leading role in helping deliver national policy outcomes.

Historical financial context
The years 2010–11 to 2013–14 were a period of financial transition for the Group's largest subsidiary, GHA, as it completed a programme of 34 "Second Stage Transfers", which saw around 20,000 properties transferred to local housing associations in Glasgow. Over the same period, GHA has also been completing its planned programme of demolition of unpopular housing stock – around a further 20,000 properties, mostly high-rise tower blocks.

While the costs of these demolitions and redundancy payments as the Group's staffing base re-adjusted to match the new stock profile were significant, they had always formed part of the Group's business plan. At the same time, significant investment has been made in the Group's operating infrastructure to ensure it will provide the right platform for a new and growing Group structure. Significant investments have been made in improved IT systems, on working with our customers to prepare them for welfare reform, and delivering community investment projects as part of the 10-year programme of tenant commitments made by GHA when it was established in 2003.

Income & Expenditure

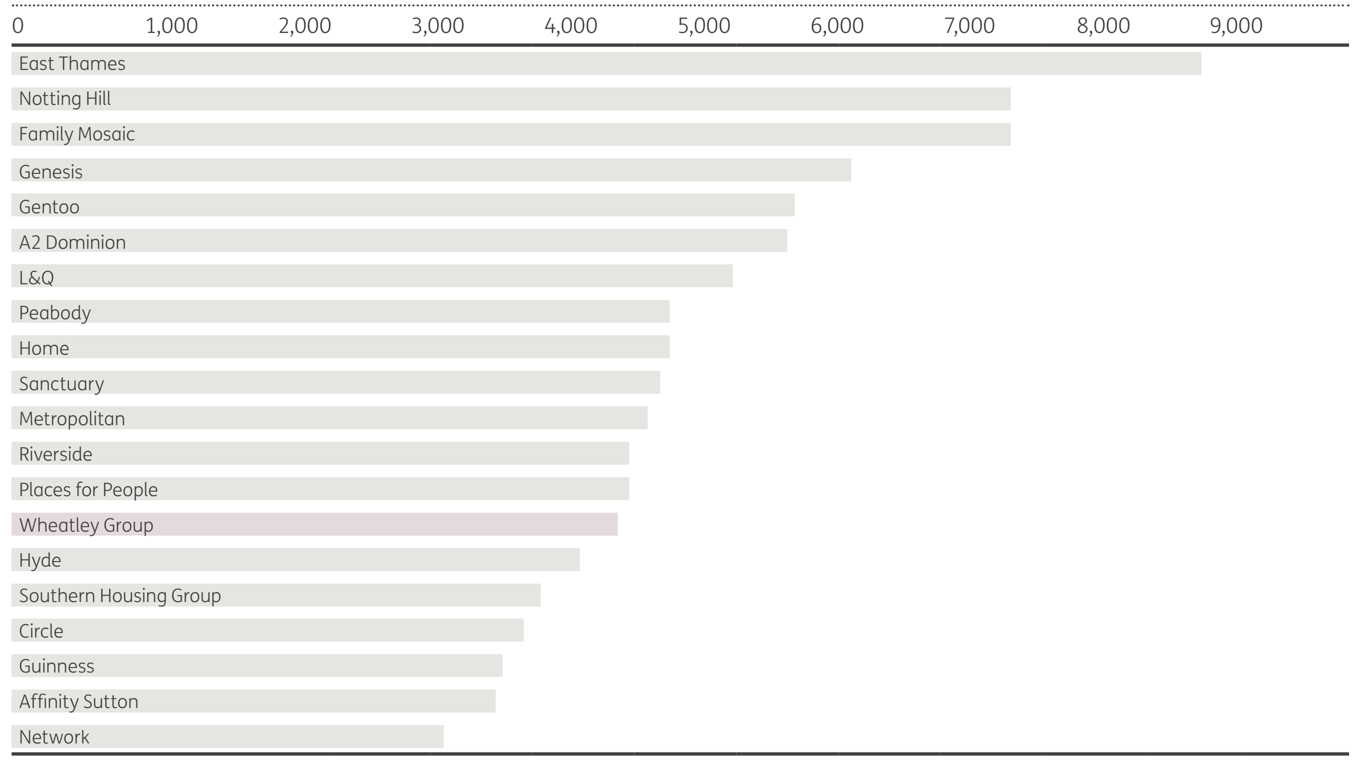
Through the transition period from 2010–11 to 2013–14, the Group has delivered ahead of budget every year, outperforming budget by £3.1m (9%) in 2014–15, even before gains on business combinations were taken into account.

As previously implemented efficiency measures begin to yield significant benefit – for example the reduction in workforce of 25% since 2011 and office rationalisation programme – we now have the seventh lowest cost per unit among large rated peers (see chart opposite).

Five year income and expenditure history

INCOME STATEMENT	2009–10 £ '000	2010–11 £ '000	2011–12 £ '000	2012–13 £ '000	2013–14 £ '000
Social Housing Lettings	197,437	188,671	150,962	162,576	167,399
Other Social Housing Activities	43,773	31,617	33,086	17,590	15,094
Non Social Housing Activities	10,022	10,503	10,603	13,144	12,899
Revenue	**251,232**	**230,791**	**194,651**	**193,310**	**195,392**
Gain on Business Combination					27,887
Operating costs	(216,886)	(208,100)	(181,805)	(193,357)	(202,471)
Exceptional pension credit		21,938			
Operating surplus	**34,346**	**44,629**	**12,846**	**(47)**	**20,808**
Operating margin (%)	**14%**	**19%**	**7%**	**0%**	**11%**
Net interest charges	(8,512)	(9,727)	(14,039)	(23,148)	(26,257)
Surplus (Deficit) on sale of assets	(8,803)	(46,100)	(18,210)	2,194	2,306
Surplus on ordinary activities	**17,031**	**(11,198)**	**(19,403)**	**(21,001)**	**(3,143)**
Taxation	(21)	19	(18)	13	194
Retained surplus	**17,010**	**(11,179)**	**(19,421)**	**(20,988)**	**(2,949)**

COST PER UNIT 2013/14

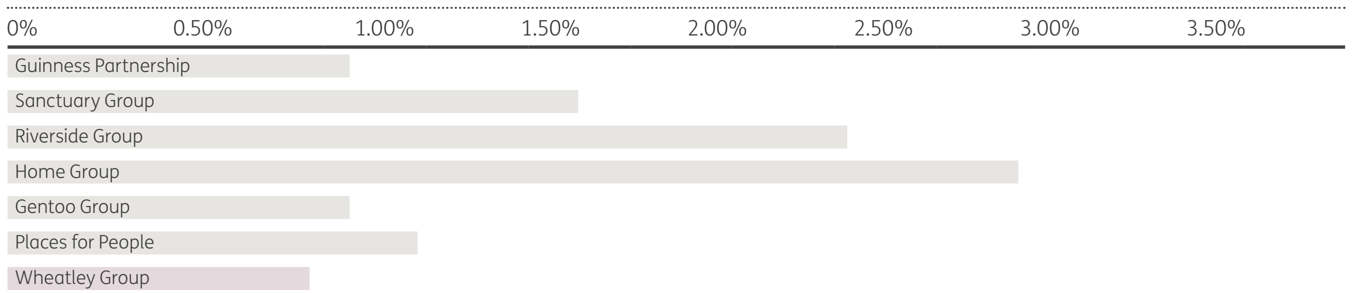


Five year income and expenditure history

GROUP BALANCE SHEET	2009–10 £ '000	2010–11 £ '000	2011–12 £ '000	2012–13 £ '000	2013–14 £ '000
Housing properties	452,769	522,912	651,416	790,183	1,078,985
Other fixed assets	29,810	26,418	26,080	28,025	39,948
Fixed asset investment	0	0	0	72	72
Total fixed assets	**482,579**	**549,330**	**677,496**	**818,280**	**1,119,005**
Investment properties	0	2,250	0	23,537	28,607
Debtors due > 1 year	514,852	393,277	270,310	205,576	159,621
Debtors due < 1 year	45,688	38,945	35,340	30,098	28,399
Cash	28,330	7,512	7,968	14,548	30,904
Creditors due < 1 year	(86,202)	(68,612)	(65,089)	(54,588)	(66,334)
Net current liabilities	**(12,184)**	**(22,155)**	**(21,781)**	**(9,942)**	**(7,031)**
Loans	(254,000)	(377,750)	(500,000)	(614,345)	(706,332)
Provisions	(509,080)	(374,206)	(252,302)	(188,364)	(142,767)
Government grant	(1,080)	(1,056)	(1,032)	(1,344)	(1,308)
Pension liability	(55,959)	(5,800)	(20,768)	(33,510)	(43,663)
Other creditors	0	0	0	(4,959)	(4,552)
Long-term liabilities	**(820,119)**	**(758,812)**	**(774,102)**	**(842,522)**	**(898,622)**
Net assets	**165,128**	**163,890**	**151,923**	**194,929**	**401,580**
Revaluation reserves	59,609	43,388	67,498	132,588	351,605
Revenue reserves	105,519	120,502	84,425	62,341	49,975
Capital and reserves	**165,128**	**163,890**	**151,923**	**194,929**	**401,580**

Our housing stock has benefitted from significant increases in valuation in recent years, as programmes of improvement works, in particular the £1.2billion GHA investment programme, have been completed. This has resulted in a modernised, popular base of housing stock. The high demand for our homes is evident from our waiting list of 30,000, time to let of 13.6 days, compared to a Scottish average of 35.7 days for 2013–14, and lower void rates than our peers (see chart below).

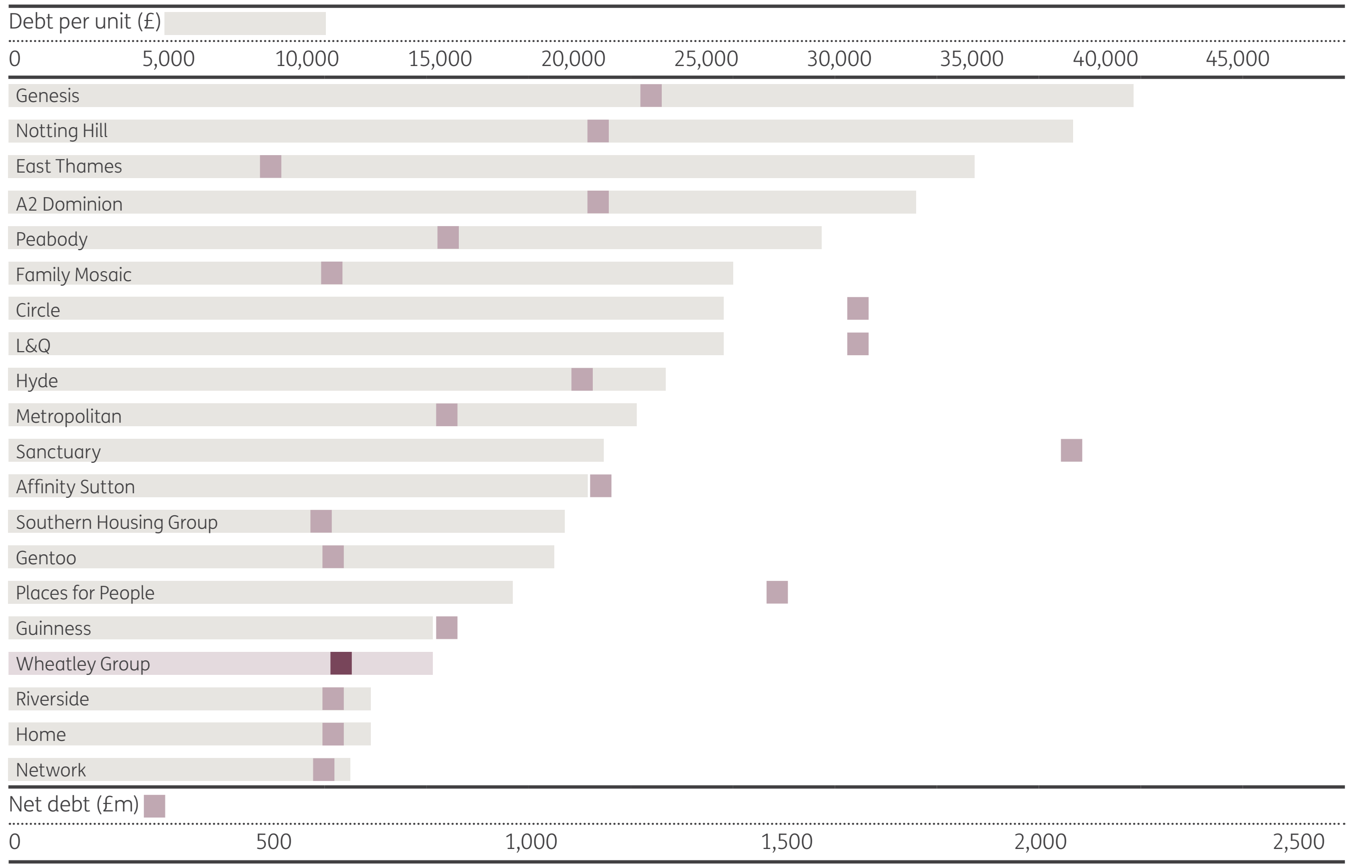
VOID LOSS



All figures based on published annual accounts 2013–14. Wheatley's underlying level of void loss as returned to SHR is 0.57%. This is the adjusted figure after taking account of properties which were not lettable for periods of the year – principally due to being temporarily vacated as part of the GHA investment programme.

This has been delivered through maintaining a prudent debt level and strong access to liquidity. The chart below shows the Group as having one of the lowest debt levels in the sector, with debt per unit at around £15,000. Gearing, measured as total gross debt as a percentage of total assets plus social housing grant, stood at 42% at 31.03.14.

NET DEBT AND DEBT PER UNIT



Golden Rules
As a Group, we operate to a set of Golden Rules which are reviewed annually by the Group Board. They are key metrics which address the Group's long term financial sustainability, covering liquidity, debt service and gearing.

Our Golden Rules are:
Liquidity
Cash requirement for next 12 months +25% contingency to be met through available cash and undrawn debt capacity.

Contracted Development
Contracted development +25% contingency to be covered by cash and available facilities.

Gearing
Not to exceed 70%, gross debt as a proportion of total assets plus new build grant.

Gross debt per unit
Not to exceed £25,000 across the RSL borrower group.

Interest Cover
EBITDA (operating surplus with depreciation added back) cover to be greater than 1.1x over the long-term.

Five-year outlook

Our five-year projections show a strong growth in operating margin, with new partnerships bringing benefit in terms of both up-front gains on joining the Group and ongoing operating margin strength.

INCOME STATEMENT – FIVE-YEAR FORECAST	2014–15 £ '000	2015–16 £ '000	2016–17 £ '000	2017–18 £ '000	2018–19 £ '000
Social Housing Lettings	181,461	210,639	214,568	233,734	245,773
Other Social Housing Activities	21,652	56,275	58,457	57,089	52,440
Non Social Housing Activities	13,620	20,355	21,935	24,085	25,573
Revenue	216,733	287,268	294,960	314,908	323,785
Gain on Business Combination	94,088				
Operating costs	(218,583)	(230,320)	(213,565)	(212,052)	(217,522)
Operating Surplus	92,239	56,948	81,395	102,855	106,264
Operating margin %	43%	20%	28%	33%	33%
Net interest charges	(38,279)	(52,071)	(59,718)	(67,430)	(69,209)
Surplus (Deficit) on sale of assets	2,165	2,923	3,141	3,130	72
Gift Aid	(229)	(274)	(278)	(279)	(285)
Surplus on ordinary activities	55,896	7,527	24,540	38,276	36,842
Taxation	(47)	(56)	(56)	(57)	(118)
Retained surplus	55,849	7,471	24,483	38,220	36,724

The balance sheet shows a projected steady growth in asset values, reaching the £1.5billion mark by 2017. Gearing is forecast to remain well within Golden Rule target levels.

BALANCE SHEET	2014–15 £ '000	2015–16 £ '000	2016–17 £ '000	2017–18 £ '000	2018–19 £ '000
Housing properties (at valuation)	1,324,071	1,430,432	1,530,499	1,636,023	1,732,729
Other fixed assets	48,412	48,882	49,912	51,134	50,586
Fixed asset investment	0	0	0	0	0
Total fixed assets	1,372,483	1,479,314	1,580,411	1,687,157	1,783,314
Investment properties	105,639	129,330	150,715	167,112	166,832
Debtors due > 1 year	0	0	0	0	0
Debtors due < 1 year	36,433	41,999	36,363	36,084	36,225
Cash	5,321	6,577	5,829	9,316	20,219
Creditors due < 1 year	(51,805)	(50,344)	(51,677)	(51,447)	(51,867)
Net current assets/(liabilities)	**(10,052)**	**(1,768)**	**(9,484)**	**(6,047)**	**4,578**
Loans	(978,639)	(1,109,973)	(1,200,256)	(1,288,617)	(1,358,341)
Provision for liabilities and charges	(1,552)	(1,552)	(1,552)	(1,552)	(1,552)
Government grant	0	0	0	0	0
Pension liability	(33,510)	(54,510)	(54,510)	(54,510)	(54,510)
Other creditors	(3,408)	(3,408)	(3,408)	(3,408)	(3,461)
Long-term liabilities	(1,017,109)	(1,169,443)	(1,259,726)	(1,348,088)	(1,417,864)
Net assets	**450,961**	**437,432**	**461,915**	**500,135**	**536,859**
Revaluation reserves	351,605	351,605	351,605	351,605	351,605
Revenue reserves (including pension deficit)	99,355	85,826	110,310	148,529	185,253
Capital and reserves	450,961	437,432	461,915	500,135	536,859

Operational performance update

GHA (which comprises over 90% of the Group) shows a strong trend of continued improvement with many indicators meeting or exceeding the challenging targets set last year. Tenant satisfaction with the overall service is excellent at over 90%, up from 87% in 2012–13.

Satisfaction with the management of the neighbourhood they live in and with the quality of the home were also high at almost 90% and 92% respectively.

95% of reactive repairs are completed right first time, well ahead of the 85% target.

Performance on rent collection has been good with 99.55% of rent due collected, up from the 96% reported last year.

Gross Rent Arrears are 5.07% against a target of 7.6% with GHA achieving less than £4million of rent arrears for the first time.

Glasgow Housing Association

KPI	Overall satisfaction	Caring	Repairs and maintenance	Value for money	Keeping tenants informed	Satisfaction with home	Listening
	Tenants are satisfied with GHA as their landlord	Tenants agree that GHA cares about its tenants	Tenants are satisfied with the way GHA deals with day to day repairs and maintenance	Tenants agree GHA provides good value for money for the rent they pay	Tenants feel that GHA is good at keeping them informed about things that might affect them as tenants	Tenants are satisfied with their home	Tenants agree that GHA listens to its tenants
Percentage in 2014	90%	82%	86%	80%	86%	89%	80%
Percentage in 2004	23%	42%	42%	39%	36%	19%	35%

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