



Building homes, independence and aspirations

Trading update for the six months ended 30 September 2023

Published: 6 December 2023

Home Group Limited (Home Group) issues its unaudited Group trading update for the six months ended 30 September 2023 with comparatives to the unaudited results for the six months ended 30 September 2022.

These figures are provided for information purposes only.

Half Year Summary

- Home Group supports over 125,000 customers across more than 55,000 homes, primarily affordable tenures.
- Operates across 192 local authority areas in England and Scotland, with 50% of stock within 17 local authorities.
- Provides care and support services for over 12,000 customers, including people with mental and physical health issues.
- Surplus before tax for the six months ended 30 September 2023 of £20.5 million.
- Undrawn, committed borrowing facilities and cash of £355.5m at 30 September 2023.
- Standard and Poor's (S&P) reaffirmed rating at A- (stable outlook) in August 2023.
- Rating from Regulator of Social Housing at G1 V2.
- Delivery of 483 new homes of which 313 are affordable tenures.
- Proactive management in reducing the number of un-let rented properties, resulting in 642 void properties and a reduction of 10% in comparison to September 2022.
- Successful in securing £7.3m from the Social Housing Decarbonisation Fund Wave 2 to retrofit 1,000 homes.

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

"During the first half of 2023/24 we have delivered a surplus before tax of £20.5m, which is 58% higher than the equivalent period in the previous year. We are mindful that the outturn for the second half could be challenging in light of the economic climate, including the impact of high inflation and our plans to continue to support our customers through these difficult times. We are also expecting higher maintenance costs reflecting our commitment to improve and maintain our customers' homes, an increase in the volume of repairs during the winter period and our zero tolerance to damp and mould.

Despite the economic challenges the sector is facing, we were really pleased to have our Standard & Poor's (S&P) rating reaffirmed in August 2023 at A – with a stable outlook. S&P recognised that we have responded positively to the pressures within the sector in our latest business plan by a planned reduction in our development ambition and reduced exposure to property sales. S&P also recognised that there are levers we can pull if times become more challenging.

We remain committed to increasing the number of affordable homes we own and manage but have reduced our planned pipeline in light of the economic conditions. Our development activity is subject to robust risk management and we will only proceed with schemes that meet our target development key performance indicators.

We continue to be focussed on delivering our customer promise, which was developed in collaboration with our customers and sets out what matters to them. Our customers are at the heart of what we do, and we continue to involve them in many aspects of our business, from conducting customer promise assessments to participating in recruiting new colleagues and influencing our procurement decisions. Through our wide-ranging customer engagement and scrutiny activities, our customers can measure how we are performing and hold us to account."

Key Financials

Key Financial Indicators	6 months ended 30 September 2023	6 months ended 30 September 2022
Turnover (£000)	247,351	231,604
Operating surplus (£000)	44,054	33,061
Operating margin (Overall) ¹	16.6%	12.0%
Operating margin (Social housing lettings) ¹	24.9%	19.6%
Surplus before tax (£000)	20,533	12,983
Gearing ¹	42.9%	41.7%
Interest cover (EBITDA MRI) ¹	156.1%	138.0%
Net debt per unit (£)	23,283	21,926

Overall turnover increased by 6.8% to £247.4 million (2022: £231.6 million) reflecting the 7% capped rent increases which we applied to our rented and shared ownership properties from 1 April 2023 and an increase in contracted income for support services, partly offset by a reduction in new build sales.

The operating margin for social housing lettings has increased to 24.9% (2022: 19.6%) as we proactively controlled costs to mitigate some of the impact of cost inflation we have experienced in this and the previous year. The surplus from these activities is reinvested in our homes in the long-term, from cyclical maintenance to increasing the energy efficiency of our homes, and we expect this margin to be eroded in the remainder of the year as maintenance spend increases. The overall operating margin has increased to 16.6% (2022: 12.0%). The overall operating margin is impacted by the lower margins generated from other activities including new build sales, shared ownership first tranche sales and support services.

Our surplus before tax is £20.5m (2022: £13.0m), an increase of 58% in comparison to the previous year. However, we remain mindful of the economic climate we operate in and the challenges we could face for the remainder of the year. We expect our maintenance spend will increase, reflecting our commitment to keeping repair timescales in line with customer expectations, an increase in the volume of repairs during winter and our zero tolerance approach to damp and mould. To reduce the financial impact of these additional costs, we will closely manage spend in other areas of the business.

Gearing has increased by 1.2% and net debt per unit by 6.2%. This reflects the Group's drawn borrowings increasing to £1,192.6 million (2022: £1,116.2 million). Borrowings, together with capital grant and net cash from our operating activities enable us to continue to invest in our existing properties and in new affordable homes.

Additional borrowings, albeit lower than planned, and higher interest rates have increased interest payable by £4.8m in the six months to 30 September 2023 compared to the same period last year. Despite this, interest cover (EBITDA MRI)¹ has increased to 156.1% (2022: 138.0%) and we continue to have significant headroom against all our lender covenants with our tightest group interest cover covenant at over 200% with minimum permitted cover of 100%.



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

Treasury and financing

As at 30 September 2023 net debt was £1,192.6 million (2022: £1,116.2 million) and available liquidity in the form of committed, undrawn facilities and cash was £355.5 million (2022: £387.4 million).

The proportion of drawn debt that was fixed as at 30 September 2023 was 77.8% (2022: 81.1%). We continue to have a substantial pool of unencumbered properties available to charge as security against future borrowings.

Development and sales

	6 months ended 30 September 2023	6 months ended 30 September 2022
Development	No. of homes	No. of homes
Social/affordable rent	283	296
Affordable home ownership	30	67
Outright sale	47	158
Joint ventures	123	70
Total homes handed over	483	591

So far this year we and our joint ventures have delivered 483 new homes, 313 of which were affordable. Build completions were slightly behind expectation due to site specific challenges including supply chain challenges, utilities delays, and statutory approvals as well as proactive decisions on some joint venture schemes to slow the pace of construction to mirror sales demand. We continue to work closely with our contractors and partners to ensure timely completion of new homes. Although we are insulated from cost volatility to some extent through fixed price contracts, our approach remains one of caution, as whilst disruptions in material supply and soaring inflation seem to be behind us, availability of labour still seems to be a challenge and to date we have not seen evidence of softening in the construction pricing. Our development activity is subject to a robust risk management framework with projects closely managed by our regional teams and subject to scrutiny at our Development Committee and Board. Schemes will only proceed if target development KPIs are achieved, and their performance is monitored throughout the project lifecycle.

	6 months ended 30 September 2023	6 months ended 30 September 2022
New build sales	No. of homes	No. of homes
Affordable home ownership	62	84
Outright sale	81	124
Joint ventures	94	67
Total sales completed	237	275
Homes held for sale as at 30 September	58	122

During the first four months of the financial year there were steady levels of buyer activity and reservations taken, along with a decrease in cancellations. Whilst those activity levels have continued on shared ownership homes, we have experienced a notable slowdown in the private sale market following prevailing market conditions. There is an increased supply of properties on the market generally and a reduction in the demand for homes due to the ongoing cost of living pressures and increased interest rates having a detrimental impact on buyer confidence levels.

Despite the decline in new buyer activity on private sale homes, we still have a strong sales pipeline and continue to have plots reserved across a number of our sales sites. Our sales activity and forecasting are subject to regular review with management and sales performance discussed at Development Committee and Board with mitigation strategies highlighted pro-actively. We have continued to work towards reducing the number of completed properties held for sale, and this has driven a 40% decrease in stock held over the first 6 months of 2023/24.

Asset management

	6 months ended 30 September 2023 £'000	6 months ended 30 September 2022 £'000
Maintenance		
Routine maintenance	26,413	26,233
Planned maintenance	13,498	9,610
Major repairs expenditure	5,825	8,315
Capitalised works	19,931	16,966
Total spend on improving and maintaining homes	65,667	61,124

Total maintenance spend in the six months to 30 September 2023 is 7% higher than the equivalent period in 2022, which is a product of us fulfilling our customer promise of providing a safe place to live and delivering a reliable repairs service. We are committed to keeping repair timescales in line with customer expectations and tackling cases of damp and mould.

Investment in our existing homes through our planned maintenance, major repairs and capitalised works programmes is informed by our stock condition information which we continue to refine through our programme of stock condition surveys. We expect to complete over 12,000 surveys this year delivered by our in-house team and third-party surveyors.

Following the highly publicised concerns regarding the presence of reinforced autoclaves aerated concrete (RAAC) in UK schools, Home Group undertook a review of its property portfolio. The likelihood of RAAC being widespread in our properties is low, however, we have risk assessed properties based on a number of criteria in order to identify which properties may contain RAAC. All high and medium risk properties have been inspected, and our work is ongoing for low-risk properties. To date, no properties have been found to contain RAAC. If RAAC is confirmed, we will work with structural engineers and our internal building surveying team to determine the appropriate course of action on a case-by-case basis.

The total spend on improving and maintaining homes includes £3.2 million (2022: £6.9 million) of building safety costs. It is fundamental that we provide our customers with a safe place to live, and we proactively manage our fire safety risks.

Sustainability

In 2020 we developed a 30-year road map to green our business, homes and communities, while working towards the UN's goal and the UK Government's 2050 net zero target. We are now into the fourth year of our plan and continue to build on the foundations which will help us achieve our longer-term goals.

Last year we completed our first main retrofit project in Cumbria where we retrofitted 90 homes with low EPC ratings. Customer feedback from this project has been very positive and we will take the learnings from this project into future retrofit programmes.

Following the success of this project, we have been successful in applying for Wave 2 of the Social Housing Decarbonisation Fund (SHDF) and we plan to retrofit 1,000 homes over the next two years. We will adopt a fabric first approach to improving the energy efficiency of these homes but will also install solar PV panels where this is considered appropriate.

Our SHDF Wave 2 application was part of a wider bid with our partners in the Greener Futures Partnership, which is made up of some of the UK's largest housing associations – Abri, Anchor, Home Group, Hyde and Sanctuary. Together, the Greener Futures Partnership have 600,000 customers in over 300,000 homes and represent around 10% of the social housing market.

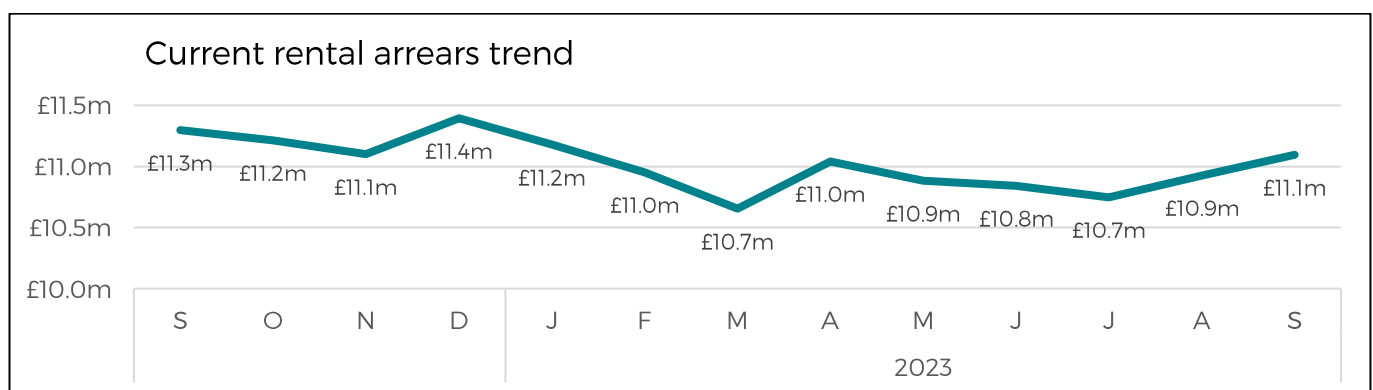
We were an early adopter of the Sustainability Reporting Standard for Social Housing and have published our third report for 2022/23. A copy of this report can be found at:

<https://media.umbraco.io/home-group-heartcore/01qdd5th/esg-report-2022-2023.pdf>

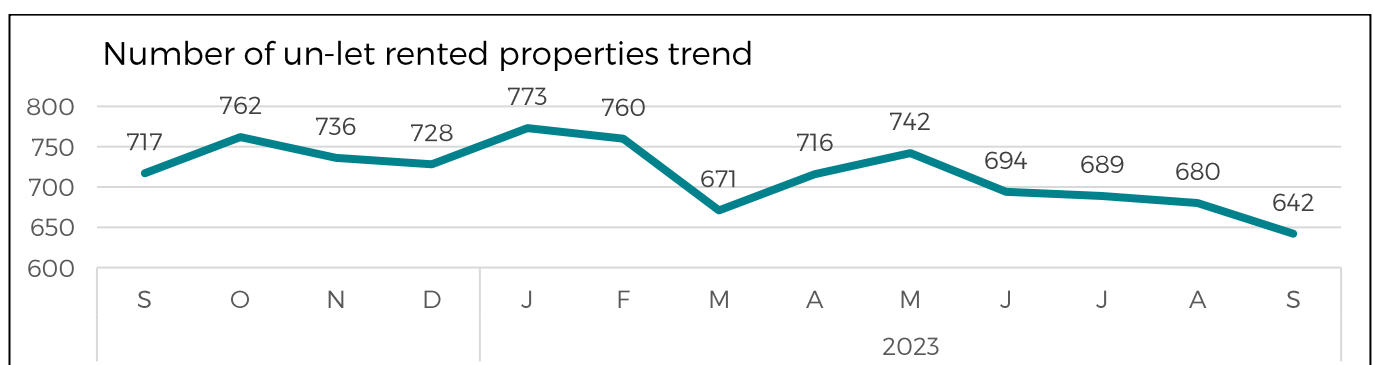
Highlights from the report include:

- 70% of our existing homes are rated EPC C or above and 95% of our new build homes are rates EPC B or above.
- We continue to engage with our customers, where we asked 2,080 customers their views, listened to what they said and acted on their ideas. We also engaged with 4,550 customers at a local level in our communities and services, a total of 6,630.
- Each year, we employ around 120 apprentices and 70 of these annual apprentices are exclusively for our customers who have been long-term unemployed. We invest over £1 million per year in employment costs for our customer apprentices and over £0.2 million in their learning.
- Our median gender pay gap has fallen from 11.1% in 2021 to 6.5% in 2023. This compares to the UK average gender pay gap of 14.3%

Operational performance



We expect current arrears to reduce to below March 2023 levels by the year end. The timing of payment schedules from housing benefit around month end increased our reported arrears in September 2023 compared to other months.



Despite an initial set-back in terms of performance levels in the first two months of 2023/24 we have recovered to be in line with forecast levels at the six-month stage. A number of collaborative initiatives across our Customers & Communities and Maintenance directorates have delivered some creative and effective solutions to drive the void numbers down. We are in a strong position at the end of September 2023 and are working towards further reductions.

Summary financial statements

	6 months ended 30 September 2023 £'000	6 months ended 30 September 2022 £'000
Summary income and expenditure		
Turnover	247,351	231,604
Cost of sales	(39,664)	(44,928)
Operating expenditure	(166,693)	(158,835)
Surplus on disposal of housing properties	3,060	5,220
Operating surplus	44,054	33,061
Share of profit in joint ventures and associates	1,643	1,555
Interest receivable	2,229	1,161
Interest payable	(27,393)	(27,794)
Surplus before taxation	20,533	12,983

	At 30 September 2023 £'000	At 30 September 2021 £'000
Summary balance sheet		
Housing properties	2,778,884	2,675,431
Properties held for sale	115,171	112,606
Investments	83,851	80,501
Cash and cash equivalents	38,012	54,095
Loans and borrowings	(1,230,591)	(1,170,286)
Deferred capital grant	(928,194)	(869,188)
Other assets and liabilities	(53,393)	(138,945)
Net assets	803,740	744,214



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
07778 145869
steve.heywood@homegroup.org.uk



Disclaimer

These materials have been prepared by Home Group Limited solely for use in publishing and presenting its results in respect of the six months ended 30 September 2023.

These materials do not constitute or form part of and should not be construed as, an offer to sell or issue, or the solicitation of an offer to buy or acquire securities of Home Group Limited in any jurisdiction or an inducement to enter into investment activity. No part of these materials, nor the fact of their distribution, should form the basis of, or be relied on or in connection with, any contract or commitment or investment decision whatsoever. Neither should the materials be construed as legal, tax, financial, investment or accounting advice. This information presented herein does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (withdrawal) Act 2018 (the UK Prospectus regulation) and/or Part VI of the Financial Services and Markets Act 2000.

These materials contain statements with respect to the financial condition, results of operations, business and future prospects of Home Group Limited that are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside Home Group Limited's control. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: the general economic, business, political and social conditions in the key markets in which Home Group Limited operates; the ability of Home Group Limited to manage regulatory and legal matters; the reliability of Home Group Limited's technological infrastructure or that of third parties on which it relies; interruptions in Home Group Limited's supply chain and disruptions to its development activities; and the recruitment and retention of key management. No representations are made as to the accuracy of such forward looking statements, estimates or projections or with respect to any other materials herein. Actual results may vary from the projected results contained herein. Any recipient should conduct and rely solely on its own independent review, investigation and analysis (including obtaining independent expert advice) of the information contained, or referred to in these materials. The recipient is responsible for making its own independent judgments with respect to anything in these materials.

These materials contain certain information which has been prepared in reliance on publicly available information (the "Public Information"). Numerous assumptions may have been used in preparing the Public Information, which may or may not be reflected herein. Actual events may differ from those assumed and changes to any assumptions may have a material impact on the position or results shown by the Public Information. As such, no assurance can be given as to the Public Information's accuracy, appropriateness or completeness in any particular context, or as to whether the Public Information and/or the assumptions upon which it is based reflect present market conditions or future market performance. Home Group Limited does not make any representation or warranty as to the accuracy or completeness of the Public Information.

These materials are believed to be in all material respects accurate, although they have not been independently verified by Home Group Limited and do not purport to be all-inclusive. The information and opinions contained in these materials do not purport to be comprehensive, speak only as of the date of this announcement and are subject to change without notice. Except as required by any applicable law or regulation, Home Group Limited expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any information contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such information is based.

None of Home Group Limited, its advisers nor any other person shall have any liability whatsoever, to the fullest extent permitted by law, for any loss arising from any use of the materials or its contents or otherwise arising in connection with the materials. No representations or warranty is given as to the achievement or reasonableness of any projections, estimates, prospects or returns contained in these materials or any other information. Neither Home Group Limited nor any other person connected to it shall be liable (whether in negligence or otherwise) for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement in or omission from these materials or any other information and any such liability is expressly disclaimed.

Any reference to "Home Group Limited" means Home Group Limited and its subsidiaries from time to time and their respective directors, Board members, representatives or employees, affiliates, and/or any persons connected with them.