Investor Trading Update

Q2 2022/23

The Wrekin
Housing Group

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Q2 Revenue Account Summary

- The Group recorded a YTD operating surplus of £11.6m and is projecting an operating surplus of £22.1m with a margin of 21%, £1.1m above budget
- The Group recorded a total YTD surplus of £3.8m and has projected a total surplus of £4.2m against a budget of £5.3m
- The projection meets all funder covenants with headroom
- High inflation and interest rates are creating a challenging environment, although asset sales are mitigating some of those higher costs
- Void rates and colleague costs continue to challenge our care & support activities with the Group projecting a deficit of £2.9m in those schemes, but plans are in motion to actively reduce the losses going forwards

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		2022/23 Q2 YTD	2022/23 Projected
Statement of Comprehensive Income			
Total Income	**£'000**	**49,771**	**102,765**
Social Housing Lettings Turnover	£'000	40,584	81,415
% of Total Income from SHL	*%*	*82%*	*79%*
Sales of Assets Turnover	£'000	3,337	9,738
% of Total Income from Sales Activities	*%*	*7%*	*9%*
Care Activities Turnover	£'000	3,032	5,867
% of Total Income from Care Activities	*%*	*6%*	*6%*
Other Activities Turnover	£'000	2,818	5,745
% of Total Income from Other Activities	*%*	*6%*	*6%*
Operating Surplus	**£'000**	**11,599**	**22,071**
Operating Margin	*%*	*23%*	*21%*
Total Surplus	**£'000**	**3,793**	**4,246**
Total Margin	*%*	*8%*	*4%*

Key Financial Ratios			
EBITDA MRI interest coverage - Annual (projected)	Times	1.3x	1.3x
Gearing - Current	%	64%	

Q2 Debt & Liquidity Summary

- Wrekin’s liquidity position remains strong with access to liquid funds of over £99m
- Work is ongoing to prepare unencumbered assets for charge (1,275 homes, c £66m estimated security value)
- Current drawn funds are adequately covered by charged properties
- Cash flow projections show that current agreed facilities are sufficient to fund the Group’s development plans through to 2024
- The majority of the Group’s debt (77%) carries a fixed rate of interest limiting our exposure to rising interest rates

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		2022/23 Q2 YTD	*Security Headroom*
Liquidity & Debt			*£'000*
Drawn Debt	£'000	506,500	
Undrawn Debt	£'000	99,500	
Total Facilities	**£'000**	**606,000**	*125,033*
Cash	£'000	33,235	
Total WHG owned and managed properties	Homes	13,132	
Unencumbered security	Homes	1,275	
Estimated security value	£'000	66,448	*66,448*
Total security headroom available			*191,481*
YTD Cash flow from Operating Activities	£'000	26,763	
Cash conversion ratio		1 : 2.31	
Being the amount of Operating Surplus that translates into Cash Flow from Operating Activities			
Average cost of funds	%	3.54%	
Gearing	%	64%	
Debt to Revenue (projected full year)	Times	4.93	

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Q2 Development Summary

- Development delivery has slipped behind budget with some of our contractors struggling to deliver especially where cost pressures are rising well above CPI - requested variations on previously contracted scheme costs are being considered on a case-by-case basis
- The Board have agreed to allow flexible delivery of our current programme, with the target end date moved from 2025 to 2026 to allow for a value for money approach to new business
- In the year to date 155 new units have been delivered with 544 new homes projected to be built in total in 2022/23 (budget: 601 homes)
- Proceeds from YTD shared ownership sales are at a comparative level to previous years (£1.1m)
- The Asset Renewal Programme continues to subsidise development activity with 26 sales made in the year to date and a projection of 100 sales in total, generating proceeds of £6.8m
- The sales have attracted higher than budgeted market values (£85k per home inc deposits v budget of £68k), thus reducing the Group's reliance on grant funding and debt financing to fund new delivery

Development & Asset Sales		2022/23 Q2 YTD	2022/23 Projected
New homes completed	Number	155	544
Net development spend	£'000	24,016	60,168
Shared ownership sales	Number	17	
Homes unsold	Number	8	
Of those, no of homes unsold for longer than 6 months	*Number*	*0*	
Asset Renewal Sales	Number	26	100
Asset Renewal Sales income	£'000	2,202	6,841
Average sales value per home	*£'000*	*85*	*68*

Government Rent Cap (7%)

- The government has announced the rent increase next year will be capped at 7% on the majority of the Group's homes
- The headline impacts of this cap on our latest business plan (before any mitigating actions) are:
  - Interest cover covenant of 108% in 2023/24, £0.3m under the 110% covenant and £5m under the 130% golden rule;
  - Cumulatively £9.6m less surplus than the 2022 FFR over the years to 2030;
  - £45m more borrowing than the 2022 FFR by 2030

Government Rent Cap (7%) Mitigating Actions

The Board continue to actively review the impact of the cap as part of the budgeting process and have already identified the following mitigating actions next year:

- Re-phasing of planned programme to deliver component replacements only when required (£4.5m planned works postponed from 2023/24);
- Care & Support budget breaking even from 2023/24;
- Projected shared ownership sales included from 2023/24;
- Annual savings of £100k from closed offices;
- Reviive deficit halved from 2023/24, giving c£90k savings per annum;
- Limiting colleague cost inflation

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Government Rent Cap (7%) Mitigation Results

The mitigated 7% capped model delivers:

- 2023/24 interest cover test of 134.6%, with headroom of £5.9m and £1.1m against the covenant and golden rule respectively;
- Cumulatively lost surplus of £6m compared with FFR; and
- New debt required above the FFR by 2030 reduced to £23m.

- Both formal covenants are met by the mitigated model, with headroom against all covenant levels and golden rules
- The economic situation remains under constant review and the model will be updated with the draft 2023/24 budgets and then stress tested to ensure the group remains resilient to any further financial or economic shocks

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