Mid Year Business Update

2017/18

Making homes and lives better
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Wheatley Group

The first half of this year

The six months to 30 September 2017 have built on the strong performance seen over the last few years.

One of the central pillars of our strategy is a strong commitment to increasing the supply of affordable housing in Scotland and we are continuing to play a significant role in assisting the Scottish Government meet its ambitious target of delivering 50,000 affordable new homes by 2021.

Since launching our strategy, 'Investing in Our Futures', in 2015, Wheatley has completed almost 1500 new, affordable homes. By 2020, this figure will have risen to over 4200.

The scale of our new-build programme is unprecedented in a Scottish context. This was evidenced by a survey earlier this year by Inside Housing magazine, which confirmed Wheatley as the single biggest developer of social-rented homes in the U.K.

Building trust and confidence amongst investors and potential investors is a primary priority. And this applies equally to the people Wheatley works for and with across Scotland. Our business focus and performance continued to be recognised on a local, national and international basis throughout 2017.

Although partner organisations across the Group continued in 2017 to maintain and improve high customer satisfaction levels and win external recognition from organisations, such as Investors in People and Customer Service Excellence, it was perhaps GHA that provided one of the outstanding highlights of the last six months.

This came in Madrid when GHA was presented with one of the most coveted of all business accreditations – the Global Excellence award - by the European Foundation for Quality Management. This is the first time in nearly 20 years that this award has been won by an organisation based in the UK.

We have a strong commitment to tackling homelessness, and have entered into a new partnership with Social Bite which will see us work closely with them to tackle rough sleeping. We're providing 190 homes over two years for people on the streets, together with a range of support services to get their lives back on track.

Financially the Group is ahead of plan delivering an operating surplus of c£30m against a c£25m target. This performance has been underpinned by our new build homes programme delivering ahead of schedule on a number of key sites in Edinburgh and Glasgow.

This is the first year that the new City Building (Glasgow) joint venture has been in place and its performance has been robust with the financial outturn at both gross profit and operating surplus levels delivering in line with expectations.

We have continued to deliver our commitments to our existing homes with a £34.5m investment in the first half of the year. At the half year we are projecting that around 728 new homes will be completed in FY17/18 against a business plan target of 628. This development pace is projected to continue forward into the next year with a strong pipeline already identified with a broad geographical spread across the Scottish central belt.

Our full year forecast is for turnover of £302.4m generating an operating surplus of £63.5m, at a margin of 22% showing a continued progression of our financial performance year on year.

We have also strengthened the funding platform during the period. The Group has broadened its investor base raising a £100m Private Note Placement in May led by BlackRock Real Assets, the world's largest investment management company.

Key areas of focus

Fire safety
As a Group we have developed a strong and sector leading approach to fire safety over the years built on a formal strategic partnership established with the Scottish Fire and Rescue Service ("SFRS") six years ago.

We have undertaken full fire risk assessments of our multi-storey blocks in the year and have increased the resourcing of our Community Improvement Partnership where we work closely with the Police and Fire services. Most multi-storey blocks have been, or are being, fitted with external wall insulation as part of our investment programme. The systems used are designed to prevent the spread of fire and are manufactured with non-combustible materials. There are no aluminium composite material cladding panels with a plastic core of the type used in Grenfell Tower in any of our multi-story blocks.

The potential impact of Welfare Reform
The changes under Welfare Reform will be critically important to our tenants, our customers, and our own organisation. We have looked in detail at how widespread the impact might be to ensure that we understand and are able to support those who are affected. Just over 1,000 of our tenants are on Universal Credit across our group and we estimate that this will eventually rise to c22,000 by 2021 with UC full service roll out.

The Benefit Cap, which reduces the amount households (mostly families) can claim from £26,000 to £20,000, affects around 60 households across our group. The Scottish Government are mitigating the effect of the Benefit Cap through their devolved statutory powers – Discretionary Housing Payments.

As well as the range of new services and products introduced to support our group's household mitigation approach, we continue to work with both Scottish Government and UK Government to influence for positive change and we are reviewing our housing and care policies to minimise the risk to future tenants of living in housing they cannot afford.

A welcome development in the year has been the introduction, from the start of October, of devolved Scottish flexibilities in relation to Universal Credit. This means that our tenants will be able to apply to have the housing element of their benefits paid directly to their landlord. This is a significant differentiator from the situation in England, and will help tenants with their own personal budgeting as well as reducing the risk to the organisation of increasing rent arrears and associated costs.

Local Housing Allowance cap
We warmly welcome the UK Government's confirmed that Housing Benefit for social housing tenants is no longer at risk of being capped at Local Housing Allowance levels. This reduces a key area of concern for our tenants and helps to support the continued robustness of our business planning assumptions in relation to future rent levels, in particular around our supported accommodation customers where the costs are higher given the more intensive nature of the housing support services provided.

External Credit rating view
Our annual credit rating review was published in May 2017. S&P Global Ratings commented:

'Wheatley Housing Group's financial performance has improved over the last couple of years, and we forecast that revenues and profitability will keep strengthening over the next two to three years. We have revised our assessment of Wheatley's stand-alone credit profile to 'a' from the 'bbb' category'.

Alongside this strongly positive message our 'outlook' was revised to 'stable' from 'negative' and we had the A+ rating on our £300m bond issuance confirmed.

Scottish social housing – continued divergence from England

The Scottish social housing sector continues to see strong cross party support, with a more favourable operating environment than England in a number of respects.

Social housing is more prevalent in Scotland than England, comprising over 23% of all Scottish housing stock[1], compared to 17% in England[2]. Scotland has a slightly lower rate of owner-occupation than England, 58%[1] compared to 63%[2]. The proportion of housing in the private rented sector is 15% in Scotland[1], compared to 19% in England[2].

This has been reflected in the nature of Scottish Government legislation on the issue, which has increasingly diverged from England in recent years.

These differences allow us to continue with a primary focus on social housing and the provision of core services to tenants and we maintain a minimal exposure to the private rented sector and no exposure to development for open market sales. This ensures that the organisation continues to operate on a very low risk base when compared to other social housing providers of a comparative size in England.

	England	Scotland
Rent cut	Registered Landlords are continuing to work through a period of rent cuts which will equate to a total of 4% before they can revert to a more progressive approach	**No rent cuts in Scotland** – housing associations are free to set rents with no central government rent controls or caps and Scottish Ministers have confirmed that this will continue to be the case.
Right To Buy	Continues to feature resulting in stock attrition particularly in high demand areas.	**Abolished in Scotland** by the Housing (Scotland) Act 2014.
Grant support for new build	Social housing not supported by the HCA through new build grant. S106 planning requirements for social housing being scrapped – reduced pipeline of schemes for social landlords.	New build **grant levels significantly higher than England** (benchmark £72,000 per unit) – with ongoing **cross-party support for new affordable housing.**
Bedroom tax	Applies in full – reduces housing benefit entitlement and increases payment/income risks to housing associations.	**Bedroom tax effectively abolished** in Scotland through Scottish Government subsidy, with devolution proposals likely to formalise this.

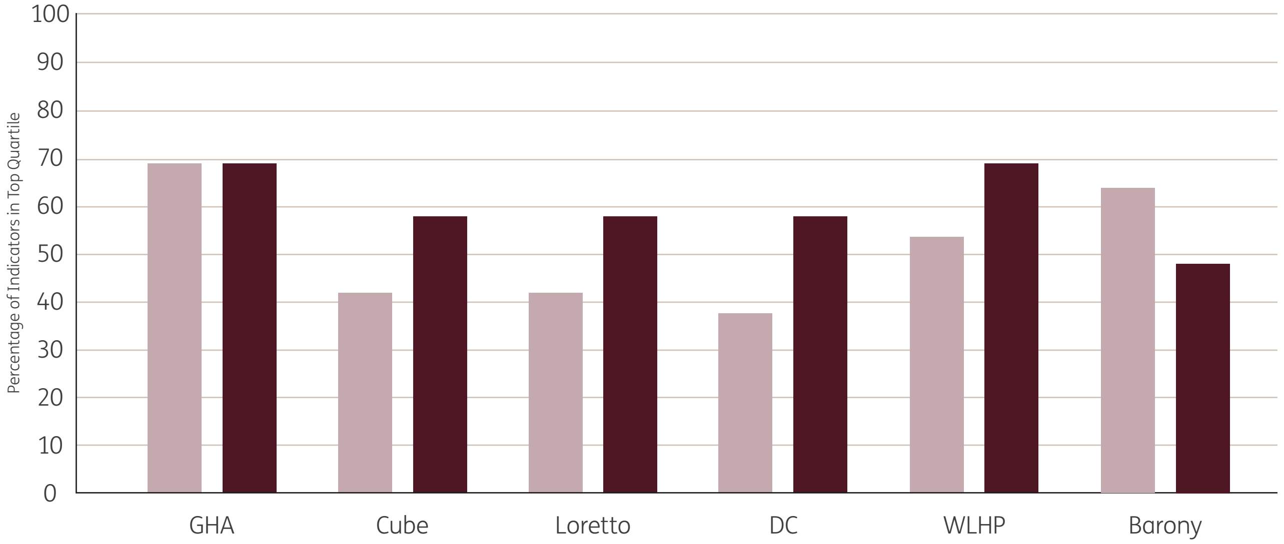
1 www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/KeyInfoTables (updated after Scottish Household Survey 2016 was published) 23.2% of housing stock in Scotland is socially rented. Of this 10.8% are rented by Registered Social Landlords and 12.3% by Local Authorities.

2 www.gov.uk/government/uploads/system/uploads/attachment_data/file/658923/EHS_50th_Anniversary_Report.pdf

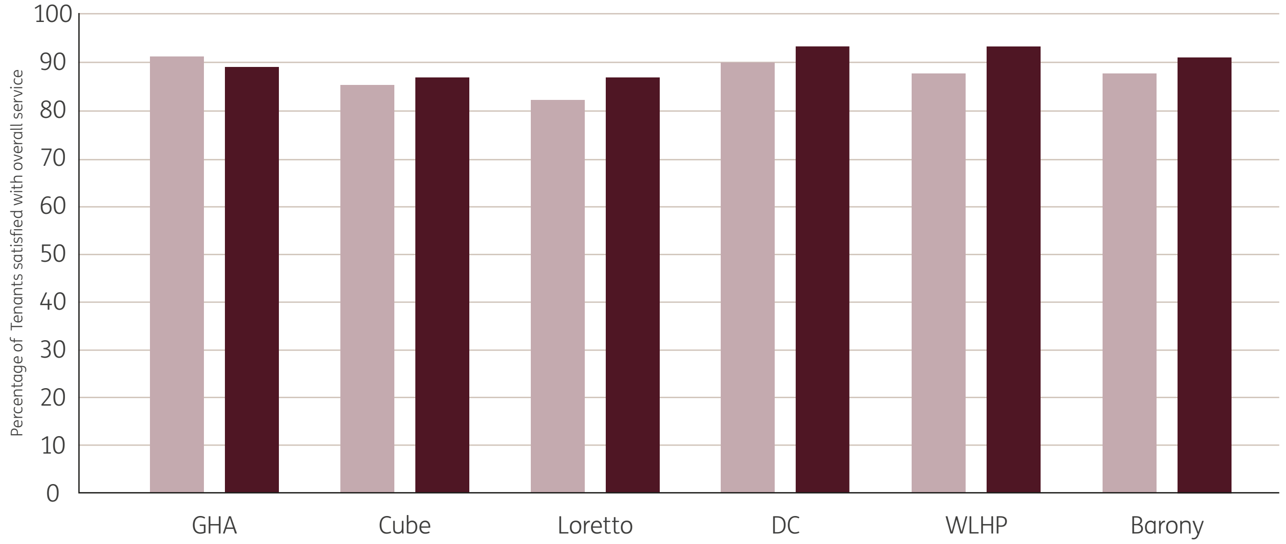
Performance overview

Registered Social Landlords (RSLs)
The 2016/17 Annual Returns on the Scottish Social Housing Charter showed that all but one of our housing associations increased their number of top quartile performance indicators during 2016/17. For these housing associations over half of the indicators are in the top quartile in Scottish terms.

Percentages of 2016/17 indicators in the top quartile in performance terms in comparison with 2015/16 Scottish Social Housing Charter returns

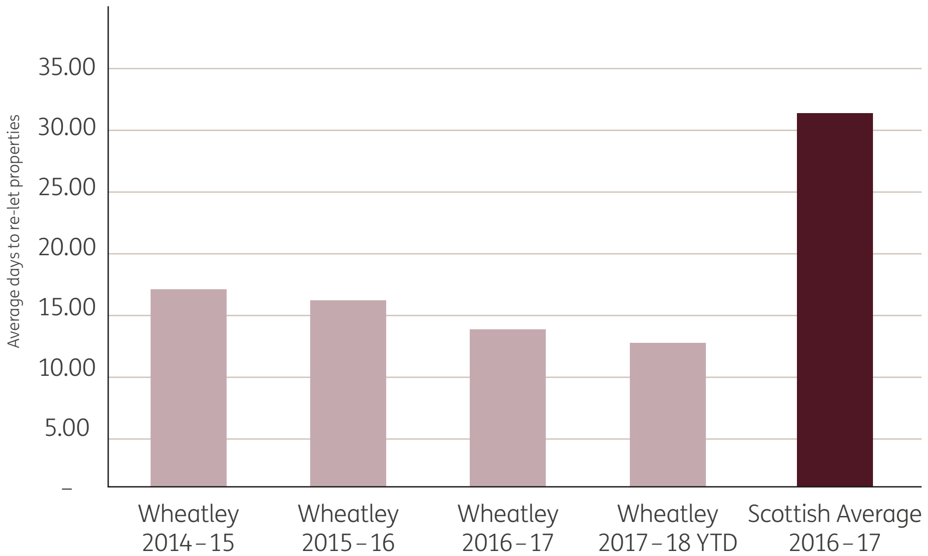


Consistently outstanding customer satisfaction
A drive to maintain outstanding customer satisfaction is at the heart of our approach to performance. The chart below illustrates the consistently strong level of satisfaction across all of our housing association subsidiaries:



The chart below shows continued positive performance in relation to days to let vacant properties, across Wheatley Group:

Average days to let vacant properties



Source: Scottish Social Housing Regulator returns; Wheatley figures stated as weighted average of Group RSLs; 2017/18 YTD position as at 31 Oct 2017

Commercial subsidiaries
Our factoring and private rented sector companies (YourPlace and Lowther Homes respectively) maintained a steady performance in the current year.

We anticipate that c.£1.6m of contribution from YourPlace will be able to be made to the Wheatley Foundation in the year which is in line with budget and prior years. This money will be invested into programmes that tackle poverty and social isolation, promote digital inclusion and create education and employability opportunities in our local communities.

The excellent business performance of Lowther Homes, which has a growing portfolio of over 800 owned and managed properties, ranged from an average of 20 days to let a home, against a target of 28 days, to customer satisfaction levels at 85%, up from 81% on the previous year.

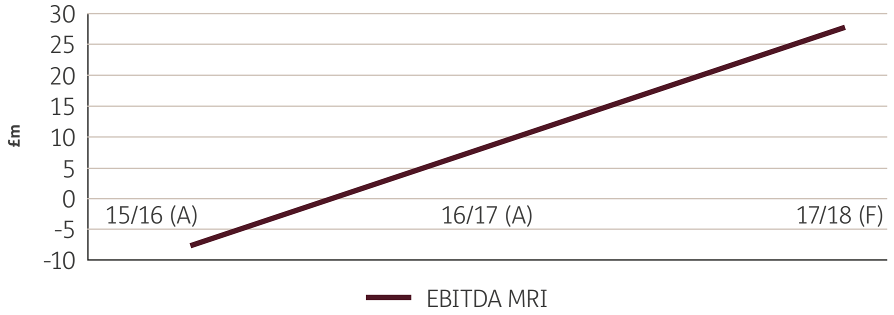
Financial performance

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

Statement of Comprehensive Income	**2015–16**	**2016–17**	**2017–18**
	Actual	***Actual***	***Forecast***
	£000	***£000***	***£000***
Turnover	281,157	275,729	302,356
Operating expenditure	(235,646)	(242,352)	(238,826)
Other income and gains	126,862	12,904	0
Operating surplus	**172,373**	**46,281**	**63,530**
Operating margin %	**61%**	**17%**	**22%**
Gain on disposal of fixed assets	2,817	3,156	3,394
Net finance costs	(47,782)	(52,077)	(58,411)
Movement in fair value of financial instruments	2,310	1,035	0
Surplus before tax	**129,718**	**(1,605)**	**8,513**
Taxation	(642)	(159)	0
Surplus for the year	**129,076**	**(1,764)**	**8,513**

For the period 1 April 2017 to 30 September 2017, turnover at £144.5m is in line with plan and is anticipated to translate into a full year forecast of £302m. Operating surplus of £29.9m is forecast to grow to £63.5m for the full-year, at an operating margin of 22%. This translates to a statutory surplus at the half year of £4.3m.

As a group we closely monitor our EBITDA-MRI position. This ensures that we have a clear view of the cash generation capacity of the organisation.



Our EBITDA-MRI performance continues to improve with a projected year end outturn of c.£27m. This continued trend is underpinned by a reducing operating cost base as we continue to focus on delivering a first class, efficient organisation.

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. These were all comfortably met at the half year.

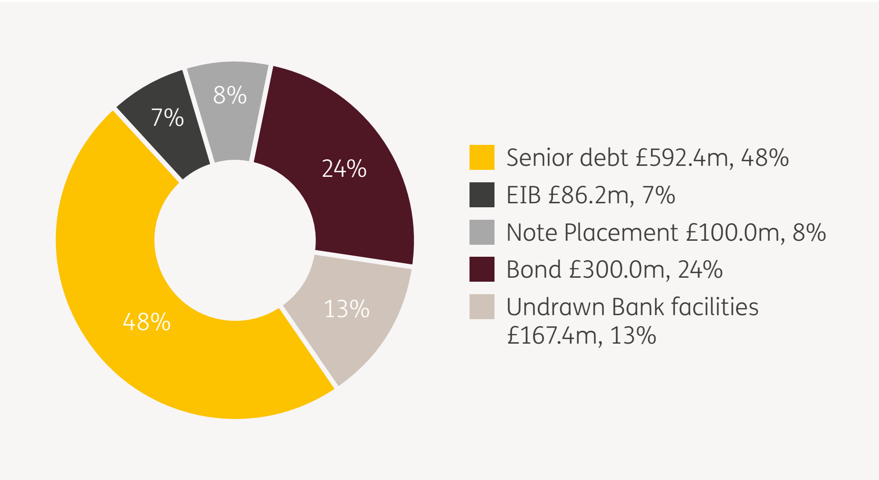
Golden Rule	Description
Liquidity	Cash requirement for next 12 months + 25% contingency to be met through available cash and undrawn debt capacity
Contracted Development	Contracted development + 25% contingency to be covered by cash and available facilities
Gearing	Net debt/asset valuation for RSL borrower group not to exceed 75%
Gross Debt Per Unit	Not to exceed £25,000 across RSL borrower group
Interest Cover	Adjusted operating surplus (adding back depreciation, new build grant, and RTB gain on sales) to be greater than or equal to 1.2x across RSL borrower group

Strong liquidity and low refinancing risk

At 30 September 2017, the Group had £1,246m of bond 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 2017 comprised the following:

Group Co	Facility	Principal
WFL1	Bond	£300.0m
	Private Note Placement	£100.0m
	Commercial bank syndicated facilities	£668.2m
	European Investment Bank facility	£106.3m
DCH	THFC facility	£16.5m
WFL2	Private rented sector bank finance	£50.0m
Cube	SPRUCE (Unsecured) loan facility	£5.0m
		£1,246.0m

Thirteen per cent (£167.4m) of the Group's borrowing facilities were undrawn at 30 September 2017:



The funding profile of the organisation is being changed to reflect the needs of the ongoing development programme. New funding tranches are being designed to provide shorter term and highly flexible facilities which ensure that the cost of funding and draw down profiles can be optimised. This approach is being developed further over the course of the second half of the year and a new £100m revolving facility is being put in place with HSBC.

Financial Projections

Looking forward, our Board approved financial projections reflect a continued improvement in performance. The development programme continues to provide a strong sustainable income stream with new homes steadily coming online.

We will continue to maintain a close focus on our cost base to ensure that we operate an efficient and effective overall Group model.

As we look forward our objective is to maintain the consistent trend of improvements that have been delivered to date. Strengthening our key income and cost lines will ensure that the organisation continues to be able to deliver the consistently high quality of services to all of our customers.

Statement of Comprehensive Income	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£000	***£000***	***£000***	***£000***	***£000***
Turnover	337,574	339,694	322,857	320,655	321,993
Operating expenditure	(232,360)	(233,358)	(239,798)	(238,429)	(242,637)
Other income and gains	(799)	1,957	625	3,851	4,259
Operating surplus	**104,415**	**108,293**	**83,683**	**86,077**	**83,615**
Operating margin %	**31%**	**32%**	**26%**	**27%**	**26%**
Net finance costs	(60,351)	(67,720)	(73,544)	(76,616)	(79,054)
Movement in valuation of social housing properties	(35,090)	(8,888)	18,200	35,133	45,021
Surplus before tax	**8,974**	**31,686**	**28,339**	**44,594**	**49,582**
Taxation	(113)	(183)	(188)	(183)	(135)
Surplus for the year	**8,860**	**31,503**	**28,150**	**44,411**	**49,448**

Statement of Financial Position	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Housing and investment properties	1,927,427	2,002,190	2,047,376	2,093,571	2,133,716
Other fixed assets	24,689	23,258	22,025	20,590	19,917
Total Fixed Assets	**1,952,116**	**2,025,448**	**2,069,401**	**2,114,161**	**2,153,632**
Pension asset	31,432	31,432	31,432	31,432	31,432
Trade and other debtors	47,837	48,224	49,179	49,643	48,654
Cash and cash equivalents	29,811	29,970	32,820	28,758	31,445
	77,647	**78,195**	**81,999**	**78,402**	**80,099**
Creditors <1 year	(114,431)	(88,100)	(76,459)	(69,175)	(69,244)
Net current assets	**(36,784)**	**(9,905)**	**5,540**	**9,227**	**10,855**
Creditors > 1 year	(1,292,858)	(1,361,565)	(1,392,814)	(1,396,849)	(1,388,501)
Pension liability	(8,450)	(8,450)	(8,450)	(8,450)	(8,450)
Provisions for other liabilities	(3,198)	(3,198)	(3,198)	(3,198)	(3,198)
Net assets	**642,258**	**673,761**	**701,912**	**746,323**	**795,771**
Reserves	**642,258**	**673,761**	**701,912**	**746,323**	**795,771**

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