Mid-Year Business Update 2018

wheatley-group.com

Making homes and lives better

Contents

The first half of this year

The six months to 30 September 2018 have continued the strong performance seen over the last few years.

As we continue our significant new build programme we have invested c.£55m in the first half of the year, delivering 227 new homes across the central belt of Scotland with over 700 more due to be completed by the year end. The quality of the new homes being built has also been recognised with GHA winning the ‘Large Affordable Development of the Year’ at the Scottish Home Awards in June for our development at Dougrie Drive in Castlemilk, Glasgow.

Across the organisation our partners have continued to perform at the highest level – Dunedin Canmore won the 2018 Scottish Award for Business Excellence with GHA taking the ‘Housing Association of the Year’ award at the Scottish Home Awards.

In July we were delighted to host the First Minister of Scotland, Nicola Sturgeon, and the UK Vice President of the EIB who announced that we have completed a new £185m European Investment Bank facility. This facility provides a long term, stable funding platform and reinforces the already strong relationship that the Group has with the Bank.

Financially the Group delivered an operating surplus of c£30m to the half year. Our full year forecast projects a turnover of c.£325m generating an operating surplus of c£87m.

Read more

The strong second half of the year is underpinned by the continued pace of the new build programme as key sites in Edinburgh and Glasgow complete. We anticipate that our net operating margin will improve to 27% from c20% in 2018 which reflects the ongoing strengthening of our core business.

Fire safety in our properties remains a strategic focus for all parts of the Group. We have developed fire risk assessments for our Multi-storeys which are recorded and tracked through our asset management system with a regime of daily, weekly and monthly checks in each building to minimise the risk of fire and reassure customers. The Scottish Fire & Rescue Service provide daily reports on fires which have occurred across our estate and we have also developed a dynamic performance dashboard which analyses the causes of fires, locations and frequencies so that management action can be designed to prevent fires in the future.

Key areas of focus

The potential impact of Welfare Reform
The implications of Universal Credit for our customers are still a cause for concern and we continue to support them through the process. We have welcomed the UK Government's announcement that the full migration of people across to Universal Credit will be undertaken over a longer period of time than originally envisaged with everyone moved across by the end of 2023 rather than 2022. It remains a positive aspect that in Scotland people can register to have their rents paid directly to their landlord and we retain prudent provision in our business plan for any potential increase in rent arrears.

External Credit rating view
Our annual credit rating review was published in May 2018 by Standard & Poor's with the Wheatley Group rating affirmed at A+ and likewise the Wheatley Group Capital plc bond issue of £300m affirmed at A+ also.

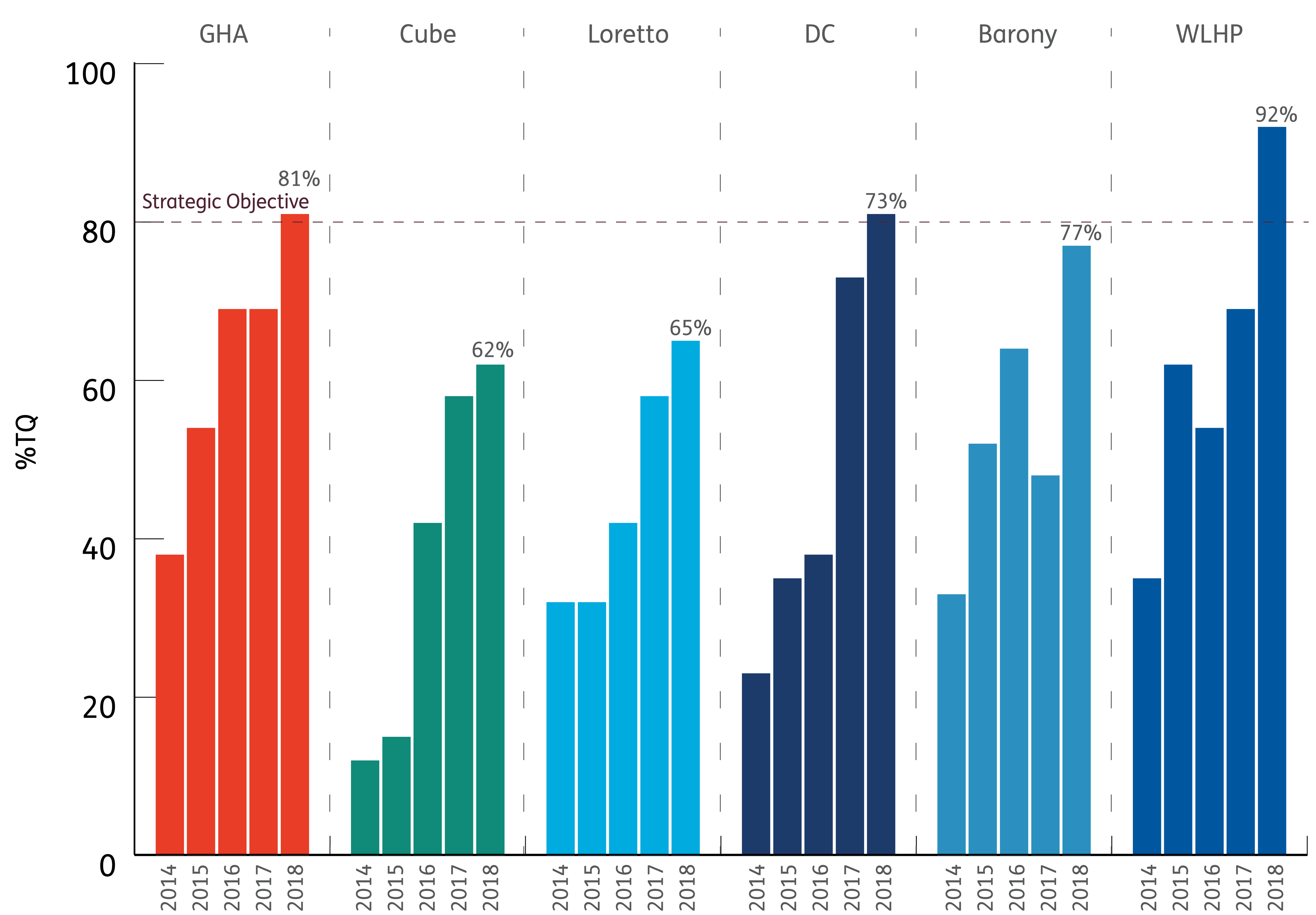
As part of the review our Outlook was revised from 'stable' to 'negative' with S&P Global ratings commenting that 'the outlook revision reflects the continued economic and political uncertainty surrounding the Brexit negotiations'. The rating report recognises that this revision is a consequence of external forces and also flags that they expect 'the addition of more units to Wheatley's portfolio, combined with flexibility in rent setting, to bolster its financial profile'.

Read more

Performance overview

Registered Social Landlords ("RSLs")
The 2017/18 Annual Returns on the Scottish Social Housing Charter showed that all of our housing associations increased their number of top quartile performance indicators during 2017/18. This represents an excellent performance and demonstrates that Wheatley's RSLs continue to lead the sector.

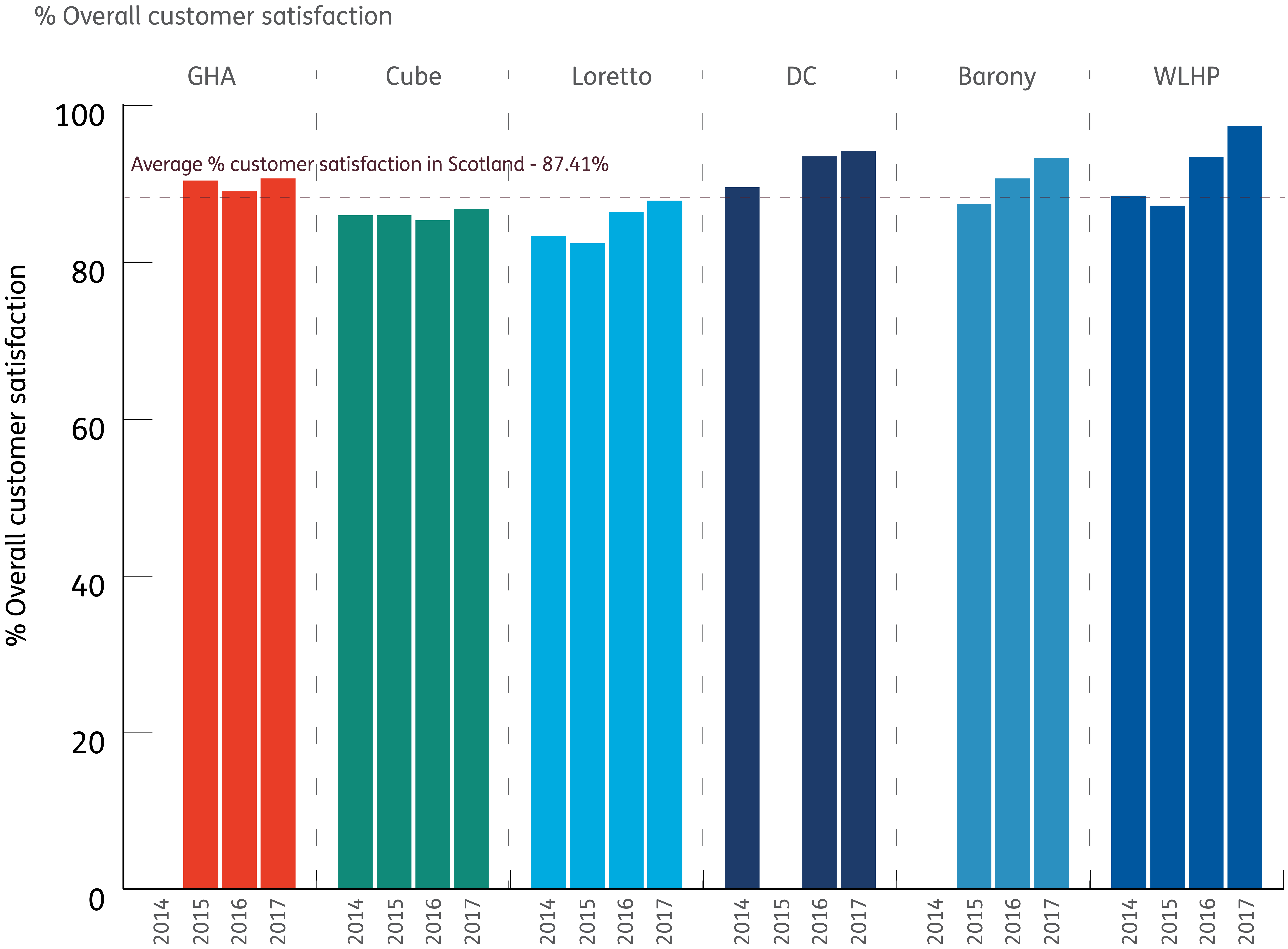
Percentages of 2017/18 indicators in the top quartile in performance terms in comparison with 2017/18 Scottish Housing Charter returns



Read more

Consistently outstanding customer satisfaction

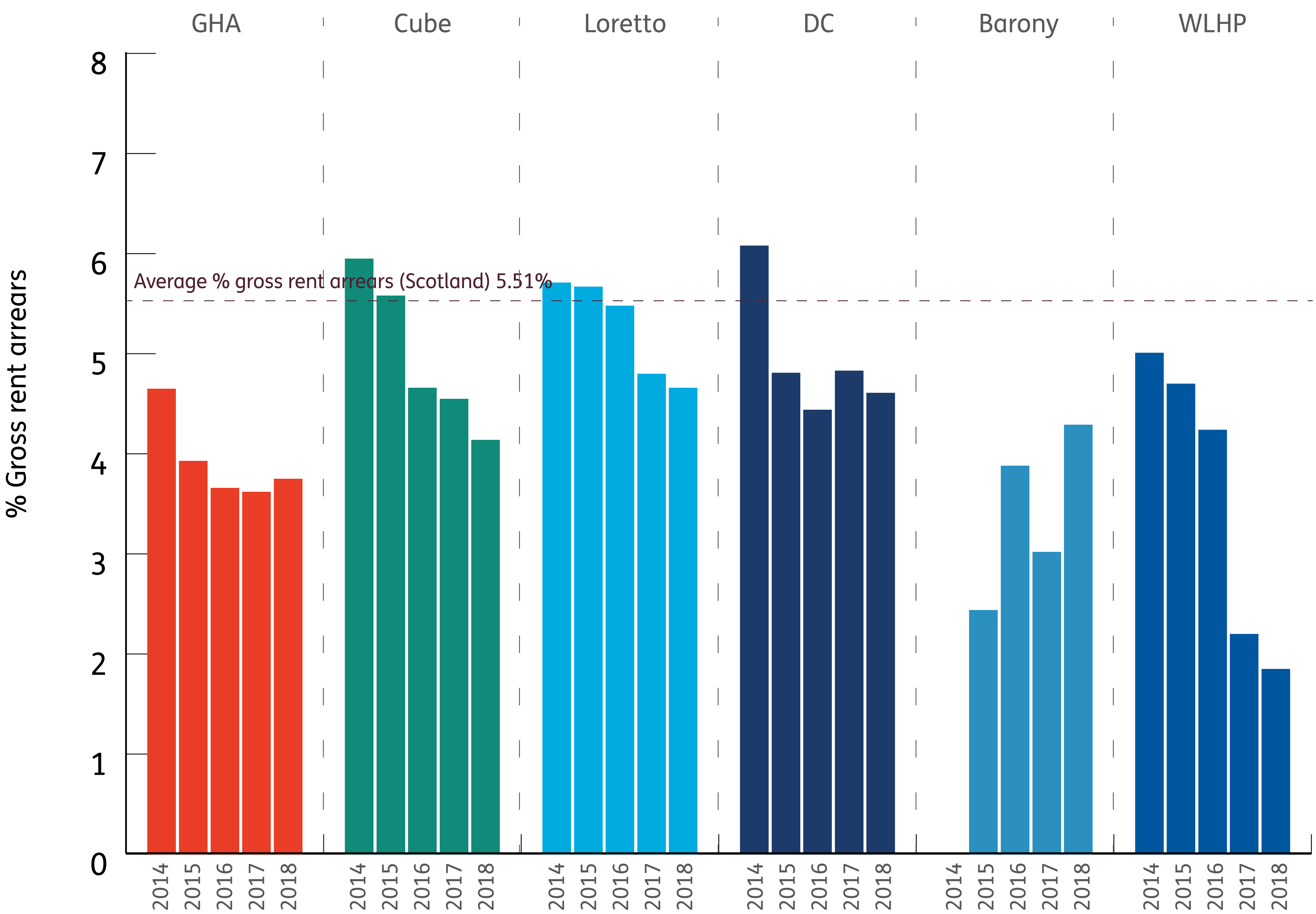
We continue to focus on providing excellent service to our customers. Our customer satisfaction figures show that our RSL performance continues to improve year on year.



Our operating performance has also been maintained at a high level. Rent arrears continue to fall and are well below the Scottish Average.

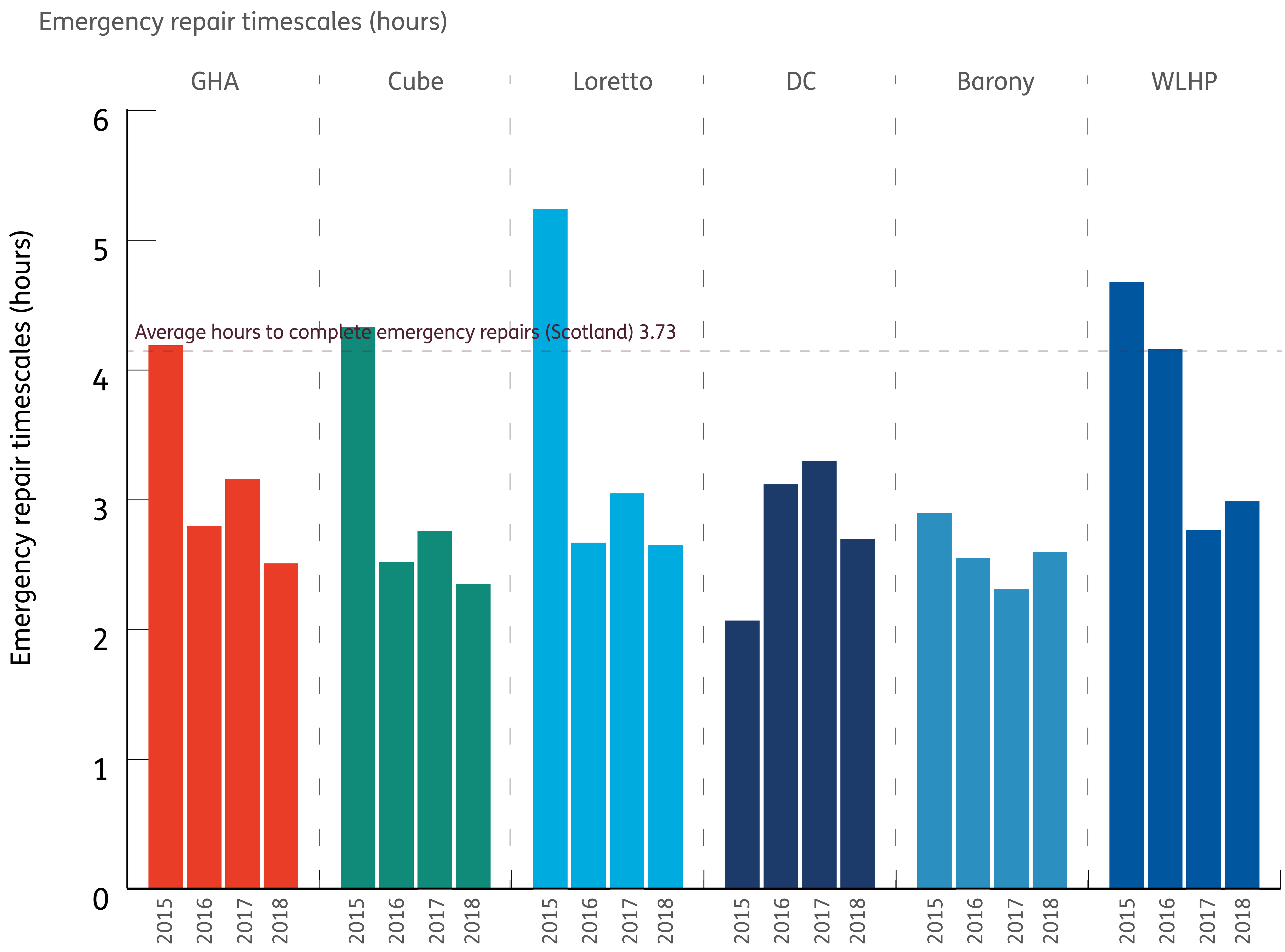
Read more

% Gross rent arrears



Our City Building JV with Glasgow City Council has allowed us to also drive additional benefit to our tenants with areas such as Emergency Repairs timescales (a key customer concern) seeing additional improvements in the year.

Read more



Commercial subsidiaries
We have seen continued strong performance in our factoring (the Scottish term for management of communal areas in and around privately owned properties) and private rented sector companies (YourPlace and Lowther Homes respectively). Both organisations delivered financial performance in line with plan generating half year earnings before interest and tax of £1.7m in Lowther and £700k in YourPlace.

During the first half of the year Lowther Homes acquired an additional 16 homes for private rent with the completion of a scheme at Ferry Village, Renfrewshire, in May. Lowther also won a key new contract with the City of Edinburgh Council for the provision of services to their new Mid-Market Rent and Private Sector rent companies.

In the second half of the year Lowther Homes will be buying over 500 mid-market rent properties from other companies within the Group which will generate the financial capacity for the wider Group to replace these with new social homes on a more than 1:1 basis. In addition we are looking to merge Lowther and YourPlace in due course in order to capitalise on the benefits of bringing both commercial businesses into one corporate structure.

Financial performance

A three-year summary of the Group income and expenditure is set out below:

Statement of Comprehensive Income	2016/17 *Actual* £000	2017/18 *Actual* £000	2018/19 Forecast £000
Turnover	275,729	304,551	326,492
Operating expenditure	(242,352)	(244, 108)	(237,722)
Other income and gains	12,904	1, 759	-
Operating surplus	**46,281**	**62,202**	**88,770**
Operating margin %	**17%**	**20%**	**27%**
Gain on disposal of fixed assets	3,156	3,378	259
Net finance costs	(52,077)	(58,335)	(57,427)
Movement in fair value of financial instruments	1,035	(320)	-
Surplus before tax	**(1,605)**	**6,962**	**31,602**

For the period 1 April 2018 to 30 September 2018, turnover at £148m is anticipated to translate into a full year forecast of £326m. Progressive improvements in operating margin and surplus before tax will lead to a strong surplus before tax at the year end.

Read more

Cash flow and liquidity

We manage our business within a number of ‘Financial Golden Rules’ which are reviewed annually by our Group Board and are set out below. During the year we have tightened our liquidity golden rule in recognition of the increasing economic uncertainties surrounding the Brexit negotiations. These rules were all comfortably met at the half year.

Golden Rule	Description
Liquidity	Cash requirement for next 15 months + 25% contingency to be met through available cash and undrawn debt capacity [previously 12 months +25%]
Contracted Development	Contracted development + 25% contingency to be covered by cash and available facilities
Gearing	Net debt/asset valuation for RSL borrower group not to exceed 70%
Gross Debt Per Unit	Always at least £50m headroom to covenant level, and overall not to exceed £25,000 across RSL borrower group
Interest Cover	Always at least 25% headroom to covenant level

Strong liquidity and low refinancing risk

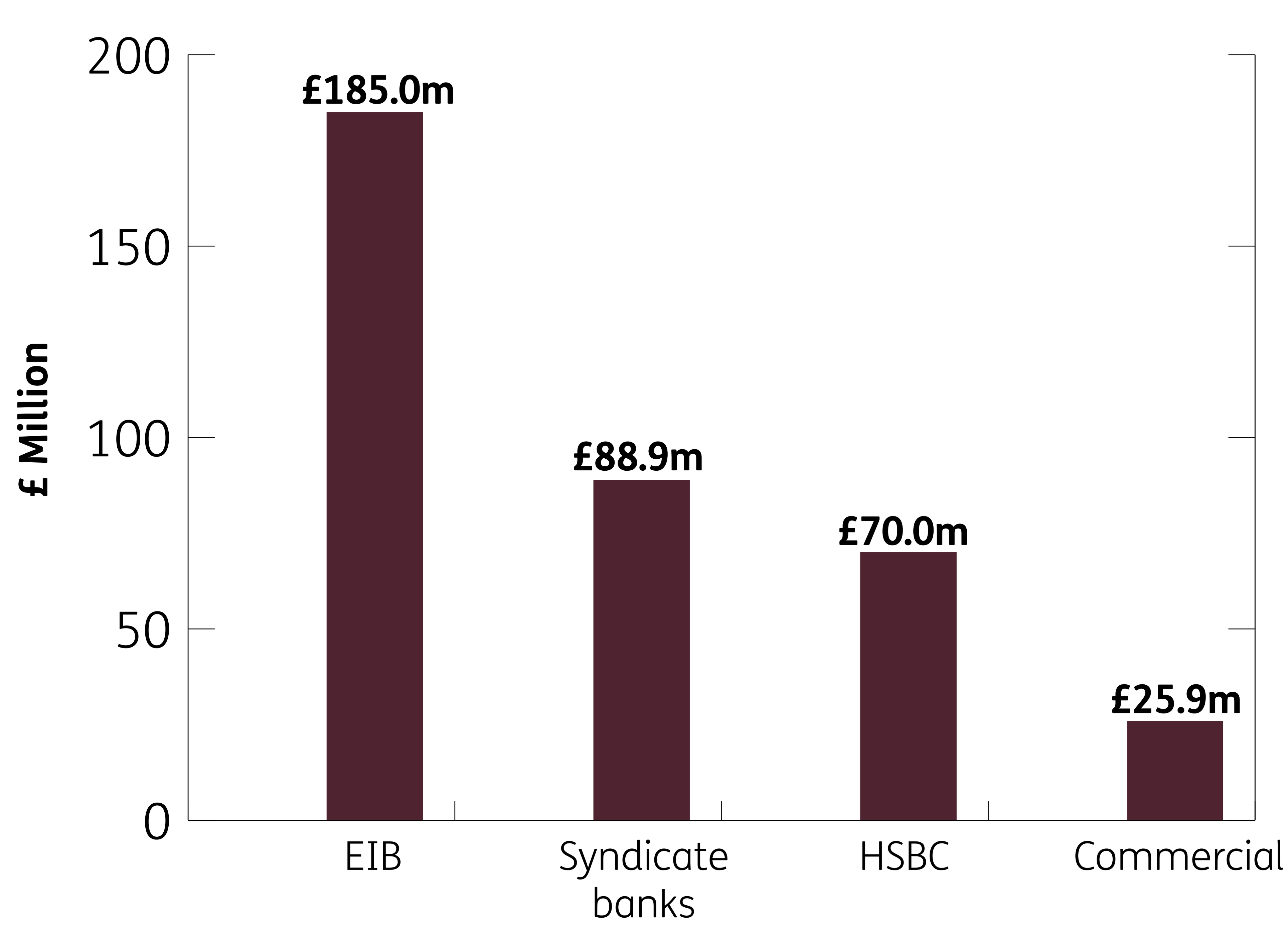
At 30 September 2018, the Group had £1.5bn of capital markets and bank funding facilities in place, with two funding vehicles supporting the business: Wheatley Funding No. 1 Ltd (“WFL1”) provides funding facilities to a number of the RSLs, secured on core RSLs assets, whilst Wheatley Funding No. 2 Ltd (“WFL2”) supports the operations of the commercial subsidiaries within the Group. The funding facilities in place on 30 September 2018 comprised the following:

Group Company	Facility	Principal
WFL1	Bond	£300.0m
	Private Note Placement	£100.0m
	HSBC Revolving Credit Facility	£100.0m
	Commercial bank syndicated facilities	£667.8m
	European Investment Bank facility 1	£104.2m
	European Investment Bank facility 2	£185.0m
DCH	THFC facility	£16.5m
WFL2	Private rented sector bank finance	£50.0m
	Total	**£1,523.5**

Read more

Thirty three per cent (£369.8m) of the Group's borrowing facilities were undrawn at 30 September 2018:

We have continued to build our funding platform based on the principle of short term flexible revolving facilities, which are able to accommodate the timing of the development programme, alongside long term committed funds. Our commercial funding will be refinanced in the second half of the year with Lowther Homes acquiring a portfolio of over 500 mid-market rent properties from RSLs within the Group and the commercial funding will move from short term liquidity on to a long term capital markets base.



Read more

Financial Projections

Looking forward, our Board approved financial projections reflect the growth of the underlying business both in terms of the overall development programme and also a continued focus on cost efficiency and service delivery.

Statement of Comprehensive Income	2019/20 £ 000	2020/21 £ 000	2021/22 £ 000	2022/23 £ 000	2023/24 £ 000
Turnover	**357,471**	**329,675**	**352,165**	**345,666**	**337,424**
Operating expenditure	(238,949)	(244,007)	(245,042)	(248,370)	(250,948)
Other income and gains	(6,953)	418	(2,888)	(1,870)	2,979
Operating surplus	**111,568**	**86,086**	**104,235**	**95,427**	**89,455**
Operating margin %	*31%*	*26%*	*30%*	*28%*	*27%*
Net finance costs	(66,659)	(71,816)	(75,192)	(78,060)	(77,220)
Movement in valuation of social housing properties	(34,277)	12,300	9,550	35,426	45,899
Surplus before tax	**10,633**	**26,571**	**38,593**	**52,793**	**58,134**
Taxation	(317)	(324)	(342)	(330)	(366)
Surplus for the year	**10,316**	**26,247**	**38,251**	**52,463**	**57,767**

Read more

Statement of Financial Position	2019/20 £ 000	2020/21 £ 000	2021/22 £ 000	2022/23 £ 000	2023/24 £ 000
Housing and investment properties	1,995,579	2,069,148	2,111,159	2,149,642	2,192,125
Other fixed assets	34,672	30,521	28,466	26,876	25,892
Total Fixed Assets	**2,030,251**	**2,099,669**	**2,139,625**	**2,176,518**	**2,218,017**
Pension asset	26,169	26,169	26,169	26,169	26,169
Trade and other debtors	34,867	37,712	37,282	36,396	35,818
Cash and cash equivalents	21,511	22,923	24,240	25,405	26,237
	56,379	**60,635**	**61,522**	**61,801**	**62,055**
Creditors <1 year	(89,607)	(87,752)	(60,853)	(45,299)	(45,428)
Net current assets	**(33,228)**	**(27,117)**	**669**	**16,502**	**16,628**
Creditors >1 year	(1,329,810)	(1,379,093)	(1,408,583)	(1,408,847)	(1,392,704)
Pension liability	(9,054)	(9,054)	(9,054)	(9,054)	(9,054)
Provisions for other liabilities	(3,007)	(3,007)	(3,007)	(3,007)	(3,007)
Net assets	**681,321**	**707,568**	**745,819**	**798,282**	**856,049**
Reserves	**681,321**	**707,568**	**745,819**	**798,282**	**856,049**

Wheatley Housing Group Limited is a company limited by guarantee and registered in Scotland under the Companies Acts. Company registration no. SC426094. Registered with the Scottish Housing Regulator no. 363. Registered office: Wheatley House, 25 Cochrane Street, Glasgow, G1 1HL.