Building homes, independence and aspirations

Trading update including final results for the year ended 31 March 2024

Home Group Limited (Home Group) issues its final results for the year ended 31 March 2024.

These figures are provided for information purposes only.

Annual Highlights

- Home Group own and manage over **56,000** homes, over 90% of which are affordable housing, across 184 local authority areas; with 51% of stock within 12 local authorities.
- House over **125,000** people in our homes across England and Scotland, including accommodation-based support for over 14,000 customers with mental health and physical needs.
- Delivery of **1,284** new homes, 916 of which are affordable tenures.
- Surplus before tax of **£23.2 million**.
- Standard & Poor's (S&P) reaffirmed rating at A- (stable outlook) in August 2024.
- Undrawn, committed borrowing facilities and cash of **£314.0 million**.
- Rating from Regulator of Social Housing at **G1 V2 following an In-Depth Assessment in March 2024**.
- 4th best workplace, 8th best workplace for development, and 9th best workplace for women in the UK, and 27th best workplace in Europe, in the 2024 Great Place to Work Survey (super large employer category).
- We continue on our long-term sustainability roadmap, and publish our achievements within our annual Environmental, Social and Governance (ESG) report under the Sustainability Reporting Standard for Social Housing.

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

"In the year to 31 March 2024, the external business environment remained challenging. High interest rates and inflation have maintained pressure on finances, along with an unprecedented demand for our responsive repair and maintenance services. Despite these challenges, and through careful financial management, we can see some promising signs of recovery and we delivered a surplus before tax of £23.2m for the year, ahead of our target.

We have very recently concluded our annual review with Standard and Poor's (S&P) and were pleased to see our rating retained at A- with stable outlook. This follows on from our In-Depth Assessment from the Regulator of Social Housing in March 2024 where our governance and viability rating was reaffirmed at G1:V2. These two external assessments provide assurance to our stakeholders that we are effectively managing the financial challenges that face us.

Over the last year, we continued to invest heavily across the business in ensuring our existing homes meet our Home Group standard and building new affordable homes. We invested £149 million improving and maintaining our customers' homes reflecting our commitment to upgrading our portfolio. We also delivered more than 900 new affordable homes including the first handovers at our major regeneration project in the London borough of Barnet. The wider regeneration project will deliver over 750 much-needed homes for the community, over half of which are affordable.

Our customers and communities are at the forefront of our planning and this year we will start to establish a new regional model of service delivery. This will allow us to work more locally, focus on local partnerships, and prioritise those areas where customers have told us that improvements need to be made. The new regional model will bring us closer to understanding not only the customers, but also the diverse communities we serve, enhancing the customer experience."

Key Financials

Key Financial Indicators	12 months ended 31 March 2024	12 months ended 31 March 2023
Turnover (£000)	493,189	453,786
Operating surplus (£000)	71,943	68,631
Operating margin[1]	12.7%	10.7%
Operating margin (social housing lettings)[1]	18.9%	17.7%
Operating margin (property sales)	5.4%	10.4%
Surplus before tax (£000)	23,176	24,855
Gearing[1]	42.9%	42.2%
Interest cover (EBITDA MRI)[1]	109.7%	97.5%
Net debt per unit (£)	23,721	22,455

During the year ended 31 March 2024 we continued to face a number of external challenges, however we have started to see signs of recovery. Turnover increased by £39.4 million (8.7%) to £493.2 million, mainly due to an increase in income from social housing lettings of £34.4 million. This reflects the 7.0% rent increase implemented on 1 April 2023 along with additional rent and service charge income from new homes for rent (£23.3 million), and growth in our supported and care business (£11.1 million).

Operating costs increased by £16.6 million (5.0%), reflecting an increase in expenditure from social housing lettings of £19.1 million, and a reduction in other expenditure of £2.5 million.

Expenditure from social housing lettings has increased by £19.1 million: Service charge expenditure has increased by £7.7 million (rent, rates, utilities, and insurance and gardening and cleaning costs) with costs increasing by as much as 30%. This reflects the impact of previously higher inflation along with the growth in our supported and care business. This growth, combined with a continuing challenging labour market in this sector has also driven an increase in management costs (£10.4 million). We are committed to providing the Real Living Wage, recognising the challenges faced by our colleagues due to the increasing cost of living. We recognised an additional £6.3 million in depreciation and impairment costs linked to the development of new homes for rent. Offsetting these cost increases, expenditure on revenue maintenance works has reduced by £7.1 million which we outline within the Asset Management section later in this report.

Non-social housing lettings expenditure reduced by £2.5 million: Development and marketing, and other expenditure relating to the sales of shared ownership and outright sales homes, was £2.4 million lower.

Further impacting the operating surplus was a reduction in surplus on sale of social housing properties by £10.4 million to £9.0 million. This was due to a strategic disposal which took place in the prior year.

Despite the challenges we faced within our operating costs, our operating surplus increased to £71.9 million (2023: £68.6 million), and we achieved an improvement in both overall operating margin and social housing lettings margin.

The operating margin realised on homes developed for sale during 2023/24 was 5.4% (2023: 10.4%). The reduction in margin has resulted from a combination of cost increases across a number of lives schemes, and the mix of homes sold. The margin varies scheme by scheme and during the year we have sold more homes on lower margin schemes.

Surplus before tax is £1.7 million lower than in 2023. Although interest rates increased in the first half of the year increasing the cost to service our variable rate debt, net finance costs increased by only £3.4 million as we maintain a significant proportion of our debt on fixed rate terms. At the year-end 74.4% (2023: 78.9%) of the group's borrowing was in the form of long-term fixed interest rate debt.

Gearing has increased marginally by 0.7% and net debt per unit by 6.0%. This reflects the Group's drawn borrowings increasing to £1,277 million (2023: £1,198 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.

Interest cover (EBITDA MRI)[1] has increased to 109.7% (2023: 97.5%), and we continue to have significant headroom against all our lender covenants with our tightest group covenant at over 200% with minimum permitted cover of 100%.

[1] Value for Money metric as defined by the Regulator of Social Housing

Development and sales

Development	12 months ended 31 March 2024 No. of homes	12 months ended 31 March 2023 No. of homes
Social/affordable rent	760	509
Affordable home ownership	156	176
Outright sale	136	248
Joint ventures	232	165
Total homes handed over	1,284	1,098

In 2023/24 we have delivered 1,284 new homes, 916 of which were affordable. We worked closely with our contractors and partners to deliver timely completion of new homes, ensuring that build completions met expectations for 2023/24.

Although we continue to be insulated from cost volatility through our fixed price contracts, construction costs continue to create challenges for new schemes. Joint ventures continue to be a significant part of our programme and provide a useful route to access competitive construction pricing.

Our development activity is subject to a robust risk management framework with development schemes subject to scrutiny at our Development Committee and Board and schemes will only proceed if target development KPIs are achieved.

New build sales	12 months ended 31 March 2024 No. of homes	12 months ended 31 March 2023 No. of homes
Affordable home ownership	142	193
Outright sale	159	228
Joint ventures	165	163
Total sales completed	466	584
Homes held for sale as at 31 March (stock)	132	97

Despite ongoing challenges to the property and mortgage market in 2023/24 we continued to see positive levels of activity across our mixed tenure sales sites as well as fully affordable schemes. In particular, interest in our shared ownership homes was strong and consistent across all our sales regions. We budgeted for 305 completions in the year to March 2024 and we achieved 301, realising a marginally higher surplus due to higher proceeds.

The on-going cost of living pressures and interest rate fluctuations have knocked buyers' confidence levels as well as presenting affordability challenges. Interest rates have stabilised towards the end of 2023/24 and mortgages remain readily available. Whilst we carry a sizeable sales pipeline into 2024/25, we remain forward sold on the majority of our sales sites. Our sales activity and forecasting remain subject to monthly reviews and management including discussions at Development Committee and Board with mitigation strategies implemented if necessary.

The reduction in number of affordable and outright sale homes sold when compared to the previous 12 months is mainly down to the number of homes we had available to sell. Through the first three quarters of the year, we held very few homes in stock. Our delivery programme saw a large volume of homes hand over in quarter 4 explaining the increase in stock, when compared to March 2023. In the first 4 months of 2024/25 we have sold 56 (42%) homes from stock with an active pipeline across the remainder of the year.

Asset management

Maintenance	12 months ended 31 March 2024 £'000	12 months ended 31 March 2023 £'000
Routine maintenance	54,814	62,922
Planned maintenance	30,411	24,674
Major repairs expenditure	13,986	18,729
Capitalised works	50,238	45,695
Amount spent on improving and maintaining customers' homes	149,449	152,020

Total maintenance spend was £2.6 million lower than 2022/23.

Routine maintenance costs have reduced by £8.1 million. The most significant contributing factor to this reduction is that in 2022/23 we incurred substantial additional costs to fulfil our service provision as a result of contractor failure, costs which did not recur in 2023/24. Implementing and expanding our direct labour organisation has resulted in a reduction in costs overall year on year, however high cost inflation has impacted both material and contractor costs, and we have experienced an unprecedented volume for responsive repairs and maintenance jobs.

Planned maintenance costs have increased by £5.7 million and this is driven by our commitment to systematically upgrade our portfolio to meet the quality expectations that we set out in our Home Group Standard.

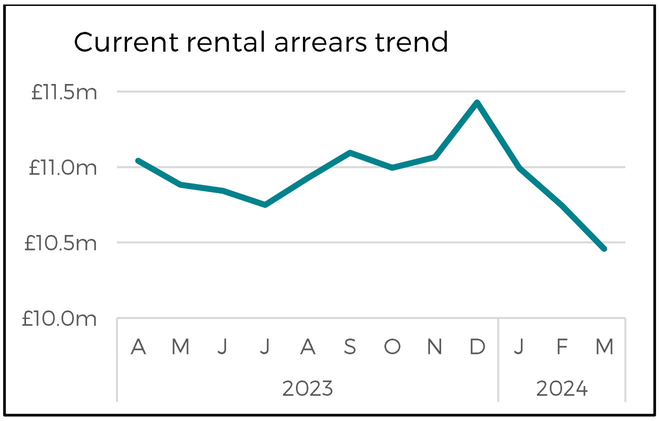
Capitalised works increased by £4.5m as we expanded our planned programme of improvement works including energy efficiency improvements in line with our sustainability agenda. Major repairs spend reduced by £4.7 million predominantly due to phasing of building safety works. During 22/23 we committed to tackling high priority, high risk works, and we increased our investment in this area specifically for that purpose, including carrying out a programme of survey works to assess the nature of works required. The subsequent level of investment required in 23/24 was therefore lower as we completed the survey programme. We will continue to focus investment in our existing homes to ensure they are safe, maintained to a good standard and improved to deliver better energy efficiency.

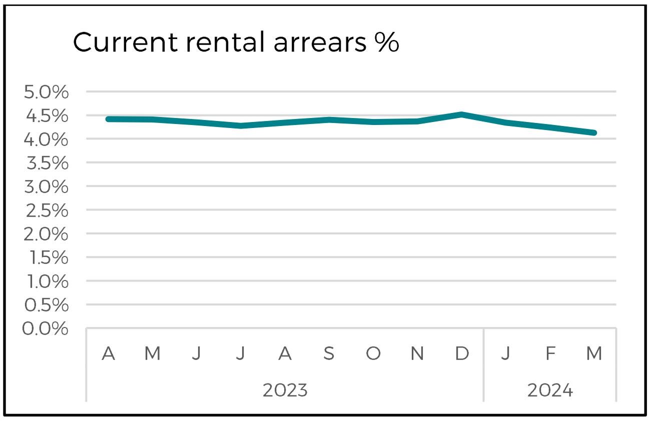
Treasury and financing

As at 31 March 2024 net debt was £1,232 million (2023: £1,150 million) and available liquidity in the form of committed, undrawn facilities and cash was £314.0 million (2023: £294.3 million). There was also a committed increase of £25m to a renewed revolving credit facility that was fully secured post year end, providing further liquidity. The proportion of drawn debt that was fixed at 31 March 2024 was 74.4% (2023: 78.9%). We continue to have a substantial pool of unencumbered properties available to charge as security against future borrowings.

During the year we renegotiated the terms of an existing £75.0 million revolving credit facility increasing the overall facility size by £50.0 million to £125.0 million and extending the term. Sufficient security was in place for £25m of the increase to the facility and the remaining £25m was secured post year end as noted above. As part of the renegotiation, the facility benefits from a sustainability link with targets set for development of new affordable homes, increasing the energy efficiency of existing homes and the number of apprentices supported in the business.

Operational performance

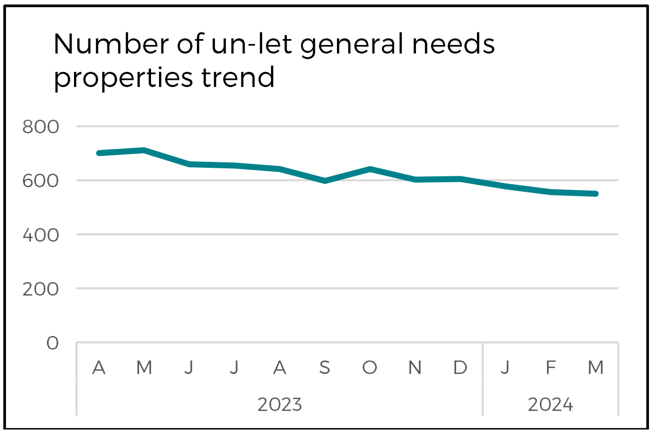


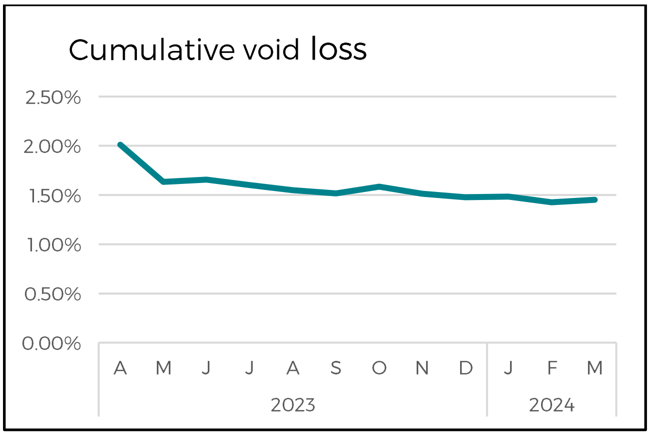


Current rental arrears were relatively steady between April and November. We saw a peak in December as a result of the timing of housing benefit receipts in the month which increased reportable arrears at the period end, however arrears remained considerably lower than the levels we saw during the pandemic which rose to a maximum of £12.9 million.

We have undertaken targeted work over the course of the year to support our customers and reduce arrears, and this continued focus led to a significant reduction in quarter 4 with March arrears being the lowest position for the year.

We have seen an improvement when benchmarking arrears against our peer group. In 2023 we benchmarked slightly lower than our peers, but we are now approaching top quartile.





The number of un-let general needs properties at the year-end was 550 (2023: 671). The 22% reduction in un-let homes has been driven by improvements in the timeliness of repairs work being completed on void properties, continuing the improvements we saw in 2022/23.

Sustainability

Net zero targets have been part of our organisational strategy for some time now, and our position as a founding member of the Greener Futures Partnership means that we are a trusted voice in the sector on greening our homes and communities.

Following our successful pilot under wave 1 of the Social Housing Decarbonisation Fund (SHDF) in Cumbria in 2022/23 where we retrofitted 90 homes with low EPC ratings, we have stepped up our activity to begin work on phase 2 of SHDF. We plan to retrofit 1,000 homes over the next two years under this second phase, delivering solar PV and other fabric upgrades to improve EPC ratings. We are also starting our first retrofit project in Scotland.

We have over 56,000 homes in hundreds of communities and improving the energy efficiency of those homes is the right thing to do for our customers and for the environment. Our plans for existing homes to have a minimum EPC C rating by 2030 in England, and a minimum EPC B rating by 2032 in Scotland, are clear and will be further informed by the learning from our pilot projects.

Along with improving the energy efficiency of our homes we continue to ensure we're operating as sustainably as possible. Our head office in Newcastle is accredited for high standards of sustainability and is BREEAM rated excellent. We also aim to ensure that any offices which we lease under serviced arrangements have clear environmental commitments to continue our sustainability focus across the UK.

We continue to hold ISO 14001:2015 certification of our Environmental Management System which underpins our approach to sustainability. In December 2023, we once again achieved recertification with no non-conformances for the fifth consecutive year. Auditors highlighted that there is a very clear and demonstrable care for the environment in the business and a desire to increase the sustainability of our housing stock and operations.

We will shortly publish our fourth ESG report which details highlights and achievements across our entire sustainability programme in 2023/24. The report will be published on our website and will be available, together with previous years' reports, at www.homegroup.org.uk/investors.

As we move in to 2024/25, we will further develop our environmental sustainability plan. The plan will continue to help us to green our business, our homes, and our communities, while helping the UK reach net zero, as well as the sustainability aims of the United Nations. We are currently reviewing the targets within our plans to ensure we are pushing ourselves to achieve the best outcomes possible.

Summary financial statements

Income & expenditure	12 months ended 31 March 2024 £'000	12 months ended 31 March 2023 £'000
Turnover	493,189	453,786
Other operating income	450	6,805
Cost of sales	(79,664)	(76,890)
Operating expenditure	(351,068)	(334,482)
Surplus on disposal of housing properties	9,036	19,412
Operating surplus	**71,943**	**68,631**
Share of profit in joint ventures and associates	690	2,316
Interest receivable	5,557	2,830
Interest payable	(55,014)	(48,922)
Surplus before taxation	**23,176**	**24,855**

Summary balance sheet	At 31 March 2024 £'000	At 31 March 2023 £'000
Housing properties	2,869,388	2,727,863
Properties held for sale	80,781	122,185
Investments	80,421	77,493
Cash and cash equivalents	44,778	48,222
Loans and borrowings	(1,277,159)	(1,198,344)
Deferred capital grant	(957,868)	(915,781)
Other assets and liabilities	(35,599)	(78,544)
Net assets	**804,742**	**783,094**

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