Metropolitan Funding PLC

Thames Valley Housing Association (TVHA) trading update and unaudited consolidated financial results for the six months ended 30 September 2020

TVHA, one of the UK's leading providers of affordable housing and care and support services, announces a trading update for the first six months (H1) of the financial year 2020/21.

Highlights

- Revenues up 12% compared with equivalent period last year at £233m (2019: £208m).
- Operating surplus of £72.6m (H1 2019: £68.4m) and a total surplus of £37.4m (H1 2019: £30.9m).
- Strong arrears performance of c.5.3% (March 2020 c.4.8%) despite the impact of Covid-19.
- £776m (March 2020: £649m) of available liquidity.
- Strong sales with 245 (291) units completed in the first half. We have sold down stock and are well positioned to face any future challenges in the market.
- Strong cash performance which underscores the resilience of the business through the lockdown periods.
- Recruitment of five new non-executive directors giving us a skilled, balanced and diverse Board.
- S&P confirmed the Group rating as A- (Stable) in December 2019.
- 302 new homes completed (2019: 450) and on track to complete more than 800 new homes in the full year.
- Clapham Park Regeneration – following planning permission in December 2019, we are on site to deliver 50 new rented homes, at the first site of the new masterplan. A Joint Venture partner to deliver a further 2,400 homes, (a mix of 742 homes for social and affordable rent, 376 shared ownership properties and 1,367 market sale homes), is to be appointed by May 21.

Geeta Nanda, Chief Executive, commented:

"The first six months of the 2020/21 financial year have been dominated by Covid-19 and, from the very beginning, we've responded well to the challenges it has presented, focusing on maintaining people's safety and wellbeing, and ensuring customers' needs continue to be met.

"Throughout the pandemic, we have maintained frontline services such as Care and Support operations and NHS keyworker accommodation schemes thanks to the dedication of our frontline colleagues. We have provided targeted support to residents, working in partnership with local stakeholders, and putting in place a programme of proactive welfare calls to those believed to be at-risk – with nearly 8,000 calls made to date. We also established a dedicated Support Hub triaging service shortly after lockdown measures were introduced, to provide help and referrals. The support provided has had a positive impact on people's lives, and we're pleased to see rent arrears levels at c. 5.3%, despite the challenges of Covid-19.

"In our initial response to the pandemic – and until its impact was clearer – we adopted a more restrained approach to spending. We're very pleased that our performance in areas such as sales has been positive, and we've been able to release investment which had temporarily been put on hold.

"We've demonstrated financial resilience in response to Covid-19, with our turnover and operating surplus up on this time last year, and our liquidity remaining strong. Although uncertainty remains about the longer term economic and health impacts of the pandemic, our financial resilience and stability positions us well for the remainder of the financial year.

"Accountability, transparency and engaging with our residents and customers are at the heart of everything we do and we welcome the proposals outlined in the recent Social Housing White Paper. We look forward to discussing with government how they can be delivered as part of the progress we are already making to improve customer engagement and our responsiveness to complaints, as well as the investment we are making in our existing and new homes to ensure they are safe and in good condition.

"Building safety remains a priority, and our financial plan has built in the capacity to allocate greater financial resources to our Safer Buildings programme. We plan to survey 48 of our tallest buildings by the end of the financial year, with a net spend of £4.5m expected in this area across 2020/21.

"At Clapham Park - our flagship regeneration scheme in Lambeth, south London - we have been very happy to see the first new homes delivered as part of our revised masterplan. On completion, the project will more than double the number of homes at Clapham Park to more than 4,000 homes, of which 53% will be affordable.

"We're committed to good practice when it comes to environmental, social and governance (ESG) performance reporting - and are pleased to have become an early adopter of The Good Economy's Sustainability Reporting Standard for social housing. We're also driving forward our diversity and inclusion agenda, and this year sees the launch of a new strategy to guide our approach to creating a truly inclusive organisation.

"We're delighted to have appointed five new members to our Board: Gurpreet Gujral joined in March 2020 and Tania Brisby joined in October 2020. Davinder Dhillon, Nigel Ingram, and Ofei Kwafo-Akoto will all join in January 2021. The new appointees replace Paul Bridge, Kathryn Davis, Stuart Beevor, and Jerry Piper – members who have made valued contributions to the Board and have reached or are reaching the end of their tenures with us: their part in the success of the merger has been immeasurable.

“Our new members were appointed based on their skills and experience in finance, treasury, property maintenance and law – all areas in which the Board is focused on further strengthening its range of expertise. We look forward to working with them, and all colleagues across the organisation, as we continue to pursue delivery of our purpose – giving everyone a home and the chance to live well.”

Results overview – Thames Valley Housing Group

Turnover from core Customer Services operations (ie excluding home sales) was up 1% period on period as the business benefited from the return to the CPI +1% rent settlement. Increased Care and Support fee income offset the fall in fees and other income. Revenues from home sales are up 57% largely due to the completion of the bulk sales at Clapham Park to ResiCap. We sold 245 units (including 140 first tranche sales) in the first six months of the year, compared to 291 (including 281 first tranche sales) in the same period last year. In general, prices for homes, particularly Shared Ownership, remain in line with our expectations, although sales rates are slower. Average H1 sales margin was 12.4% (H1 2019: 16%).

Operating surplus (including profit from disposals) is £4.2m higher than the same period last year at £72.6m (2019: £68.4m), largely due to the surplus on sales, but partly offset by reduced profits on disposals, which are down 45% period on period and which have been particularly adversely affected by the lockdowns. Operating costs and Overheads were also lower, with overhead costs benefitting from lower levels of frontline activity and the move to working from home. Operating margin for the first six months is 1.8 ppts lower at 31.1% (2019 32.9%), due to the dilutive effect of increased new build sales and lower volumes of staircasing and redemptions.

Cashflow from operations through the first six months was £79.2m higher than the corresponding period last year due to strong sales and lower levels of development expenditure. £86.5m (2019: £128.5m) was invested in new development projects in the period to 30 September, reflecting the impact on development sites during the first lockdown, and £7m (2019: £29m) spent on capitalised repairs to the existing estate.

We continue to invest in the condition of our stock, including the rising cost of fire safety. Lockdown impacted our ability to mobilise the programme as well as seeing reduced demand for repairs and the provision of a minimum viable service option to the end of July. Underlying net interest costs (excluding mark to market movements on derivatives) are £0.8m higher than the same period last year reflecting sales receipts and limited incremental development and repairs spending.

The organisation completed 302 homes during the first half of the year (2019: 450) and remains on track to deliver more than 800 new homes for the full year.

At 30 September 2020, we had c. £776m (2019: c. £475m) of available liquidity (both cash and committed facilities) and total debt of £1,916m (2019: £1,906m).

Thames Valley Housing Association's Standard & Poor's credit rating was confirmed as A- (Stable outlook) in December 2019.

Outlook

This outlook statement is subject to the uncertainty/unforeseen business interruption that might be caused by the pandemic and future government measures as well as an economic environment that remains challenging in 2021, and beyond.

The core housing business continues to perform well despite the impact of Covid-19. Total revenue is expected to be in line with last year. We continue to be impacted by Covid-19 and uncertainty over Brexit, but have seen the benefits of strong sales demand. Underlying operating surplus is in line with our pre-Covid expectations and is expected to show a similar improvement for the full year as at the half year.

We are continuing with our Safer Buildings programme and the need to put resident safety first, resulting in a reduction in development aspirations, as capital is redeployed for improvements to assets. We have adopted a risk-based approach to the review of blocks over 18m, to determine the extent of any remediation requirements. We have access to NHBC and the government’s Safer Buildings Fund where we meet qualification requirements, however the overriding expectation is that developers/warranty providers will pick up the costs of remediation. Fire safety does however, remain a risk to MTVH and the wider sector given the number of homes in ownership and management, and the potential impact of future remediation may reduce the capacity to develop new homes and dilute margins and covenant capacity.

Liquidity management remains a key focus as we monitor sales and rental receipts to ensure cash certainty.

The government published the Social Housing White Paper ‘The Charter for Social Housing Residents’ in mid-November. We welcome the proposals and will continue to build on the progress already made to implement them in full.

The terms of the new Affordable Homes Programme (AHP) have been announced, with £7.4bn available from April 2021 to deliver up to 130,000 affordable homes by March 2026. The clear focus is on home ownership – c 50% funding for ‘routes into home ownership’ including Shared Ownership and Rent-to-Buy. New rented units will be subject to Right-to-Shared-Ownership (RTSO) and the sector has concerns over declining rates of development of new rented affordable homes.

The 2020 Spending Review announcement of a new £7.1bn National Home Building Fund (NHBF) over the next four years to unlock up to 860,000 homes is to be welcomed. The key elements of NHBF are £4.8bn of capital grant funding, and £2.2bn of new loan finance to support house builders, both elements further supporting our strategy.

MTVH has signed up as an early adopter of the Sustainability Reporting Standard for Social Housing and will report against the criteria for the first time in the summer of 2021.

TVHA will report results for the year ended 31/03/21, trading as Metropolitan Thames Valley, in summer 2021.

Consolidated financials

Statement of comprehensive income

£000's	FY19/20 Audited	H1 30/09/2020 Unaudited	H1 30/09/2019 Unaudited	PoP %
Rent and service charge income	295,281	151,233	148,159	2%
Care and support income	16,636	8,171	7,522	9%
Outright/first tranche sales	131,248	64,280	40,994	57%
Fees and other income	21,803	9,671	11,311	-14%
Total turnover	**464,968**	**233,355**	**207,986**	**12%**
Outright/first tranche cost of sales	-111,179	-56,287	-34,437	63%
Operating costs	-186,603	-84,770	-87,936	-4%
Depreciation	-37,157	-17,221	-17,586	-2%
Overheads	-33,795	-12,001	-16,046	-25%
Profits on disposals	34,432	9,474	17,095	-45%
Non recurring (merger costs)	-4,092	-	-679	-
Operating surplus	**126,575**	**72,550**	**68,397**	**6%**
Net interest	-77,260	-38,058	-37,238	2%
Fair value movements and other instrument revaluations	-484	2,911	-275	-1,159%
Exceptional items	-	-	-	-
Profit before tax	**48,831**	**37,403**	**30,884**	**21%**

Sales margin for the first six months 12.4% (2019: 16%)
Operating margin for the first six months 31.1% (*2019:* 32.9%)

Thames Valley Housing Association (TVHA) Consolidated Results

Statement of financial position

£000's	**FY19/20 Audited**	**H1 30/09/2020 Unaudited**	**H1 30/09/2019 Unaudited**	**PoP %**
Tangible fixed assets	4,518,930	4,587,252	4,460,734	3%
Homebuy and investments	270,811	268,199	266,639	1%
Current assets	365,434	292,361	366,675	-20%
Creditors – amounts falling due within one year	-371,509	-351,171	-336,561	4%
Total assets less current liabilities	**4,783,666**	**4,796,642**	**4,757,487**	**1%**
Creditors due after more than one year	2,297,767	2,277,211	2,346,079	-3%
Provisions and pension obligations	31,223	28,877	77,514	-63%
Reserves	2,454,676	2,490,554	2,333,894	7%
	4,783,666	**4,796,642**	**4,757,487**	**1%**

Thames Valley Housing Association (TVHA) Consolidated Results

Cashflow

£000's	FY1920 Audited	H1 30/09/2020 Unaudited	H1 30/09/2019 Unaudited
Net cashflow from operations	119,627	61,813	59,118
Sales proceeds	127,496	60,713	26,166
Development expenditure	-281,169	-86,520	-128,468
Total net cashflow from operations	**-34,046**	**36,006**	**-43,184**
Disposal proceeds	82,114	24,796	25,377
Major repairs	-42,162	-7,049	-29,008
Other	-12,930	-5,911	-7,890
Net drawdown (repayment) of debt	12,230	-27,906	-60,334
Net interest/fees	-122,596	-48,296	-43,971
Net cash movement in period	**-117, 390**	**-28,361**	**-159,010**
Opening cash	185,697	68,307	194,477
Restricted cash	37,145	41,052	30,274
Closing cash	**105,452**	**80,998**	**65,741**

Enquiries

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This information for investors is also available on our website: https://www.mtvh.co.uk/about-us/investors/

Notes

1) Operating margin is operating surplus/turnover
2) Thames Valley Housing Association (TVHA) is the parent of the group trading under the brand of Metropolitan Thames Valley (MTVH). Metropolitan Housing Trust (MHT) is a wholly owned subsidiary of TVHA and MHT owns 100% of the shares of Metropolitan Funding Plc.

Disclaimer