Building homes, independence and aspirations

Trading update for the six months ended 30 September 2022

Home Group Limited (Home Group) issues its unaudited Group trading update for the six months ended 30 September 2022 with comparatives to the unaudited results for the six months ended 30 September 2021.

These figures are provided for information purposes only.

Half Year Summary

- Home Group own and manage over 55,000 homes across 200 local authority areas with 50% of stock within 14 local authorities, primarily affordable tenures.
- Continued delivery of our mission of Building Homes, Independence and Aspirations.
- Delivery of 591 new homes in the six months to 30 September 2022 of which 363 are affordable tenures and we expect to complete c. 1,300 homes this financial year.
- Surplus before tax of £13.0 million.
- Liquidity of £387 million.
- Rating from Regulator of Social Housing at G1 V2 (previously G1 V1) following regrading in November 2022.
- S&P reaffirmed rating at A- (stable outlook).
- Ranked within the top 5 best workplaces for super large employers, and best workplaces for women, through the Great Place to Work survey.
- Second year of producing an Environmental, Social and Governance report in line with the Sustainability Reporting Standard for Social Housing covering 12 months to 31 March 2022.

Commenting on the results, **Helen Meehan, Chief Financial Officer** said:

"The first half of 2022/23 saw us deliver a surplus before tax of £13.0 million – which is £5.6 million lower than the equivalent period in 2021/22. Although partly due to increased investment in our planned maintenance programme and building safety works, we have also experienced an adverse impact from increasing inflation and interest rates.

Previously we have been graded G1 V1 by the Regulator of Social Housing, but following their stability check in November 2022 we were regraded to G1 V2 reflecting the current economic uncertainty and the financial pressures this places upon the sector. Our financial plans have been under constant review as we assess the likely impact of economic conditions and consider our priorities so we can continue to deliver for our customers.

The cost of living crisis is affecting everyone, and we continue to support our customers through referral to our financial inclusion team, who have already helped customers increase their income by £2 million, signposting to support available, and provision of fuel vouchers to households experiencing fuel poverty."

Key Financials

Key Financial Indicators	6 months ended 30 September 2022	6 months ended 30 September 2021
Turnover (£000)	231,604	211,200
Operating surplus (£000)	33,061	37,485
Operating margin (Overall)[1]	12.0%	15.5%
Operating margin (Social housing lettings)[1]	19.6%	22.3%
Surplus before tax (£000)	12,983	18,604
Gearing[1]	41.7%	42.7%
Interest cover (EBITDA MRI)[1]	138.0%	190.7%
Net debt per unit (£)	21,926	21,746

Overall turnover increased by 9.7% to £231.6 million reflecting rent increases which applied from 1 April 2022, new affordable rented housing, and higher volumes of new build sales. The operating margin on social housing lettings has reduced from 22.3% to 19.6% with additional income more than offset by higher operating costs, including maintenance and building safety. This has contributed to the reduction in the overall operating margin, which is also influenced by the higher proportion of turnover from development for sale in the six months to 30 September 2022 compared to the same period the previous year.

Surplus before tax is £5.6 million lower than in 2021. Although partly due to increased investment in our planned maintenance programme and building safety works, surplus has also been adversely impacted this year by higher inflation and interest rates.

Treasury and financing

As at 30 September 2022 net debt was £1,116 million (2021: £1,099 million) and available liquidity in the form of committed, undrawn facilities and cash was £387 million (2021: £416 million).
The proportion of drawn debt that was fixed as at 30 September 2022 was 81.1% (2021: 81.1%). We continue to have a substantial pool of unencumbered properties available to charge as security against future borrowings.

[1] As defined by the Regulator of Social Housing - Value for Money metrics

Development and sales

Development	6 months ended 30 September 2022 No. of homes	6 months ended 30 September 2021 No. of homes
Social/affordable rent	296	151
Affordable home ownership	67	41
Outright sale	158	121
Joint ventures	70	93
Total homes handed over	591	406

In the six months to 30 September 2022 we and our joint venture partners have delivered 591 homes, 363 of which were affordable. We are currently expecting to deliver c.1,300 new homes this financial year.

Build completions in the first six months are slightly behind expectation with material shortages and contractor labour shortages contributing to some delays. We are actively monitoring our delivery pipeline for indications of delays and working closely with our contractors and partners to ensure timely completion of new homes.

New build sales	6 months ended 30 September 2022 No. of homes	6 months ended 30 September 2021 No. of homes
Affordable home ownership	84	88
Outright sale	124	95
Joint ventures	67	129
Total sales completed	275	312
Homes held for sale as at 30 September	122	237

Sales performance in the six months to 30 September 2022 has been satisfactory but in common with the rest of the market we have experienced some headwinds since the September mini-budget. We continue to see interest on our sales sites and are proactively trying to overcome the challenges in the market.

As at 30 September 2022, we held 122 completed homes available for sale. This represents a 48% reduction compared to the position at 30 September 2021 as we have slowed the pace of development anticipating a decrease in demand as buyers are impacted by cost of living.

Asset management

Maintenance	6 months ended 30 September 2022 £'000	6 months ended 30 September 2021 £'000
Routine maintenance	26,234	23,224
Planned maintenance	9,610	10,905
Major repairs expenditure	8,315	2,789
Capitalised works	16,966	11,753
Total spend on improving and maintaining homes	61,124	48,670

Total maintenance spend in the six months to 30 September 2022 is 26% higher than the equivalent period in 2021. We have seen an increase of £3.0 million in routine maintenance reflecting cost pressures we are experiencing from contractors and on material and component prices.

The increase of £5.5 million in major repairs relates to building safety works. Following the royal assent and publication of updated building and fire safety legislation and regulations, we continue to carry out detailed assessments of buildings which fall under this legislation and have started a programme to carry out suitable remediation works where necessary.

Finally, capitalised works increased by £5.2 million reflecting the increased investment in our existing homes in the current year.

Sustainability

In 2020 we developed a 30-year strategic plan which would allow us to green our business, homes and communities, while working towards the UN's goal and the UK Government's 2050 net zero target. We have started at a pace with the early parts of our plan and have made significant progress in putting in place the foundations which will allow us to achieve our aims and ambitions.

We have been undertaking a major net zero retrofit pilot scheme in the northwest, which involves whole house retrofit solutions on estates predominantly without gas. We were awarded £1.2 million from the Social Housing Decarbonisation Fund for this scheme, supported by £3.3 million of our own investment. Our learning from the pilot, including the installation of low carbon technology, will inform our future plans on our journey to net zero.

We are a founding member of The Greener Futures Partnership – a collaboration of 5 registered providers who have shared ambitions to lower emissions, reduce fuel poverty and improve living conditions for customers. By pooling our resources, knowledge and expertise we will be able to increase our impact for our customers. The partnership have submitted a consortium bid for the second round of Social Housing Decarbonisation Funding to improve 5,500 homes. As part of this submission we have bid for funding of £7.2 million towards improvement works costing £17.9 million in 1,000 homes across our portfolio, putting us well on the way to our five-year retrofit delivery plan.

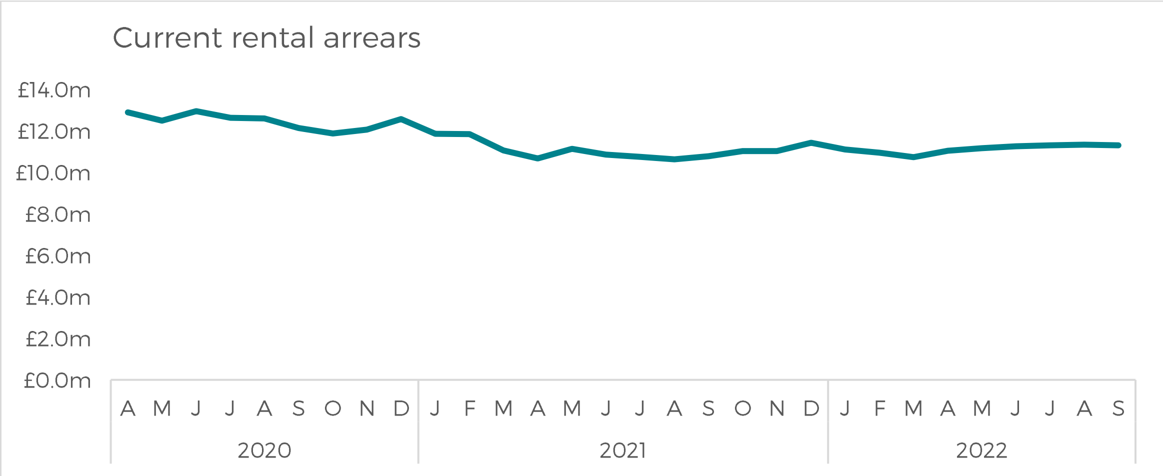
We were an early adopter of the Sustainability Reporting Standard for Social Housing and have recently published our second report for 2021/22. A copy of this report can be found at:

www.homegroup.org.uk/media/30xflzai/environmental-social-and-governance-report-esg-2021-2022.pdf

Highlights from the report include:

- Our continued strong customer engagement programme resulted in 4,469 of our customers providing us with feedback. This is an increase of 18% in comparison to 2020/21 where we asked 3,786 customers.
- 73% of our homes have an Energy Performance Certificate (EPC) rating of C or above (2020/21: 72%). Of the 535 new build homes handed over during the year, 97% were EPC B rated with the balance rated EPC C.
- Investment in our colleagues and our enhanced staff wellbeing offer was recognised in our annual Great Place to Work survey where we were 5th in UK for super large employers.

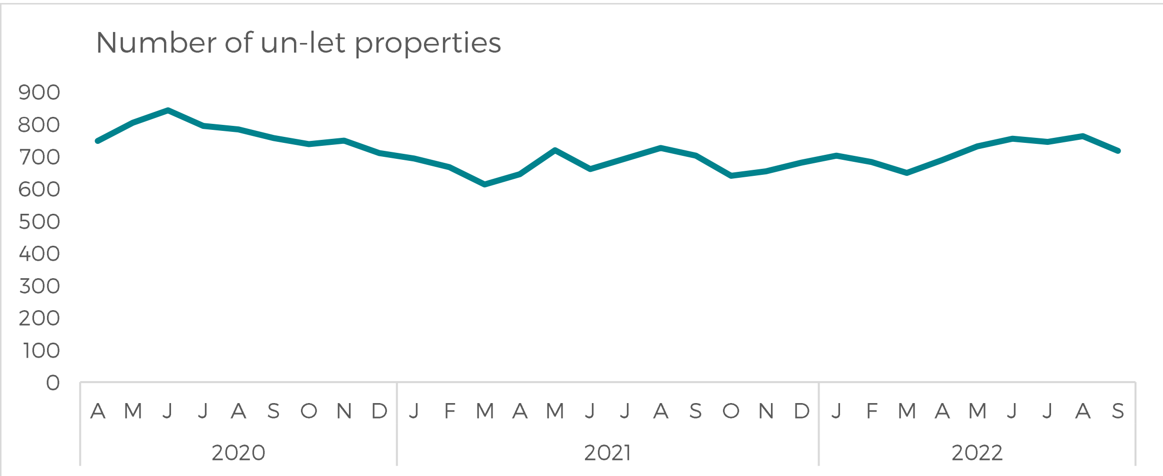
Operational performance



We have seen a general stagnation in the level of arrears with the drive to improve rent collection offsetting the impact of the cost of living challenge, with arrears currently around £11.2 million at 30 September 2022 (2021: £10.8 million). It is anticipated arrears will reduce and we expect that by March 2023 the balance will be around the same level as at the start of the year (£10.7 million).

Household budgets remain strained due to the rising cost of living, and we expect some impact as the pause by the Department for Work and Pensions on managed migration to Universal Credit is lifted.

Our financial inclusion team continues to work with customers who are experiencing financial pressures, helping them to claim benefits to which they are entitled. Targeted campaigns will be undertaken to ensure the maximum positive impact on both customer experience and rent collection.



The number of rented properties to let at 30 September 2022 was 717 (2021: 702). We have experienced higher levels of un-let properties so far this year as there have been delays in carrying out void repair works due to material and labour shortages in the supply chain. We expect to see a steady reduction in the number of un-let properties over the coming months.

Summary financial statements

Summary income and expenditure	6 months ended 30 September 2022 £'000	6 months ended 30 September 2021 £'000
Turnover	231,601	211,200
Cost of sales	(44,928)	(37,973)
Operating expenditure	(158,836)	(140,538)
Surplus on disposal of housing properties	5,220	4,797
Operating surplus	**33,061**	**37,485**
Share of profit in joint ventures and associates	1,555	1,711
Interest receivable	1,161	1,144
Interest payable	(22,793)	(21,736)
Surplus before taxation	**12,983**	**18,604**

Summary balance sheet	At 30 September 2022 £'000	At 30 September 2021 £'000
Housing properties	2,675,431	2,571,970
Properties held for sale	112,606	136,237
Investments	80,501	82,606
Cash and cash equivalents	54,095	36,630
Loans and borrowings	(1,170,286)	(1,135,897)
Deferred capital grant	(869,188)	(827,942)
Other assets and liabilities	(138,945)	(161,218)
Net assets	**744,214**	**702,386**

Contact Information

For further information, please contact:

Steve Hallowell
Director of Treasury and Investor Relations
07736 097160
steve.hallowell@homegroup.org.uk

Steve Heywood
Media Manager
steve.heywood@homegroup.org.uk

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