

# The Wrekin Housing Group

## Presentation to Investors

October 2019



Bower Farm 2017

**The Wrekin**  
Housing Group

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# Presenting Team



**Wayne Gethings**

Group Chief Executive

- Wayne was appointed as Group Chief Executive in April 2019, having previously held the post of Managing Director since 2011. He joined the Group in 2000.
- His areas of responsibility have covered Development, Asset Management, Operational Services, Housing Management and Policy and Strategic Delivery.
- Wayne has over 30 years' experience in housing, at both Executive and Non-Executive levels, across the public and private housing sectors.
- Wayne has six Non-Executive Director Appointments, including Chair of NHF Quality of Existing homes Group and of the Shropshire Housing Partnership.
- Wayne holds an MBA in Business Administration.



**Francis Best**

Group Director of Financial Services

- Francis was appointed as the Director of Financial Services in 1999.
- His areas of responsibility include Finance, ICT, Legal and Regulation and Human Resources.
- Francis has worked within the sector since 1989, previously as Director of Finance and Administration at Elgar Housing Association and Finance Director of Habinteg Housing Association.
- He holds a BA in Mathematics from the University of Oxford and is a member of the Institute of Chartered Accounts in England and Wales.

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## Financial Disclosure

*The figures are taken from the published financial statements. Figures relating to 2017 and earlier include activities carried out by all members of The Wrekin Housing Group Limited.*

*Because the group structure simplification did not complete until post-31 March 2019, the published financial statements for 2019 (and the comparative figures for 2018 contained in the 2019 financial statements) do not include the activities of Shropshire Housing Alliance, South Shropshire Furniture Scheme, Fuse, the old Wrekin Housing Group parent company and Choices. The key figures from the most material entity, Choices, have therefore been included for comparison purposes for those years.*



# INTRODUCTION



# Introduction to Wrekin Housing Group

- Formed in 1999 for the purpose of completing a stock transfer of **12,902** properties from Telford & Wrekin Council
- It is **one of the largest housing associations** in the West Midlands
- Wrekin has conducted a **strategic Asset Renewal Plan**, with 1,650 older, uneconomic properties sold over the past 11 years (generating £108m to fund new development)
- Wrekin has a **track record of delivering new homes** with 4,356 delivered in the last 11 years – 2.64 new homes for every old property disposed of
- **No development for outright sale undertaken** – no current exposure to this market risk
- Consistently robust level of operational performance, strong operating margins and high levels of customer satisfaction
- Unique responsive repairs service with 80% of repairs completed on the day they are reported
- A **proven leadership team** with a mix of commercial and sector skills

**Units owned**  
WHG: **12,662**  
Choices: **120**

**Units developed (last 10 years)**  
WHG: **4,102**

**Turnover**  
WHG: **£82m**  
Choices: **£15m**

**Overall Operating Margin**  
WHG: **36.0%**  
Choices: **3.8%**

**Gearing**  
WHG: **52.6%**  
Choices: **N/A**

**EBITDA-MRI Interest Cover**  
WHG: **163.2%**  
Choices: **N/A**

**S&P Credit Rating**  
**A/Stable**

**Regulatory Rating**  
**G1/V2**

\*Figures as at 31 March 2019 unless otherwise stated

# Overview of Core Activities

## **The Wrekin** Housing Group

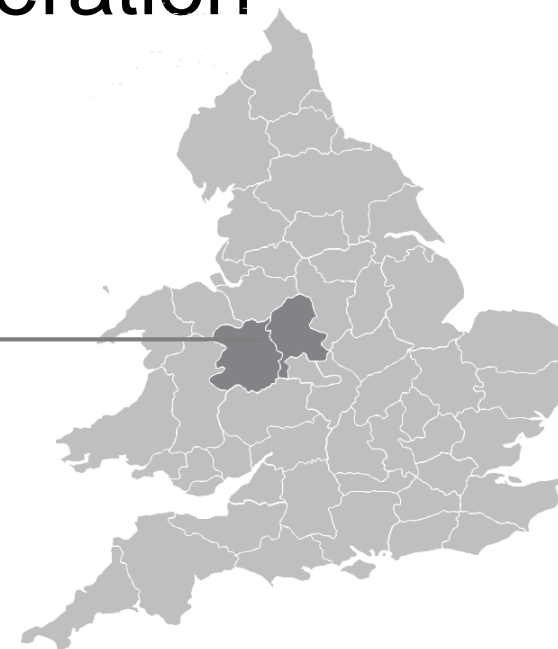
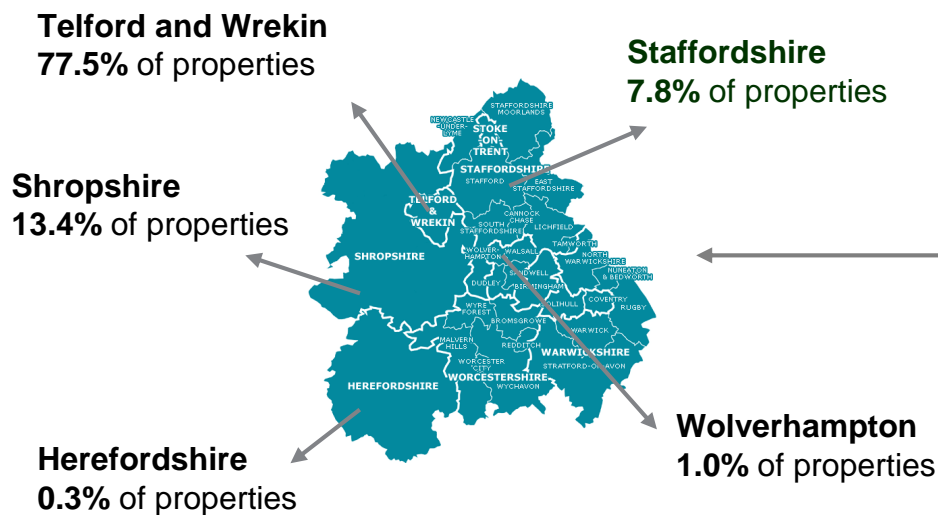
- **86% of overall Group turnover<sup>1</sup>**
- A housing association operating in the West Midlands
- Owns **12,662** homes, of which **10,377** are general needs social housing
- Development and commercial activities are undertaken in two separate non-charitable subsidiaries (Old Park Services and Strata)
- Regulated by the Regulator for Social Housing (RSH)



- **14% of overall Group turnover<sup>1</sup>**
- Specialist care provider, including care for adults with learning disabilities and dementia care – as well as provision of supported housing
- Owns **101** residential care units and **19** supported housing units
- Delivers care into the extra care schemes owned by WHG
- No debt outstanding
- Regulated by Care Quality Commission (CQC) and RSH

<sup>1</sup> Figures as at FYE 2019

# Key Areas of Operation



% of Stock	Area	Population (17 – 18 Growth)	Unemployment (June-18)	Avg. Weekly Social Rent £	Avg. Social Rent as % of Avg. Market Rent	Avg. Weekly Market Rent £
77.5%	Telford & Wrekin	0.7%	4.8%	90	66.7%	135
13.4%	Shropshire	0.4%	3.0%	100	73.5%	136
7.8%	Staffordshire	0.3%	2.9%	93	66.4%	140
<b>Weighted Avg.</b>		<b>0.6%</b>	<b>4.5%</b>	<b>92</b>	<b>68.1%</b>	<b>135</b>

**Source:**

GLA 2016-based housing led projections (all except population), ONS June 2017 – Population estimates, Unemployment ONS June 2018, Wrekin SDR;  
[www.gov.uk/government/statistics/private-rental-market-summary-statistics-october-2016-to-september-2017](http://www.gov.uk/government/statistics/private-rental-market-summary-statistics-october-2016-to-september-2017)



# Group Strategy to 2025

## Purpose

“To be an outstanding housing association that excels in meeting and supporting local housing need”

## How will we achieve this?

### Customers

Through listening to our customers we will understand the current and future needs of our locality better than any other

### Homes

We will work towards providing homes that are the best in terms of energy efficiency and sustainability

### Employees

We will be a fair and trusted employer supporting the development and skills of our people

### Value for money

We will be relentless in our search for value and efficiency

### Partnerships

We will be considered by partners to be trusted and collaborative

### Locality

We will seek opportunities to promote jobs and economic growth in our locality, directing our spending to support the people in our locality, maximising the social value of our services and delivering wider community benefits

### Leadership

We will ensure that we meet the highest standards of leadership, management and governance



Neal Court, Dawley, Telford 2018

# GOVERNANCE

# Group Structure

Previously the Group structure was complex and consisted of eight separate companies. This has now been restructured down to four companies in order to ensure simplified and rigorous structure:



## The Group reorganised the structure to provide:

- ✓ **Simpler governance structure and stronger oversight:** Clear line of sight from Group Board to all parts of the organisation and Group Board setting strategy more directly, replacing “federal” structure
- ✓ **A strengthened regulatory position:** Regulatory regrade to G1 achieved during 2018
- ✓ **Greater efficiency:** All housing services delivered via WHG, care services via Choices and trading subsidiaries retained for tax planning purposes
- ✓ **A streamlined structure to accommodate growth:** Substantially all housing assets and all borrowing held within WHG

# The Group Board



<b>Des Hudson (Chair)</b>	<b>Paul Weston</b>	<b>Jim Dickson</b>	<b>Alison Fisher</b>	<b>Shaun Davies</b>
Solicitor and former Chief Executive of The Law Society and The Institute of Chartered Accountants in Scotland Group Board Member Since 18/12/17	Chartered Accountant and Finance Director of Housing 21 Group Board Member Since 18/12/17	Former Chief Executive of Oxboode and Lochaber Housing Associations Group Board Member Since 18/9/17	Former UK Business Manager for CSC (Global IT Provider) and Magistrate Group Board Member Since 15/4/16	Solicitor and Leader of Telford & Wrekin Council Group Board Member Since 17/12/18



<b>Debbie Griffiths</b>	<b>Annette Shipley</b>	<b>Esther Wright</b>	<b>Jacquie Esimaje-Heath</b>
Housing Consultant and Former Group Chief Executive of Housing Plus Group Board Member Since 18/12/17	Managing Director of Excellence3 Management Consultancy Group Board Member Since 18/12/17	Solicitor and Director of Eleventen Event Management Consultancy Group Board Member Since 21/12/15	Regional Development Director at London & Quadrant Housing Trust Group Board Member Since 18/12/17

# Governance and Management

## The Group Board meets six times per year

- Adopts the National Housing Federation Code of Governance
- Operates with **three key committees**: Audit and Assurance, Finance and Investment and Remuneration

## Board members

- Rules provide for up to 12 members of Group Board – there are 9 positions filled with no immediate plans to increase that number
- The Group Board reviews its own performance at least once a year and delivers improvements via its Governance Improvement Plan
- Number of Board members reduced from 36 to 9 through the re-structure

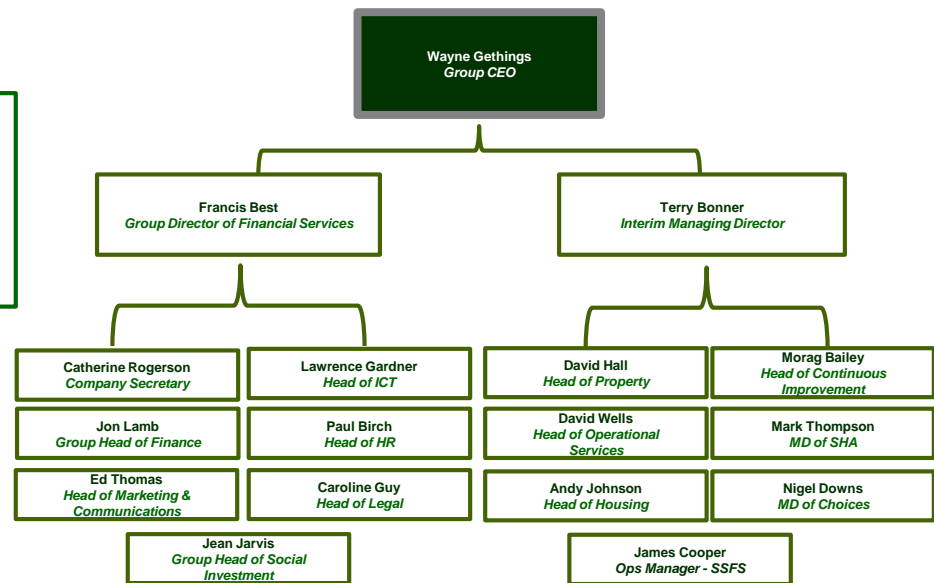
## Management

- Executive Management Team meet twice weekly
- Chief Executive meets with the Committee Chairs monthly

## Management Structure

### Audit

- Group Board is responsible for establishing system of internal control and reviewing its effectiveness
- Internal audit service provider – RSM
- External audit service provider – Grant Thornton







# OPERATIONAL PERFORMANCE

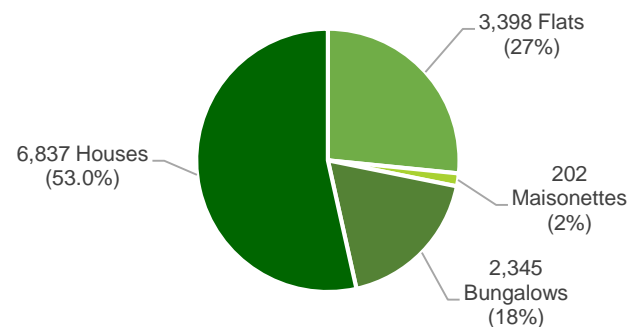


# Stock Profile

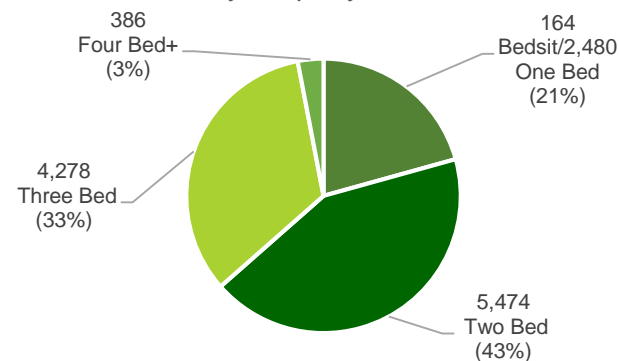
91% of portfolio is affordable

	Units
<b>General Needs (81.2% of Total Stock)</b>	<b>10,377</b>
Social Rent	8,619
Affordable Rent	1,074
Intermediate Rent	557
Market Rent	127
<b>Housing for Older People (15.5% of Total Stock)</b>	<b>1,981</b>
Social Rent	1,324
Affordable Rent	657
<b>Other (3.3% of Total Stock)</b>	<b>424</b>
Supported Housing	88
Shared Ownership	235
Care Homes	101
<b>Total Owned and Managed</b>	<b>12,782</b>

Stock by Property Type - 2019



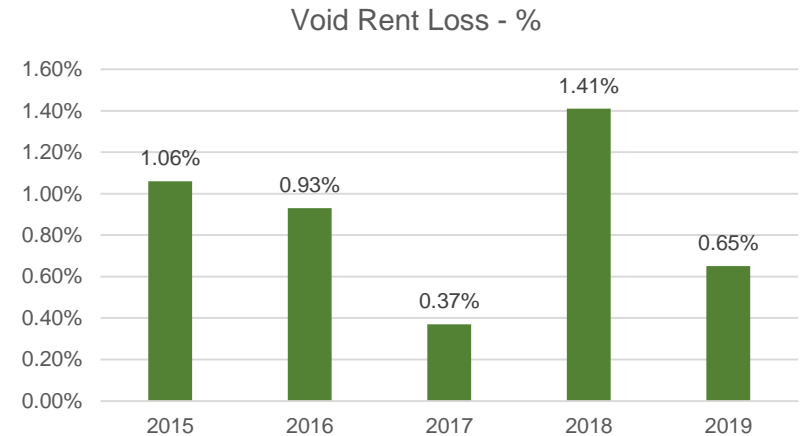
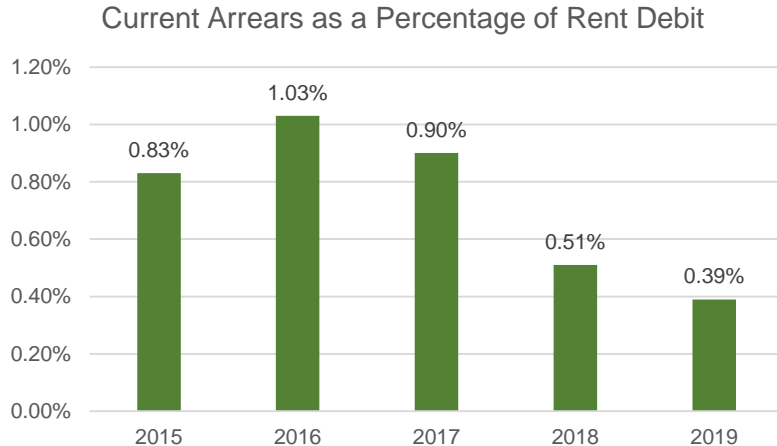
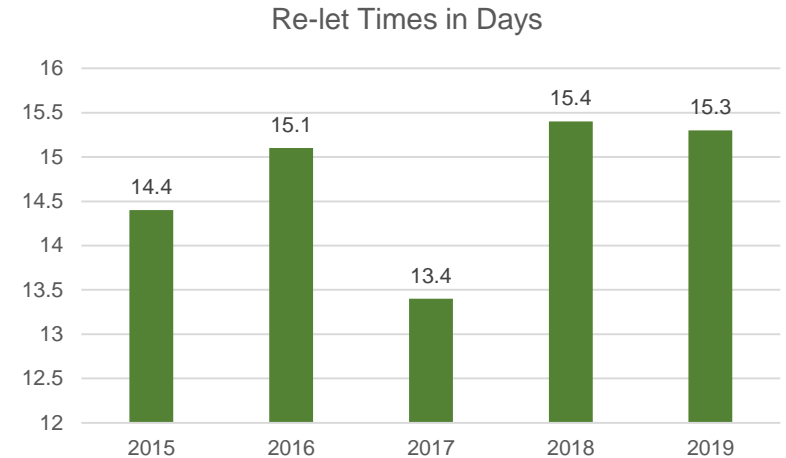
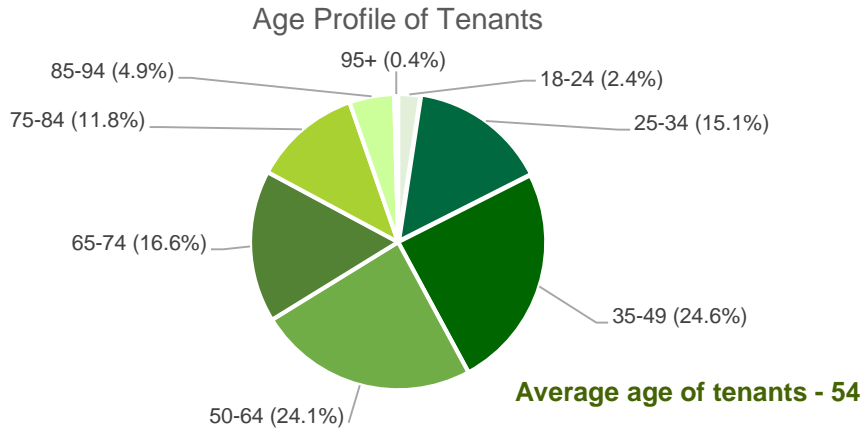
Stock by Property Size - 2019



Source: Wrekin and Choices Regulatory Statistical Data Returns 2019

# Tenant and Portfolio Characteristics

The demand for Wrekin's properties is high and increasing



Source: Wrekin Housing Group Internal Housing Management Database

# Impact of Welfare Reform

Welfare Reform	No of residents impacted (September 2019)	Performance to date
Universal Credit	1,247	<ul style="list-style-type: none"> <li>No significant difference in collection rates for those on UC from wider customer base</li> </ul>
Under occupancy (Bedroom tax)	761	<ul style="list-style-type: none"> <li>A 58.7% reduction in the number of tenants affected since 2013</li> <li>Situation has been managed down well</li> </ul>
Benefit Cap	44	<ul style="list-style-type: none"> <li>Number affected is reducing slowly (down 17 since January 2019)</li> </ul>

- Universal Credit (UC)**

- Currently about 100 people per month moving to UC
- Overall 3,270 tenants on full Housing Benefit (HB) and 2,539 on partial HB – 46% are non-working age and so not affected
- Conservative £1m bad debt provision in business plan (outturn for bad debts in 2018/19 - £65,000)
- Stress test to increase bad debts to £5m in 2019/20 before reverting to £1m over next 2 years can be mitigated by relatively modest reduction in uncommitted development activity
- Experience** – rent collection rates for most people affected by UC, benefit cap and bedroom tax are similar to other tenants

- Welfare Reform Plan in place and monitored fortnightly, with strategies including**

- Putting in place most efficient and effective payment options to ensure recovery of monies owed
- Support from tenancy sustainment team for UC claimants and communications plan for potentially high risk customers
- Develop Group-wide debt advice service

# Asset Management

## Ongoing asset management activity

- Stock reached Decent Homes Standard in 2008/09 (a year early) and has maintained that position ever since
- Only properties not meeting that standard are those that would fail had they not already been earmarked for disposal under the Asset Renewal Strategy
- Full stock condition survey undertaken every 5 years by Savills – last completed March 2019
- Plans to spend on component replacement and other planned maintenance activity over the next 5 years at levels consistent with the stock condition survey

## Responsive maintenance

- The Group has a unique “same day” responsive repairs service
  - Responds to all repairs on the day they are reported
  - 79.3% completed on the day they are reported
  - All repairs completed in average of 3.5 days

## Fire safety

- Only three blocks of flats above 18 metres high – **no ACM (cladding) installed**
  - All assessed as well-managed and low risk by independent fire engineer
  - Upgrades to fire doors, ventilation, compartmentation
- 300 sites with communal areas – risk assessed every year



# ESG Activity and Investment

- Sustainability, through both social and environmental means, is a key area of focus for the Group
- Jean Jarvis MBE, Group Head of Social Investment is responsible for driving forward environmental and social investment activity as an integral part of the Group's strategy
- 76% of all homes are rated in bands A-C compared with 68% in 2014 – testament to the Investment activity and Asset Renewal Plan
- The Group has completed a number of developments incorporating:
  - Ground and air source heat pumps
  - PV solar panels, including on the Group's headquarters, with the Group receiving feed-in tariff income on these units
- As stated in the Group's 2017/18 Value for Money Self-Assessment report:
  - **The Tenancy Sustainment Team** carried out over 600 pre-tenancy assessments for prospective tenants
  - **The Money Matters team** secured more than £2.5m in additional benefits for customers (including £1.2m of additional housing benefit), engaging with 2,400 households
  - **Furniture resale and waste management**
    - Collected 511 tonnes of furniture
    - Recycled 447 tonnes
    - Saved 491 tonnes of CO2 emissions
    - Provided 286 furniture packs
  - **The Group's Mobile Response Officers** responded to 286 call outs, saving other health, emergency and social care services in excess of £60,000







Gordon Road, Trench, Telford 2017

# DEVELOPMENT PROGRAMME & ASSET RENEWAL



# Development and Asset Renewal

## Over the past ten years:

- **1,650 properties have been sold**, generating proceeds of just over **£108m**. The proceeds are used **solely** for the purpose of acquiring new units of affordable housing or land
- **4,356 homes have been developed** or acquired from other providers,

**2.64**

New homes  
delivered for  
every old property  
sold

### Strategy for Development and Asset Renewal

- Selling low demand stock that is most cost-inefficient
- Replacing it with new higher value units: on a ratio of at least three new units for every two sold
- Linking new development directly to the number and value of units sold

### The Strategy Allows the Group to:

- Retire the poorest performing stock
- Build new homes suited to the needs and aspirations of tenants
- Renew the stock and reduce the average age of its stock
- Reduce the on-going costs of maintenance

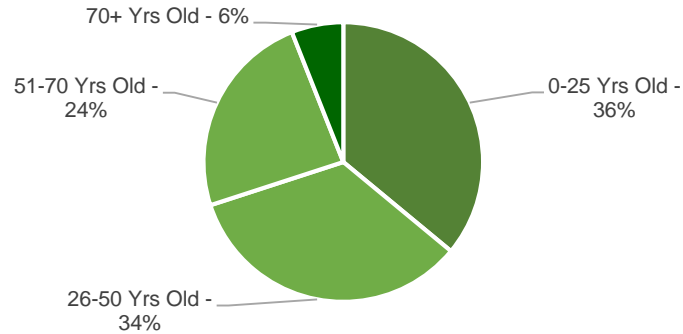
### While at the Same Time it:

- Limits risk on development
- Supports the expansion of the business
- Strengthens the balance sheet through profit on asset disposal
- Reduces the net cost of development

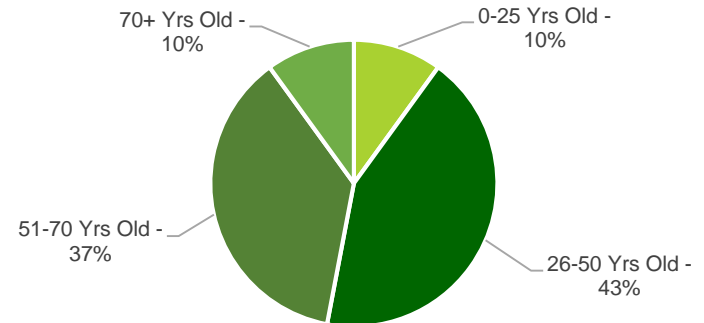
Source: Wrekin's Asset Management Strategy 2015-2020

# Improving age of Stock Profile

Age Profile of Stock (2019) - Average Age 38 Years



Age Profile of Stock (2006) - Average Age 45 Years



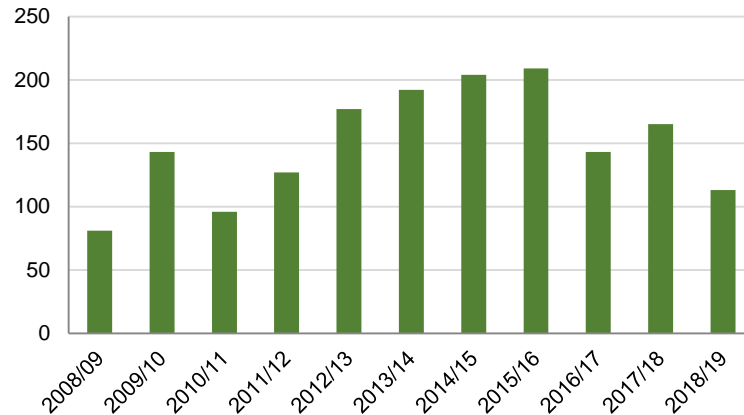
**Dothill Flats, Telford 2010: Refurbishment and Redevelopment**



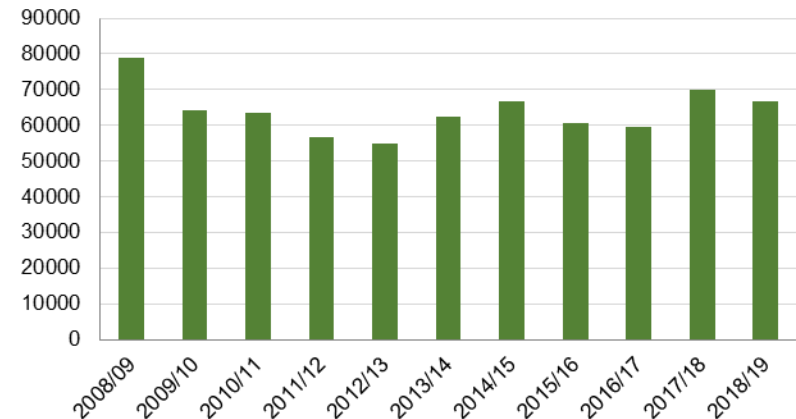
# The Delivery of Asset Renewal

The programme has delivered over **1,600 sales** over eleven years

Units for Asset Renewal - **1,650 units over 11 years**



Average Receipt (£) - **£63,362 average**



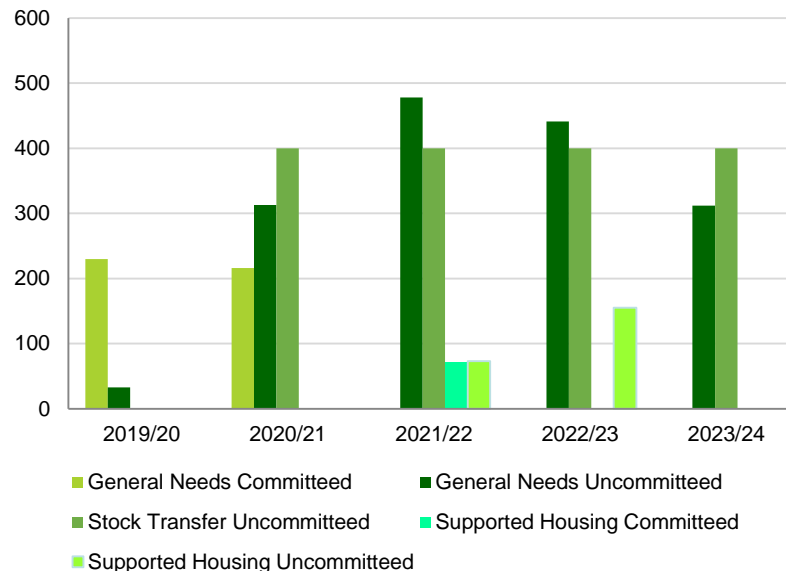
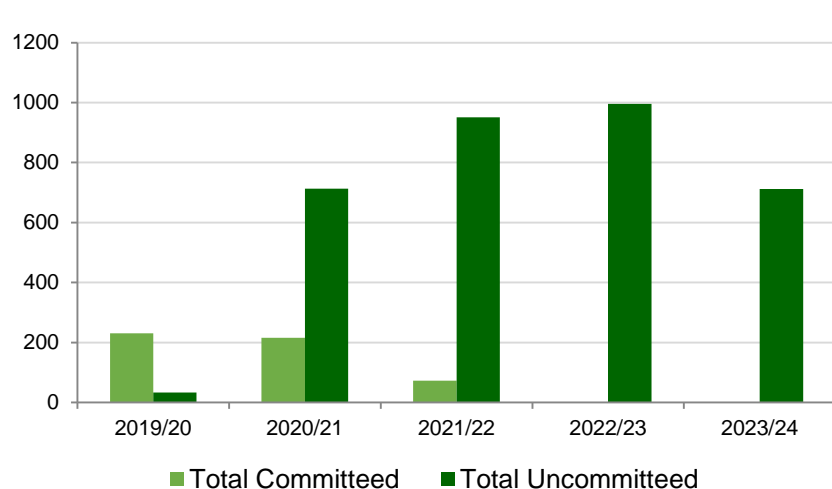
- Properties sold only when void – sale process releases 4x the book value (on average) for reinvestment in new homes
- Properties sold include:
  - Those with higher than average forecast maintenance costs or have low 30 year NPV
  - Those with a high capital value compared to the regulated rent chargeable
  - Those whose construction type means that they will always be thermally inefficient regardless of improvements made
  - Those which have no strategic benefits for the group

# Group Development Strategy

- Strategy is to focus on core operational areas of Telford and Wrekin, Shropshire and Staffordshire, using a locality mapping system to ensure delivery of the right types of homes in the right areas
- Focus on general needs housing, including housing for older people, but taking the opportunity to deliver accommodation where the delivery of low level care and support can be co-ordinated and delivered by Choices (through our Extra Care schemes)
- No development for outright sale – therefore no current exposure to this market risk
- All schemes appraised as “rented only” and only proceed if they work financially on this basis. Small amount of shared ownership delivered where it is a condition of a Section 106 agreement or where customers decide to exercise right to purchase a share having first rented a property under our In Reach “rent now, buy later” brand
- All schemes appraised using “Monte Carlo” analysis software to ensure that each scheme will comply (with 95% confidence) with the following constraints:
  - IRR of at least 5%
  - Debt repaid within 40 years
  - NPV greater than 0
  - Peak debt less than 175% of capital costs
  - Expected market value greater than cost
- Robust appraisal process overseen by the Board and, under specific delegated authority for smaller schemes, the executive management group
- Consistent track record of delivering significant annual development programmes of up to 800 units per year - **4,102 units developed in the last 10 years**

# Group Development Programme

**Plans to deliver a further 3,923 homes over the next five years**



**87% of the Programme currently remains uncommitted, ahead of securing finance and fully appraising opportunities – providing the Group with flexibility to re-profile the plan if required**

<sup>1</sup> Stock transfer refers to a specific outstanding bid for transfer of stock from Shropshire Council – bid is net cost per unit of £25k and transfer would be spaced over a number of years



Gordon Road, Trench, Telford 2017

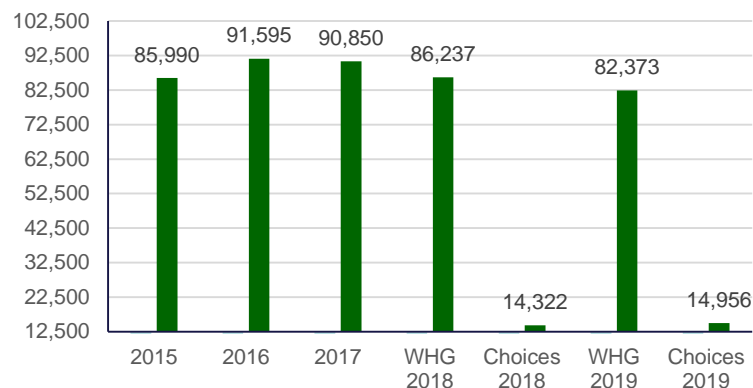
# FINANCIAL PERFORMANCE



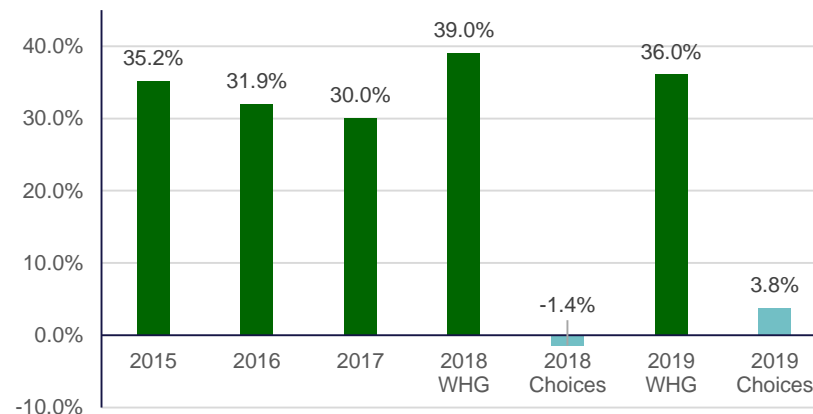
# Financial Performance

A strong and consistent level of performance

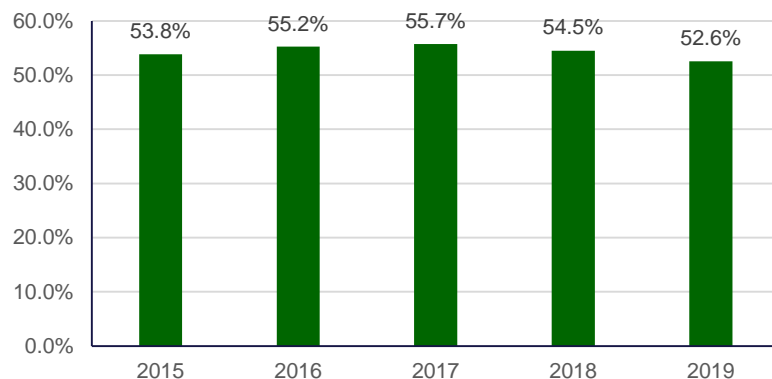
Turnover - £'000



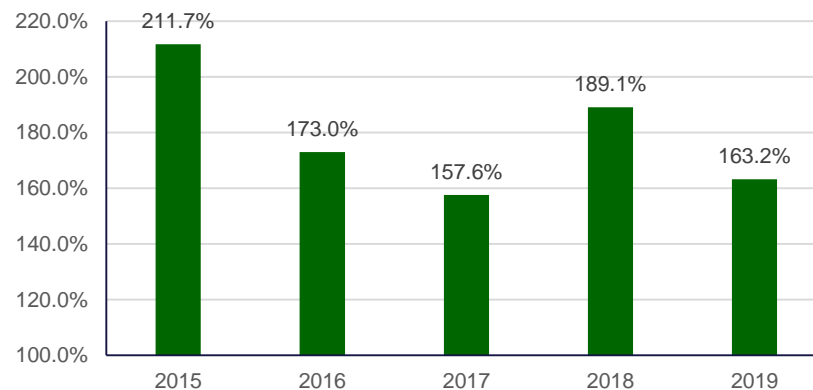
Overall Operating Margin



Gearing



EBITDA-MRI Interest Cover



Source: Annual Accounts of The Wrekin Housing Group Limited and Choices Housing Association Limited – see disclosure wording on page 4



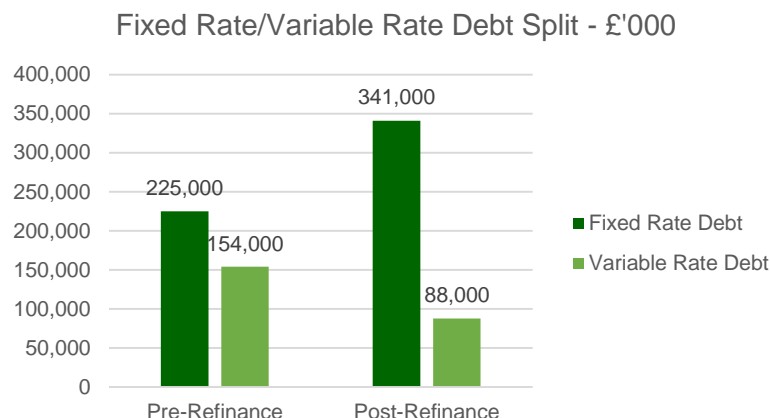
The Coppice Extra Care Scheme, Bickton, Shrewsbury 2017

# TREASURY HIGHLIGHTS

# Treasury Overview

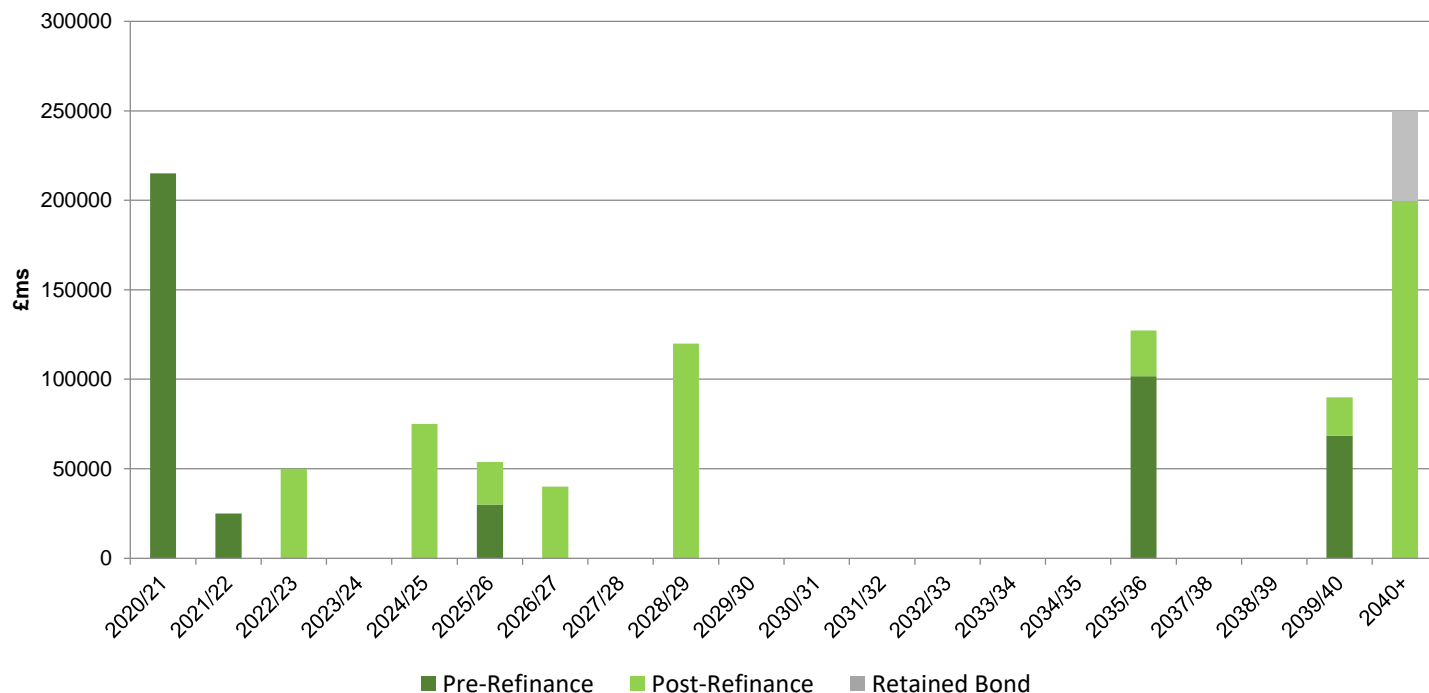
## Treasury Strategy and Refinancing Objectives:

- Reduce the average cost of debt by refinancing at current market rates
- Mitigate future refinancing risk by putting in place a range of maturities
- Increase the average life of the debt portfolio by putting in place long term bond finance
- Use security more efficiently by moving to market standard security requirements
- Put in place a modernised covenant suite



Treasury Risk	Golden Rule
Liquidity	Liquid Funds to be equal to forecast cash outflow for 3 months Mid-term Funding to be equal to forecast cash outflow for 12 months Long-term Funding equal to forecast cash outflow for 18 months
Interest Rate	At least 65% of the total debt portfolio to be maintained at fixed rates
Refinancing	No more than 50% of current drawn debt falling due for repayment in any 5-year period and no more than 35% in any year
Counterparty Credit	Counterparties must possess specified credit ratings from accredited rating agencies Maximum deposit of £10m per counterparty for maximum term of one year
Covenant	Achieve interest cover that is 20% higher than tightest financial covenant Achieve gearing level that is at least 5% under tightest covenant

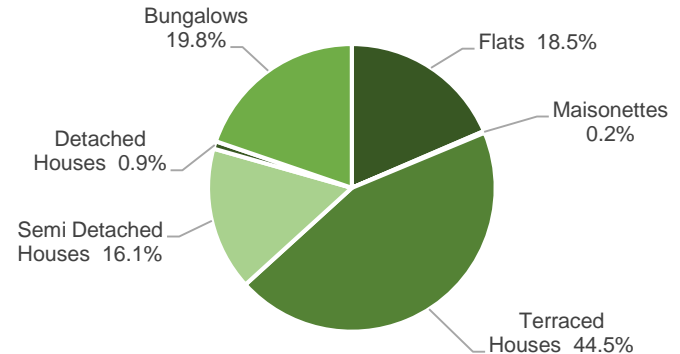
# Treasury Position Pre and Post-Refinance



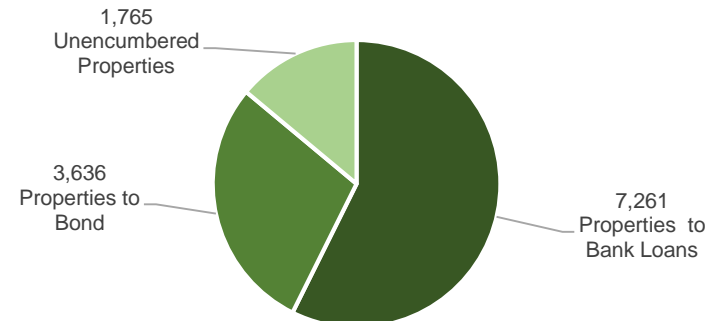
# Security

- Security for the bond is to be provided as follows:
- Total homes allocated as security – 3,636
- This number is broken down by property type as follows:
  - 664 Flats
  - 7 Maisonettes
  - 1,619 Terraced Houses
  - 597 Semi-detached Houses
  - 31 Detached Houses
  - 718 Bungalows
- Indicative valuations for the above properties are:
  - 2,017 properties valued on MV-ST basis – Value £119.02m
  - 1,619 properties valued on EUV-SH basis – Value £81.72m
  - Total Indicative Value - £200.74m
- Approximately £20m will be supported by charged cash

Bond Security by Property Type



Day One Security Allocation







# TRANSACTION HIGHLIGHTS



# Key Credit Highlights

Large and successful housing association operating in the Midlands with a detailed understanding of the local market

Simple business model with 81.5% of turnover from social housing lettings. No development for outright sale undertaken – no current exposure to this market risk

A/stable rating from S&P and rated G1/V2 by the Regulator of Social Housing

Strong operational performance with low arrears, voids and re-let days

Strong cash generative business and solid financial metrics

A proven leadership team with a mix of commercial and sector skills

Units owned: WHG:12,662 Choices: 120	Units Developed: WHG: 4,102 Choices: N/A	Turnover: WHG: £82m Choices: £15m	Overall Operating Margin: WHG: 36.0% Choices: 3.8%	Gearing: WHG:52.6% Choices: N/A	EBITDA-MRI Cover WHG:163.2% Choices: N/A	S&P Credit Rating: A/Stable	Regulatory Rating: G1/V2
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# Transaction Overview

<b>Issuer</b>	<b>The Wrekin Housing Group Limited</b>
Rating	A / Stable by S&P
Deal Size	£250m (with a £50m retained element)
Tenor	Long-dated sterling tranche
Security	Secured
Asset Cover	1.05x EUV-SH, 1.15x MV-ST (+charged cash)
Use of proceeds	General corporate purposes and refinancing existing borrowing
Book-runners	Lloyds Bank Corporate Markets/ NatWest Markets/ Santander
Listing	London Stock Exchange
Denominations	£100k + £1k
Target Market	MiFID II Professional and Eligible Counterparties only
Documentation	Preliminary Offering Circular dated 8 October 2019
Information Covenants	Compliance certificate, financial statements, meeting on request
Bond & Security Trustee	Prudential Trustee Company Limited

Please refer to The Wrekin Group Limited Preliminary Offering Circular dated 8 October 2019 for further detail