

20:20 Vision

CEO Social Housing Roundtable

HOSTED BY



FIONA MACGREGOR
CEO, REGULATOR
FOR SOCIAL HOUSING



GLENN HARRIS
CEO,
MIDLAND HEART



RUTH COOKE
CEO,
GREENSQUARE GROUP



FACILITATED BY
TONY BRYAN
CEO, VANTAGE

21ST JANUARY 2020


Vantage

Agenda

9.30 – 10.00	Coffee and Registration
10.00 to 10.30	Sector Financial Highlights FY2018/19 and FY2019/20 Outlook
10.30 to 11.15	RSH The View from the Regulator Fiona MacGregor
11.15 to 11.30	Coffee break
11.30 to 12.30	Round Table Debate: Organisational Priorities, Challenges and Initiatives Ruth Cooke, CEO GreenSquare Group & Glenn Harris, CEO Midland Heart
12.30 to 13.00	Lunch Break
13.00 to 14.00	Roundtable Debate Continued



Social Housing Financial State of the Sector FY18/19

PRESENTING THE DEFINITIVE HEADLINE FINANCIAL RESULTS
FROM THE VANTAGE GLOBAL ACCOUNTS PLUS ANALYSIS

FY18/19 & FY19/20 Outlook



Overall turnover analysis

TURNOVER FOR FY18/19 WAS £17.10BN, AN INCREASE OF 1.8% IN COMPARISON TO £16.80BN IN 2017/18.

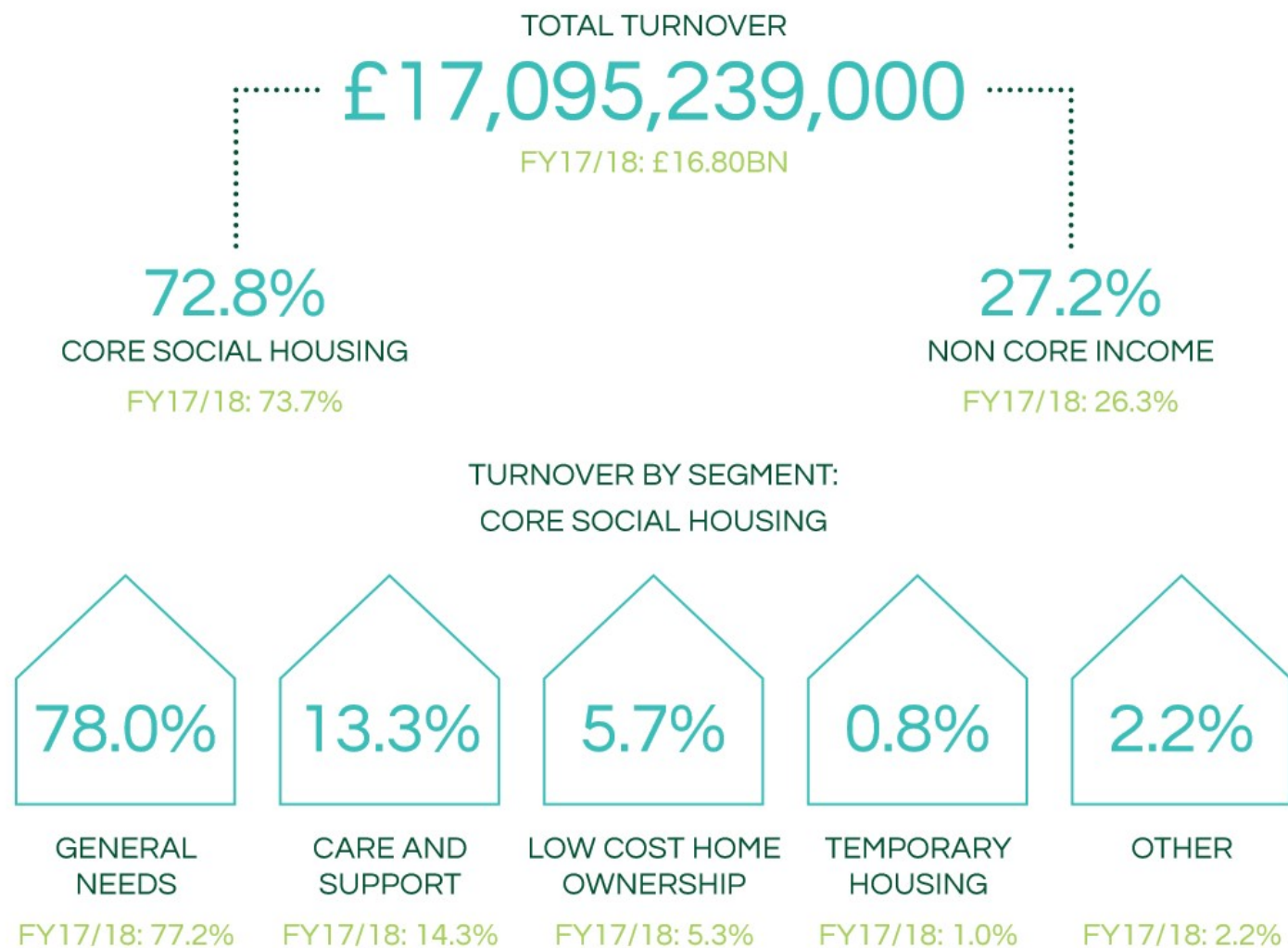
BREAKDOWN OF TURNOVER BY STOCK SIZE:



BREAKDOWN OF TURNOVER BY REGION:

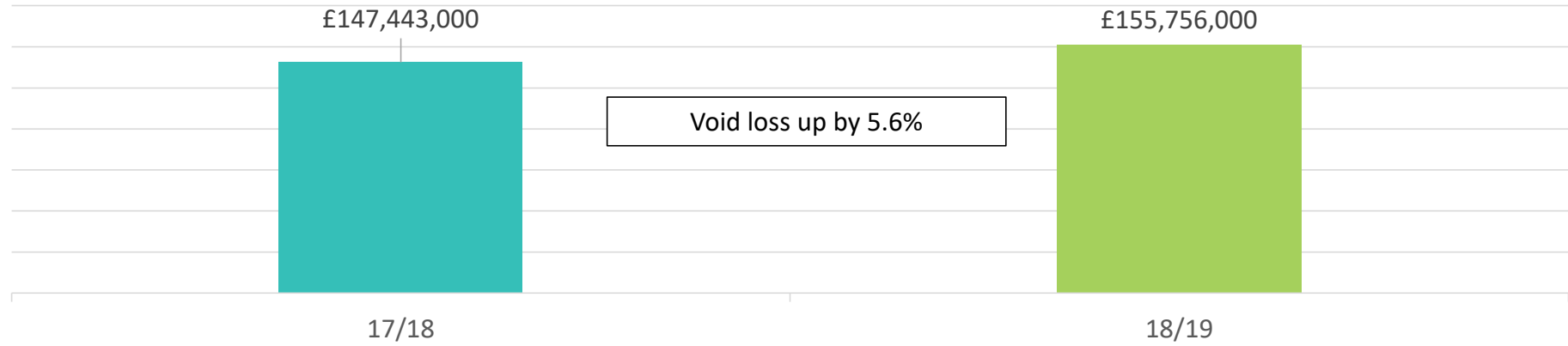
G15	31.8% (-2.1%)
National Organisations	22.0% (-2.2%)
South West	9.1% (+3.0%)
North West	9.0% (-2.8%)
Midlands	7.9% (+8.9%)
Other Regions	20.2% (+2.6%)

Overall turnover by segment size and stock

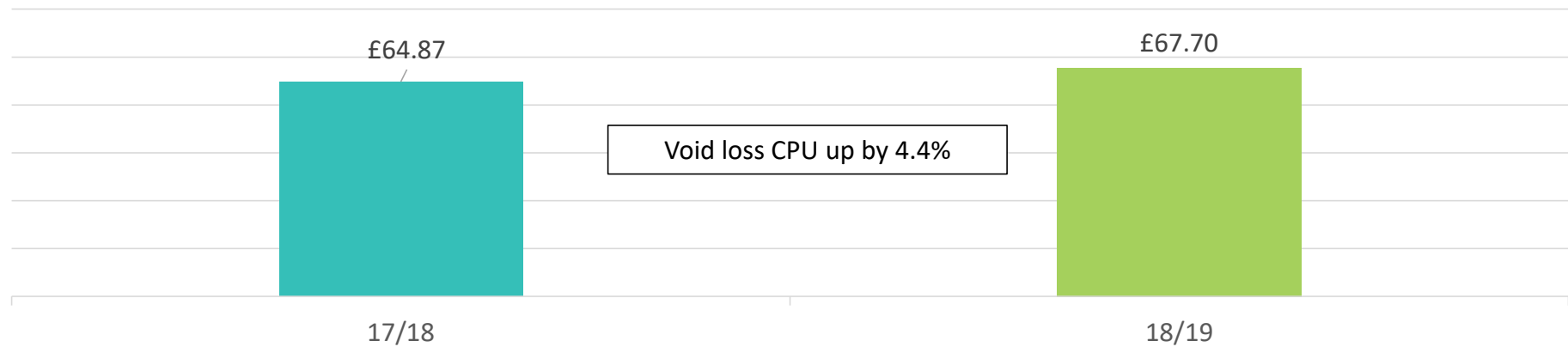


Void Loss Total

Void Loss



Void Loss per Unit



*Approximately 32,794 empty homes for an entire year 18/19

Operating Costs

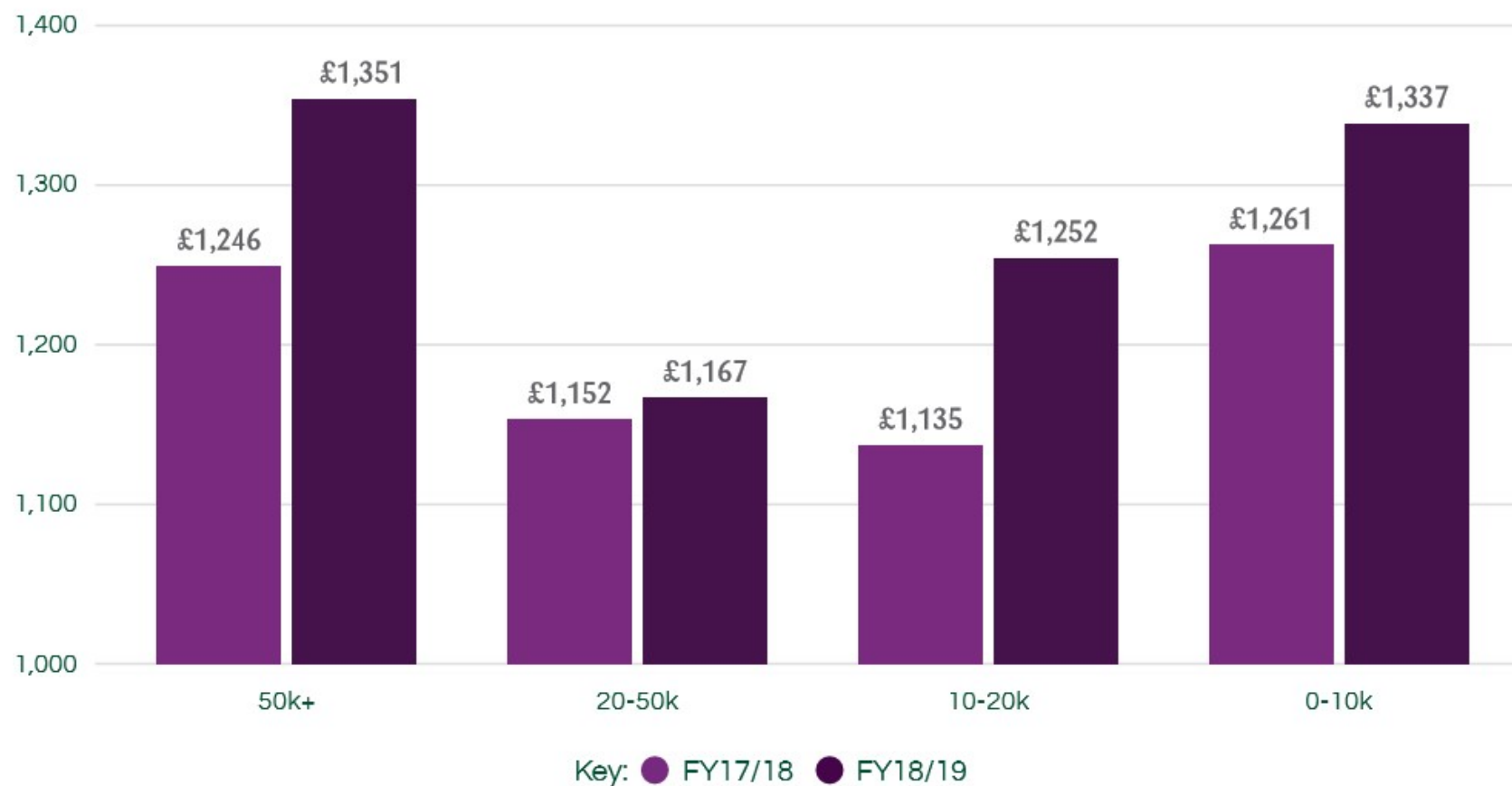


Management costs

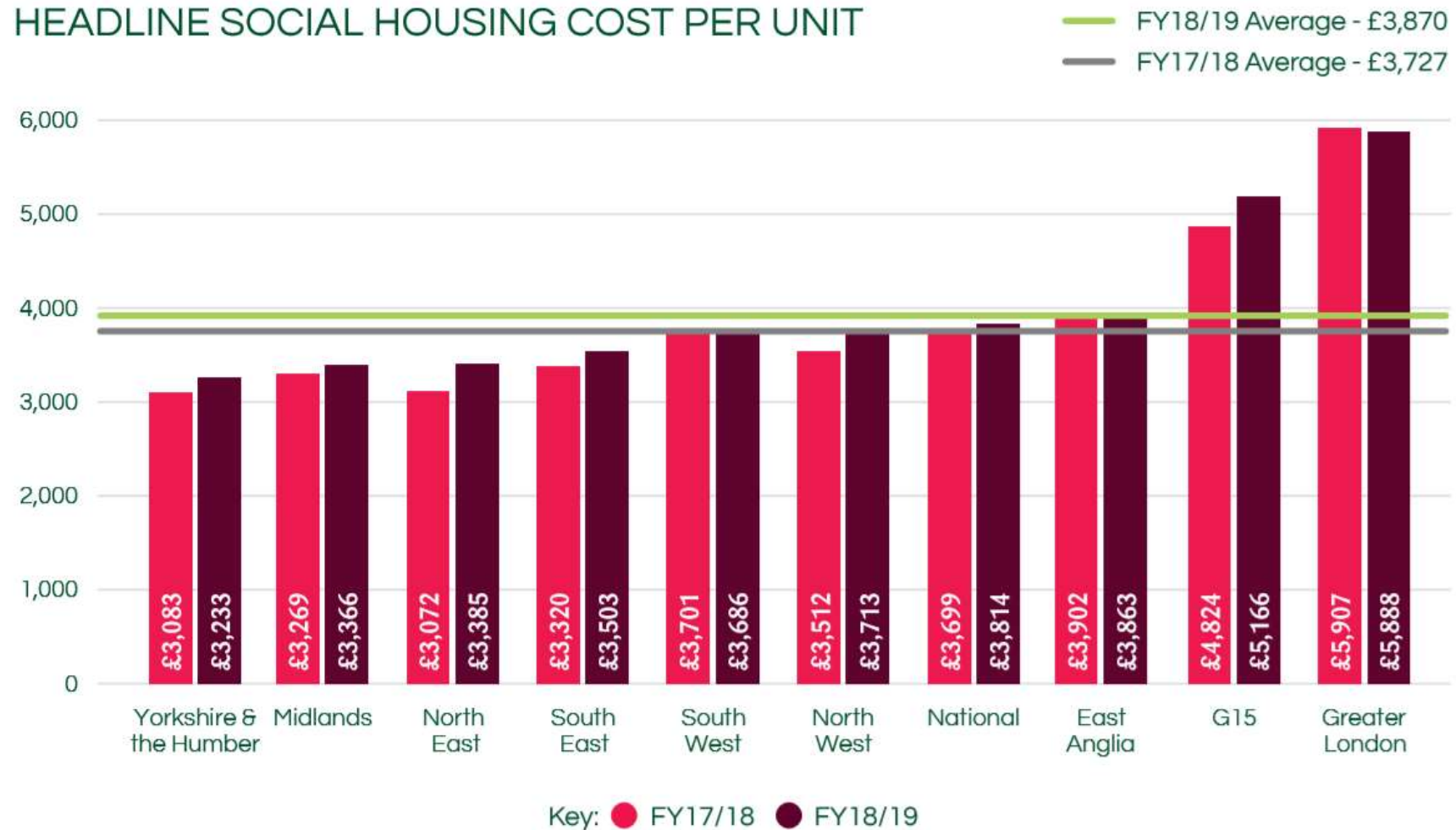


- Employment costs increased by 1.5% between 2017/18 and 2018/19 from £3.51bn to £3.56bn.
- The number of employees decreased by 2.4% from 97,865 to 95,561.
- The cost per FTE rose by 4% from £35,879 to £37,306.

Total R&M CPU by stock size



Headline social housing cost per unit - by region



Headline Social Housing Cost per Unit

Sample of 66 RPs FY19/20 Outlook





Operating Margin

Vantage 

Social Housing Operating Margin

OPERATING MARGIN % (SOCIAL HOUSING)

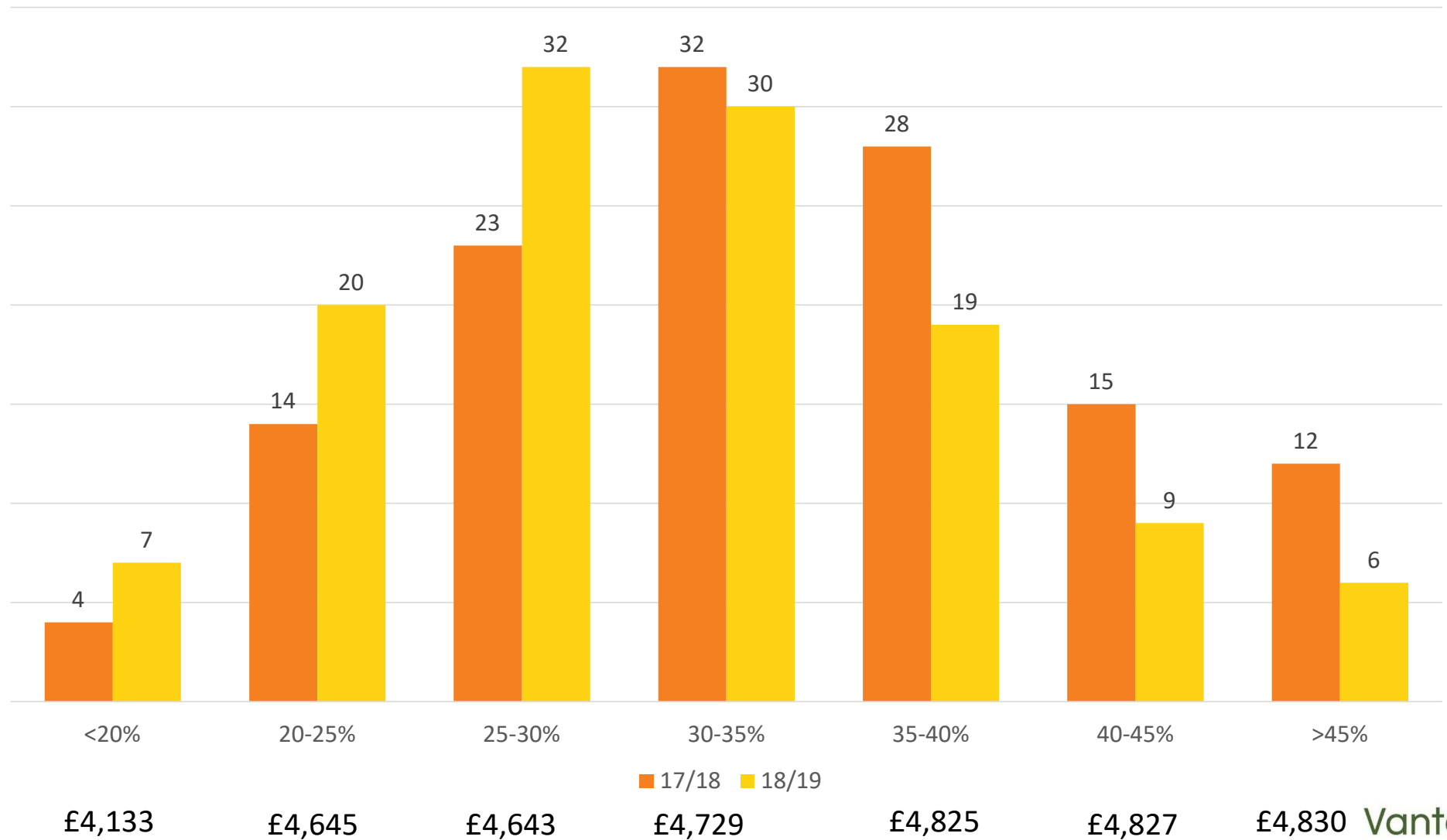
FY18/19
AVERAGE
30.8%
FY17/18
AVERAGE:
33.5%

Operating margin (SHL) demonstrates the profitability of an organisation's social housing function. Operating margin is down across the board with East Anglia taking the biggest hit going from 36% to 30%.

South East has retained the title of the best performing region with North West having the lowest margin this year again. The larger RPs tend to have higher % margins than the smaller ones which can be seen in the in the stock categories chart.

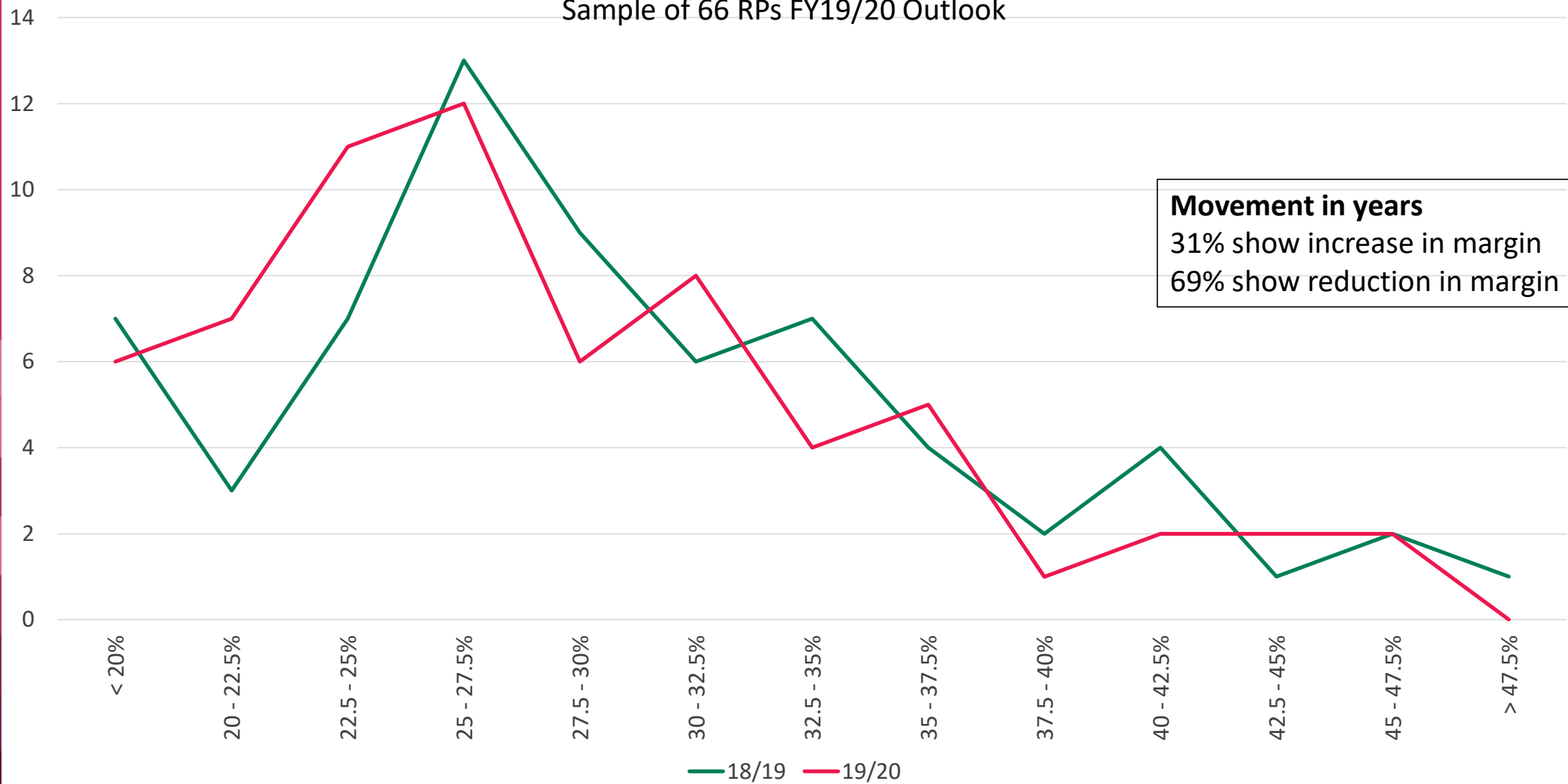


Operating Margin Range SHL % (Movement in years)



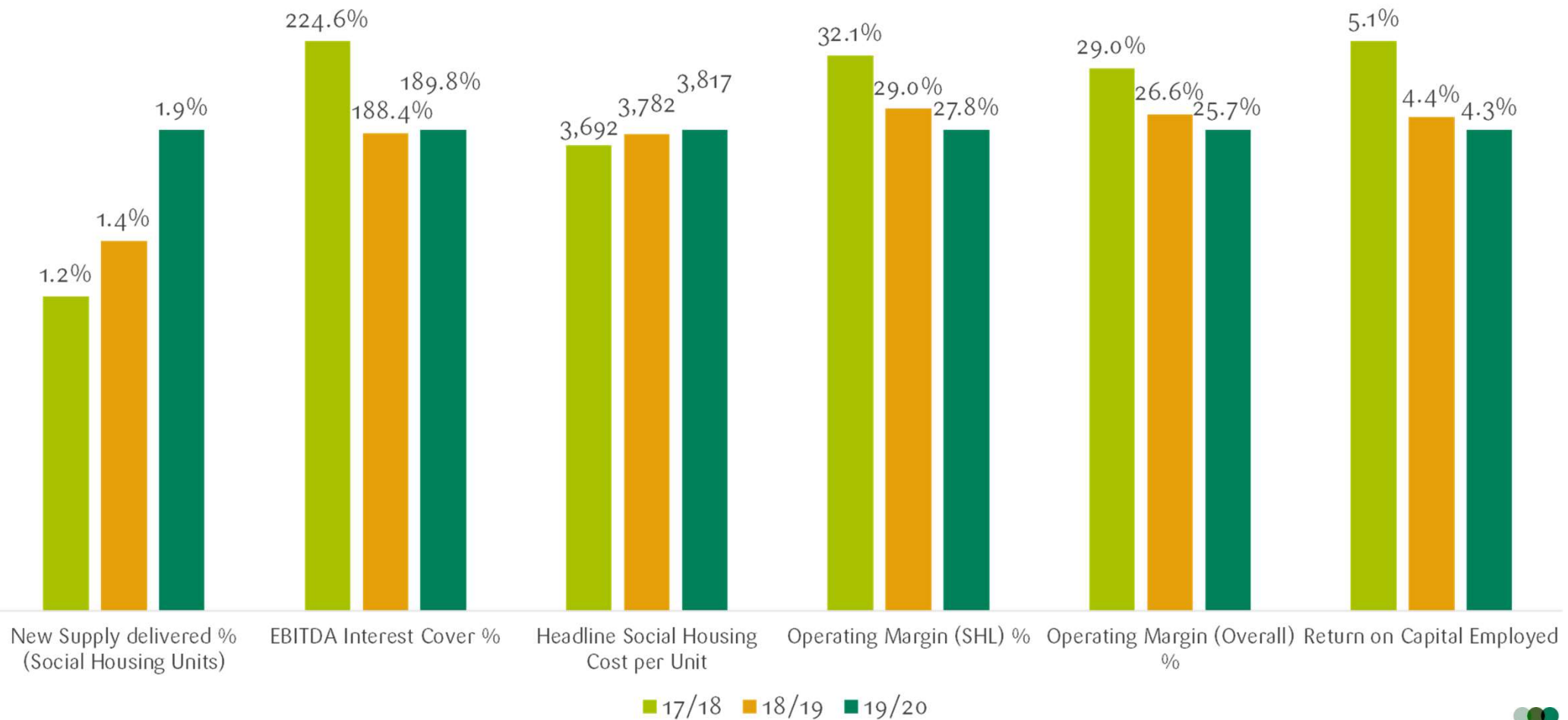
Operating Margin % (Social Housing)

Sample of 66 RPs FY19/20 Outlook



VFM Metrics 17/18 - 19/20

Sample of 66 RPs FY19/20 Outlook



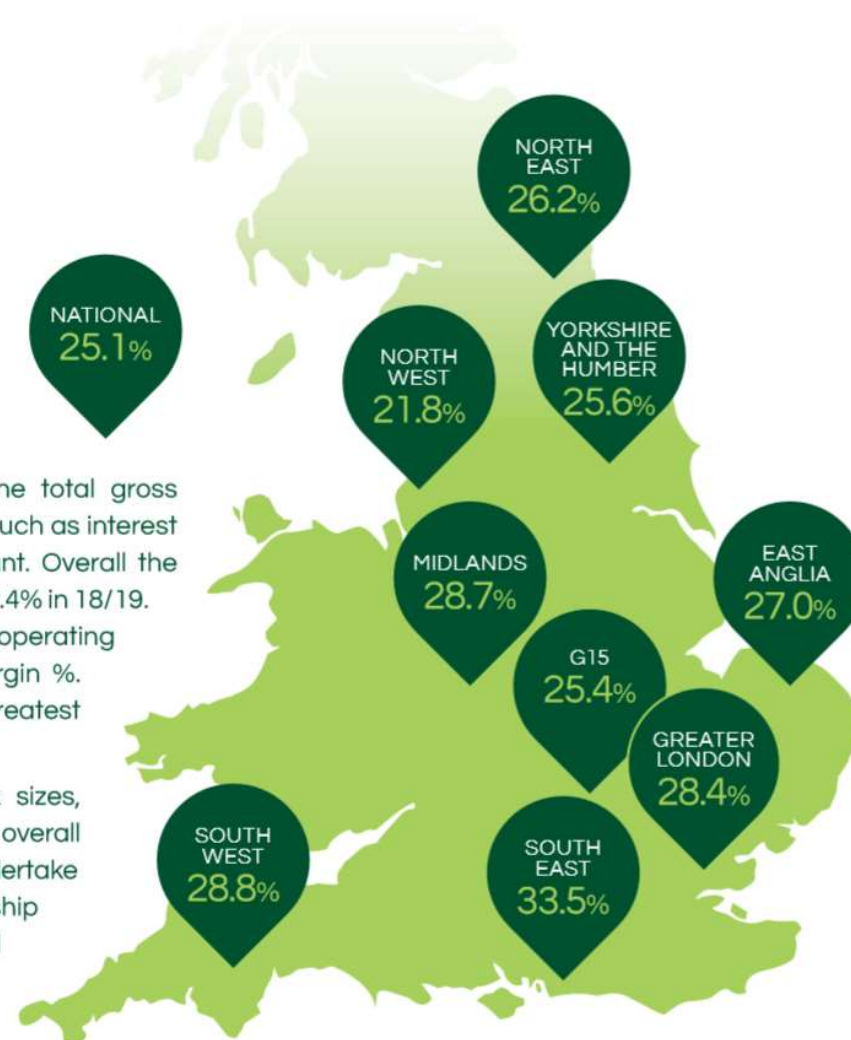
Overall Operating Margin



Operating margin (overall) demonstrates the total gross profitability of an organisation before costs, such as interest payable and taxation, are taken into account. Overall the margin has reduced from 30.2% in 17/18 to 27.4% in 18/19.

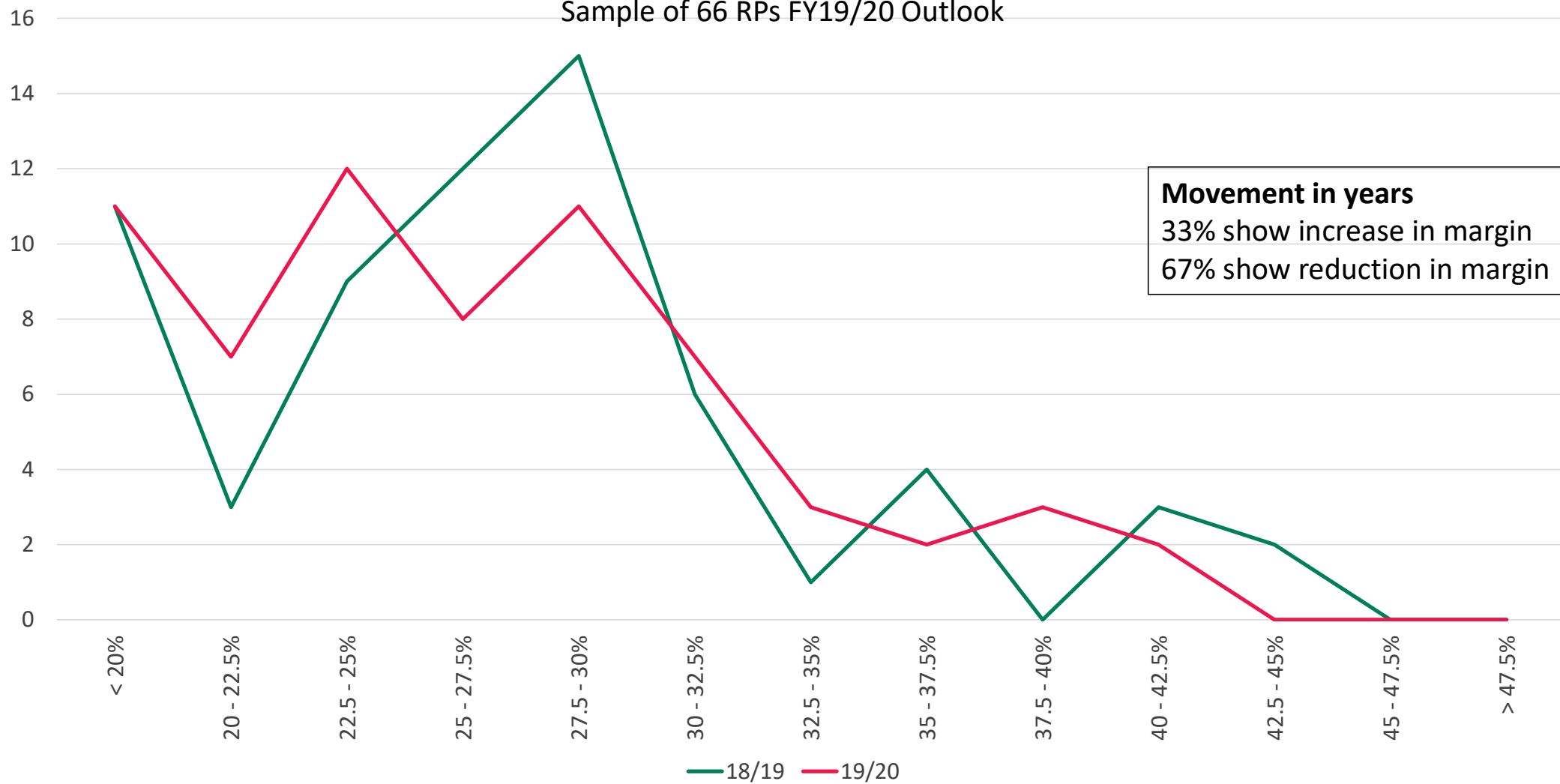
All regions have seen a decrease in overall operating margin % similar to the social housing margin %. Yorkshire and the Humber has had the greatest decrease going from 31.6% to 25.6%.

There is very little difference across stock sizes, although the smallest RPs tend to have higher overall margin %. However, it is the larger RPs that undertake most of the outright sales and shared ownership activities. These often have margins well below 30% and bring down their average overall margins.

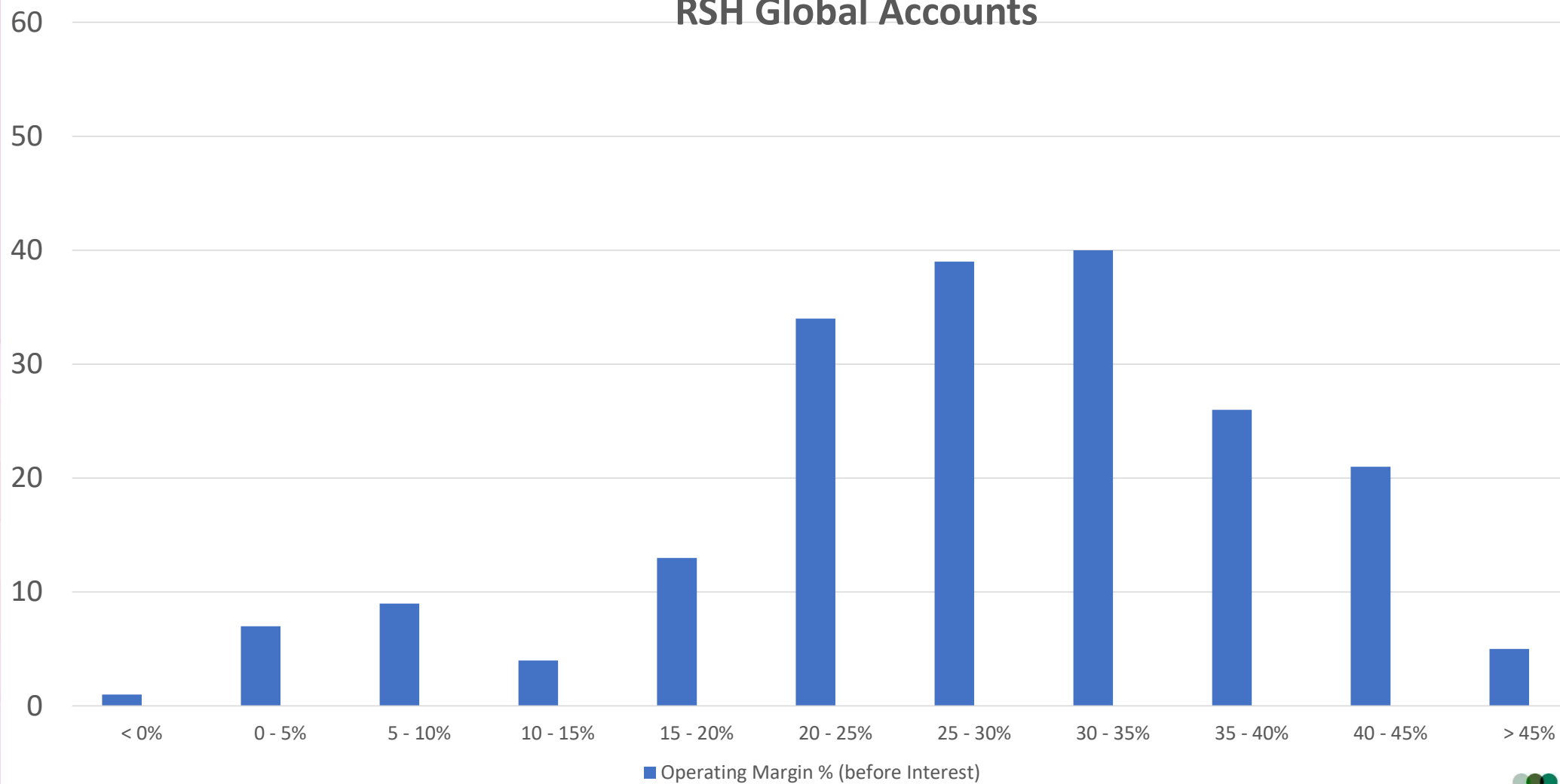


Operating Margin % (Overall)

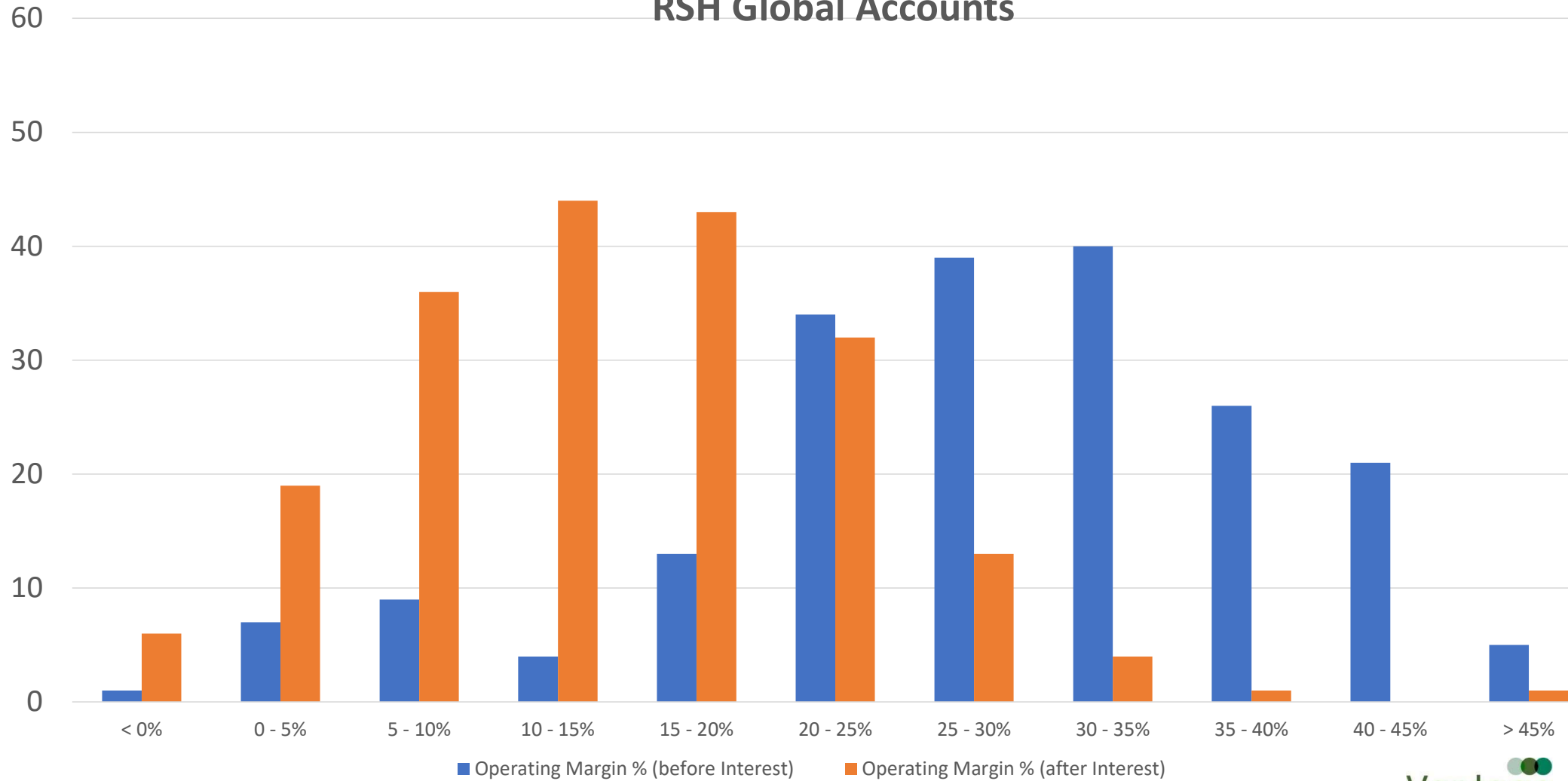
Sample of 66 RPs FY19/20 Outlook



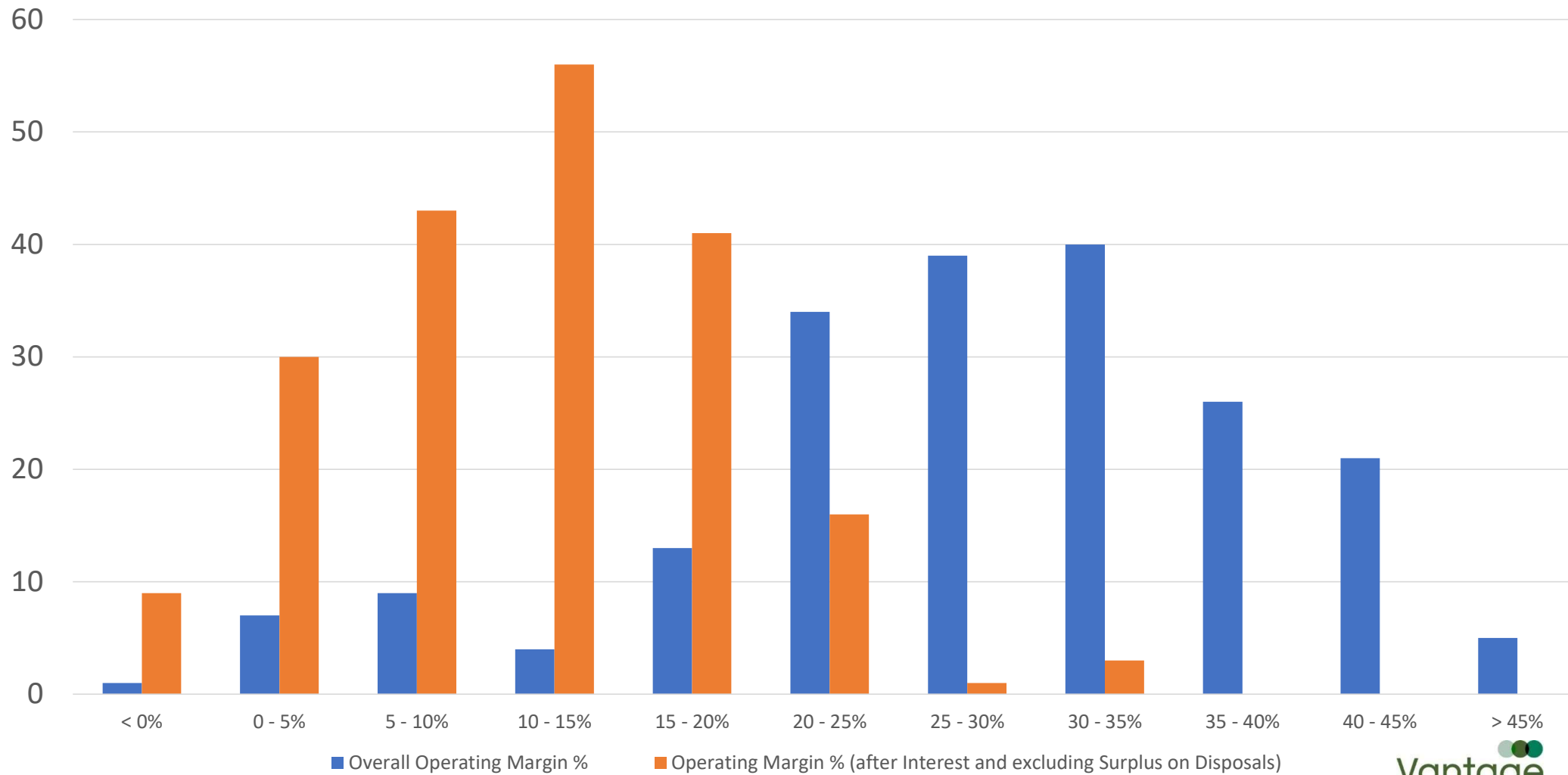
Overall Operating Margin % FY18/19 RSH Global Accounts



Overall Operating Margin % before and after Interest FY18/19 RSH Global Accounts



Overall Op Margin % vs Op Margin % after Interest and Surplus on Disposals FY18/19 RSH Global Accounts





Regulator of
Social Housing

CEOs Round Table – Vantage Global Accounts

Fiona MacGregor
CEO

21 January 2020



Content

- Global Accounts
- FFRs
- Value for Money Reporting

Global Accounts - Headlines

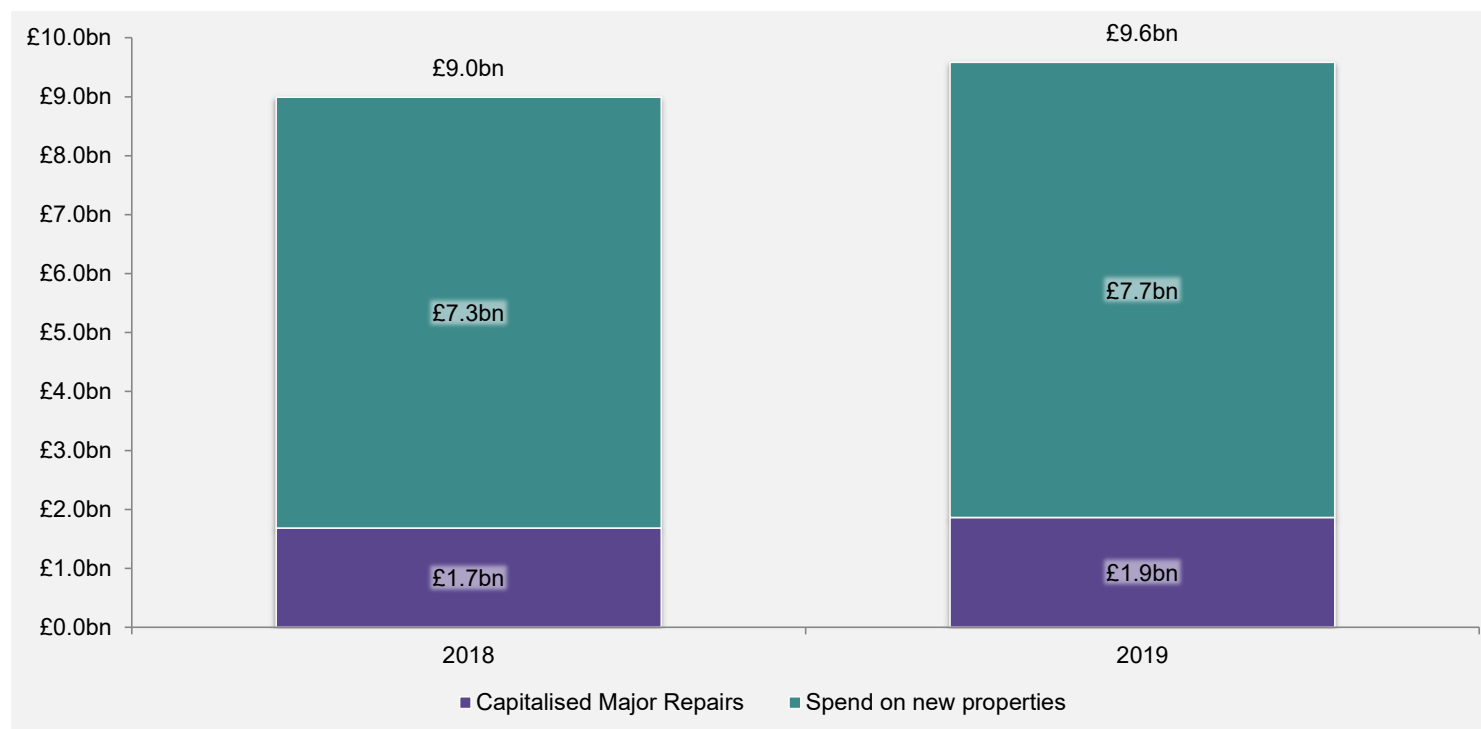
- Strong Balance Sheet
- Healthy surplus – though lower than 2018
- Increased Investment in new supply and existing stock
- Increase in debt – including record new facilities
- Decrease in profitability – both rental and sales activities
- Tightening of margins
- Reduction in interest cover

Summary of Income Statement

	Consolidated		Entity	
£billion	2019	2018	2019	2018
Turnover	20.9	20.5	18.7	18.4
Total operating costs	(15.6)	(14.8)	(13.8)	(13.1)
Operating surplus (excluding fixed asset sales)	5.2	5.6	4.9	5.3
Net interest payable	(3.1)	(3.1)	(3.0)	(3.0)
Surplus on sale of fixed assets	0.9	0.9	0.9	1.0
Other items	0.5	0.2	0.6	0.4
Surplus for the year	3.5	3.7	3.5	3.8

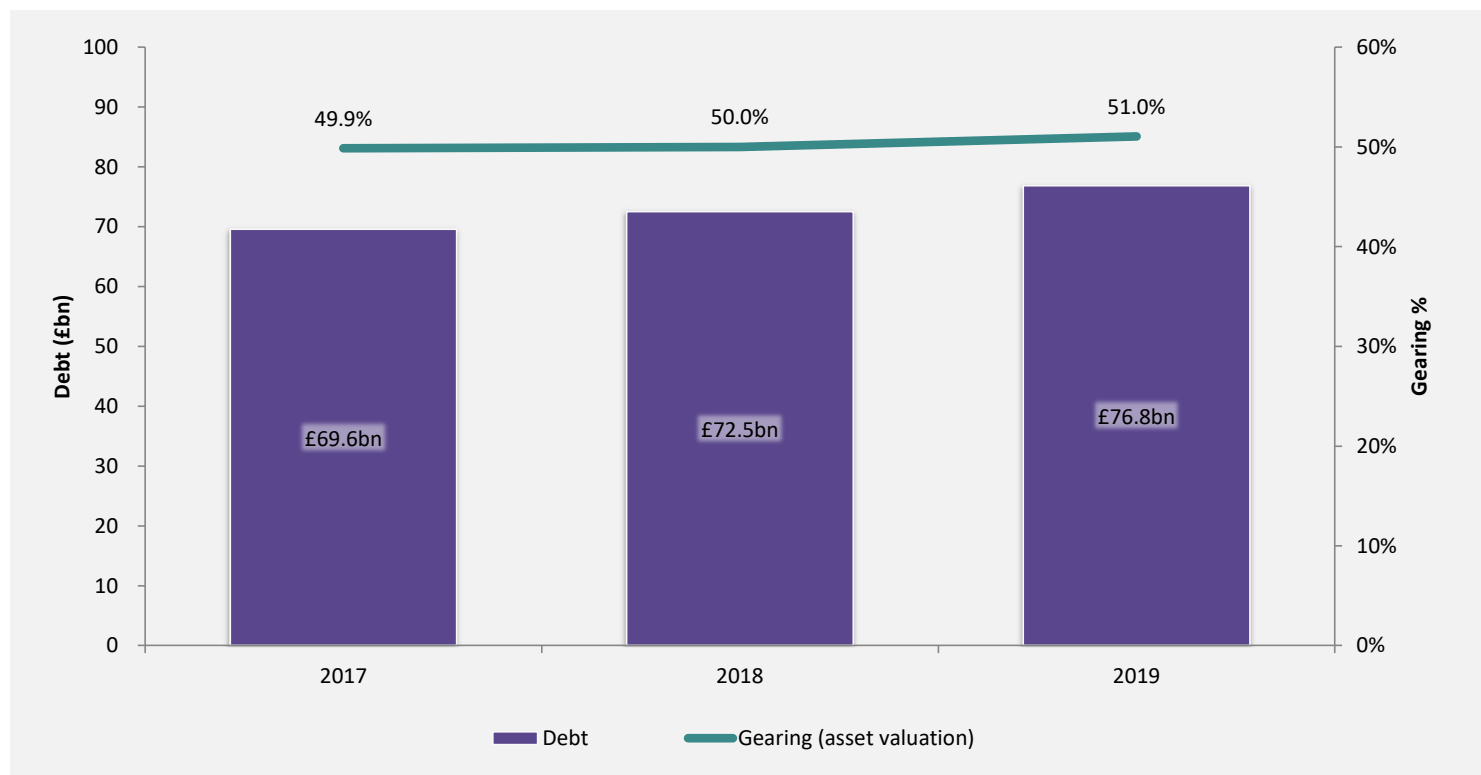
- Reduction in surplus of £0.2bn (consolidated)
- Increase in turnover of £0.4bn (consolidated)

Investment in Social Housing Properties (consolidated)



- Investment in new social housing up £0.4bn – 5.5% increase
- Total investment in new supply (all tenures) - £12.1bn, 12% increase
- Investment in existing social housing up £0.2bn – 12% increase
- Total spending on repairs and maintenance of social housing stock - £5.5bn, 6% increase

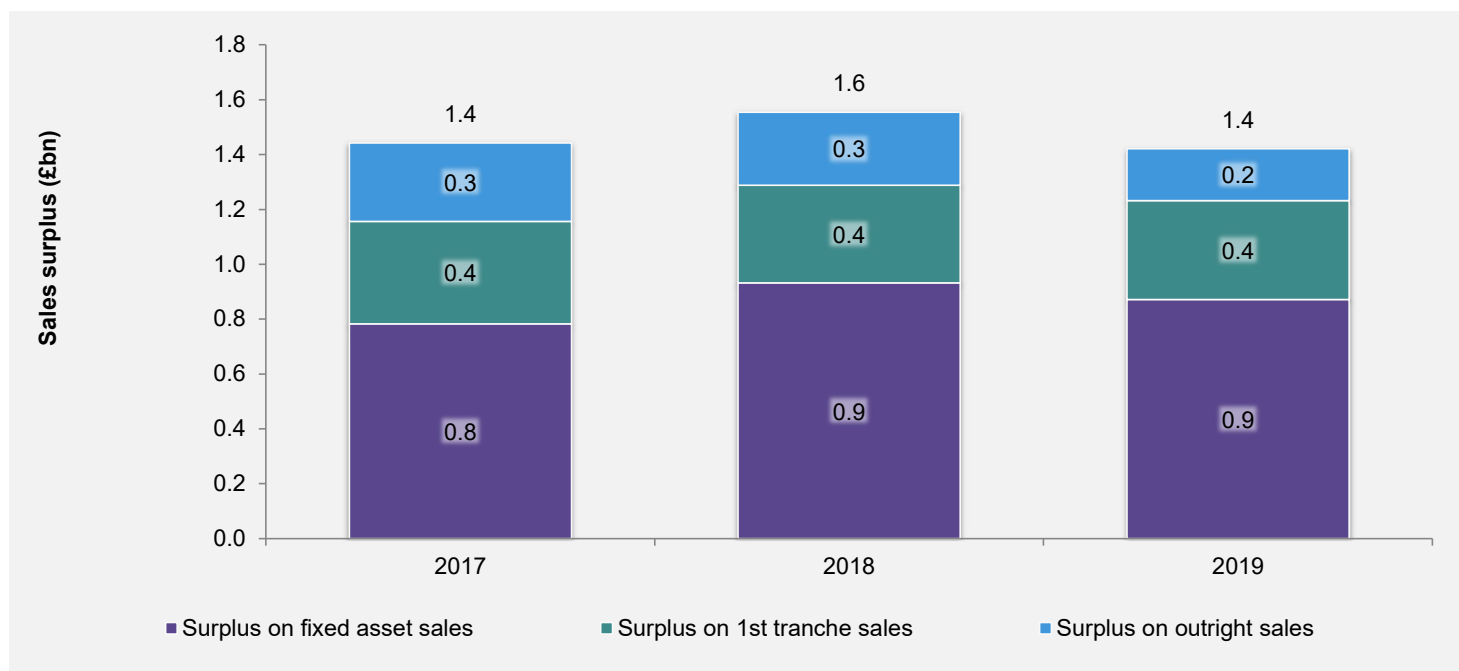
Gearing and debt (consolidated)



- Debt up 6%
- Backed by property related assets of £164bn
- Record £13.5bn new facilities raised in year - £27bn of which undrawn or cash
- Future capital commitments of £33bn - £14.3bn of which uncommitted

Operating margins and profit on sales

Operating margins by activity	Consolidated		Entity	
	2019	2018	2019	2018
Operating margin	25%	28%	26%	29%
Social housing lettings	30%	33%	30%	32%
1st tranche sales	25%	29%	25%	28%
Outright sale	13%	19%	13%	14%



Market Sales Exposure

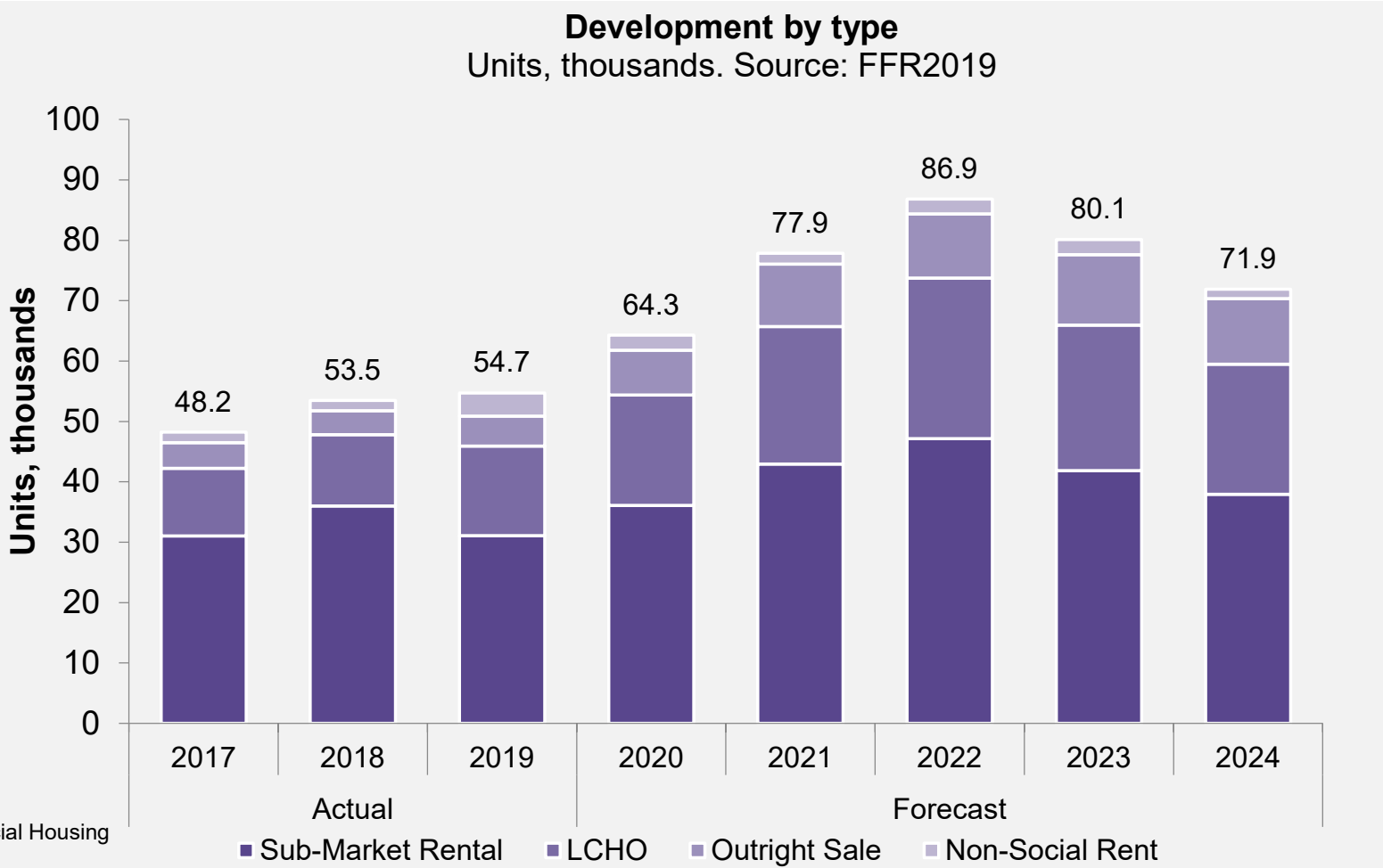
- Still relatively concentrated
- Stress testing and mitigations – ability and willingness to act
- Impact of market cycle
 - slowdown in London and South East
 - rest of England?
- Impairments?



Latest Quarterly Survey (Q2 2019/20)

- Unsold AHO units were 6,688 at Sept 2019 (↓5% on June), of which 2,614 were unsold for more than six months (↑23% on June).
- Unsold market sale units 2,229 (↑8% on June), 883 for >6 months (↑59% on June)
- Concentrated issue:
 - Half the unsold AHO stock held by 16 providers (6 providers for unsold market sale units).
 - 42% of AHO unsold for 6+ months held by providers operating mainly in London & South East
- Margin of 23.3% on AHO sales, steadily declining from peak of 34.2% in Sept 2016
- Trends driven by development peak in quarter to March 2019 & weak housing market, especially in London & South East
- Quarterly regulatory assurance on outliers with unsold stock, ensuring current liquidity position currently and in event of further sales slowdown.
- Development of for sale properties (AHO & market sale) still forecast to increase over next 18 months

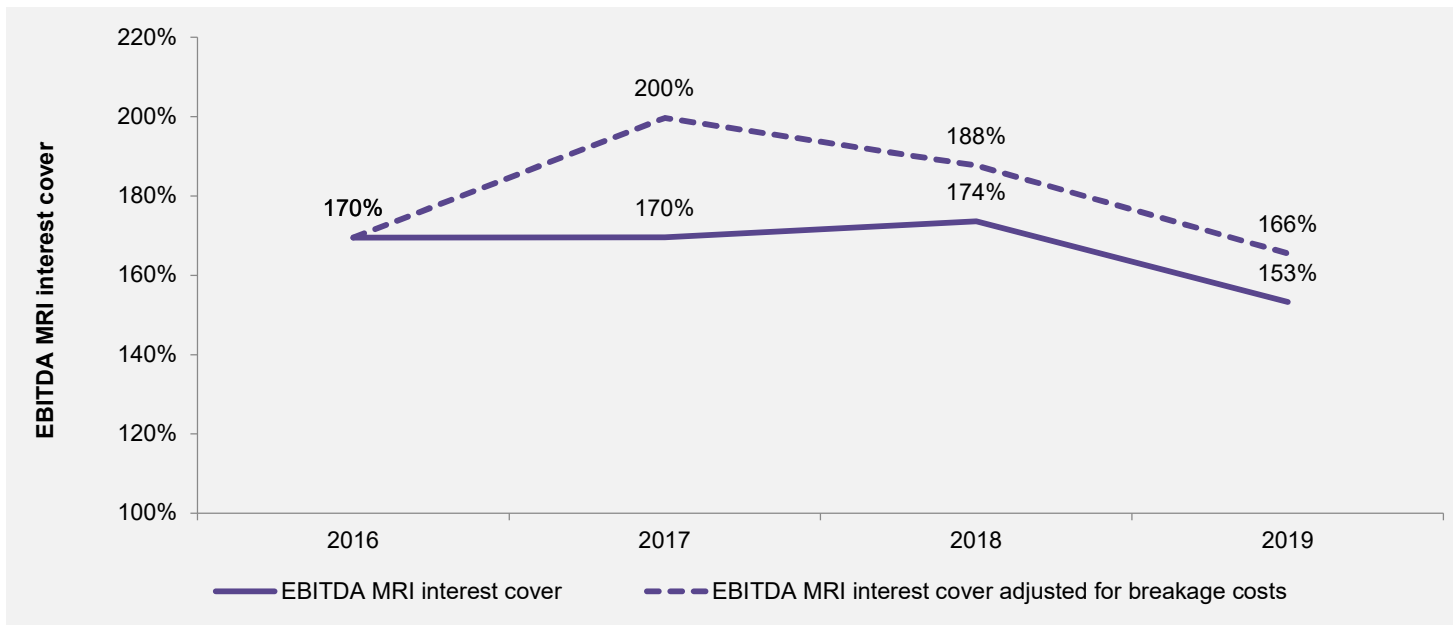
Development forecasts



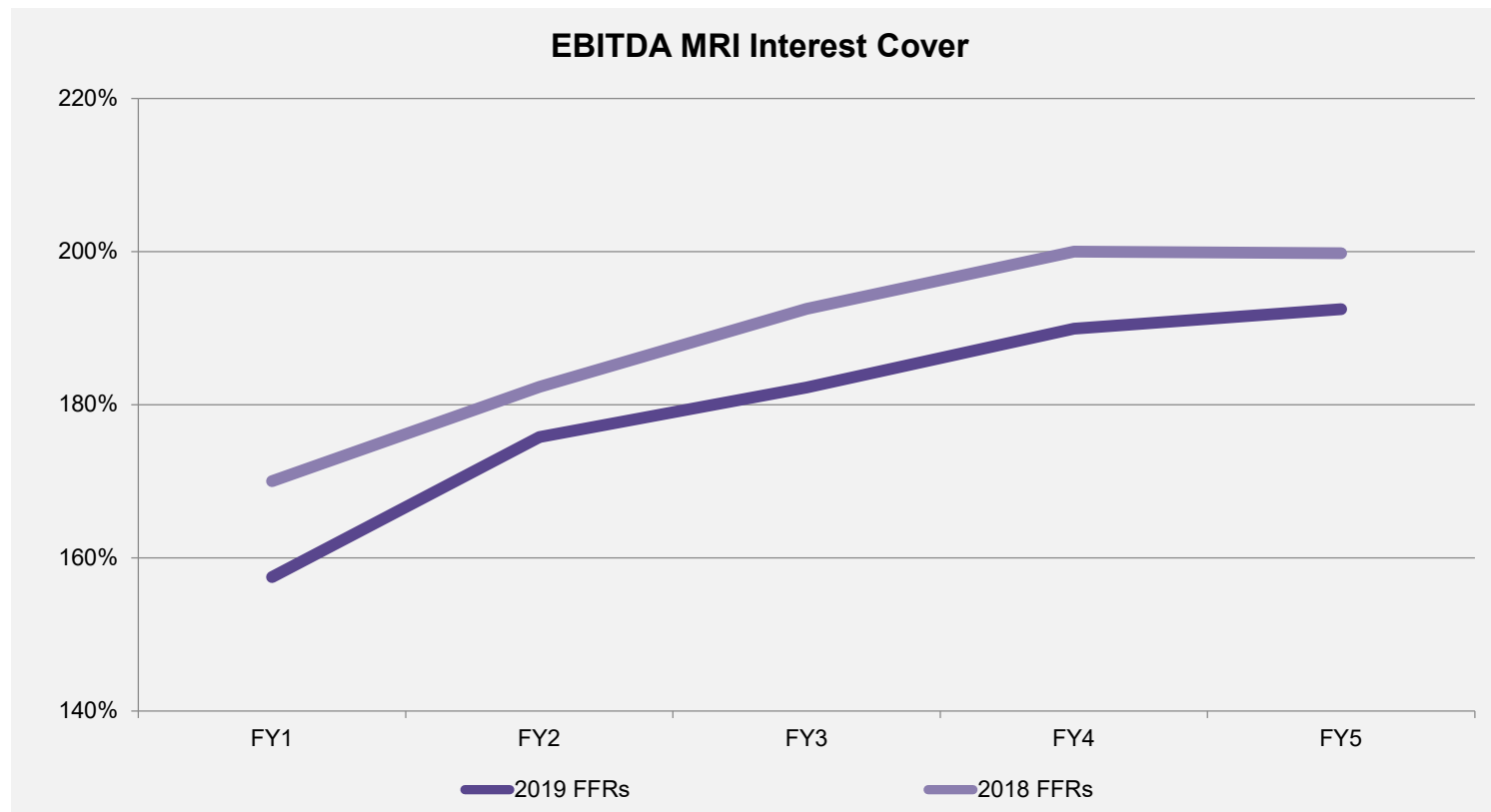
Interest cover

	Consolidated		Entity	
%	2019	2018	2019	2018
EBITDA MRI Margin	26.9%	30.1%	29.4%	32.2%
EBITDA MRI interest cover	153%	174%	152%	169%
EBITDA MRI interest cover SHL	139%	156%	143%	158%
Effective interest rate	4.7%	4.8%	4.7%	4.8%
Effective interest rate (excluding breakage costs)	4.3%	4.4%	4.3%	4.4%
Debt to Turnover	377%	363%	413%	397%

EBITDA MRI interest cover (consolidated)



Interest cover



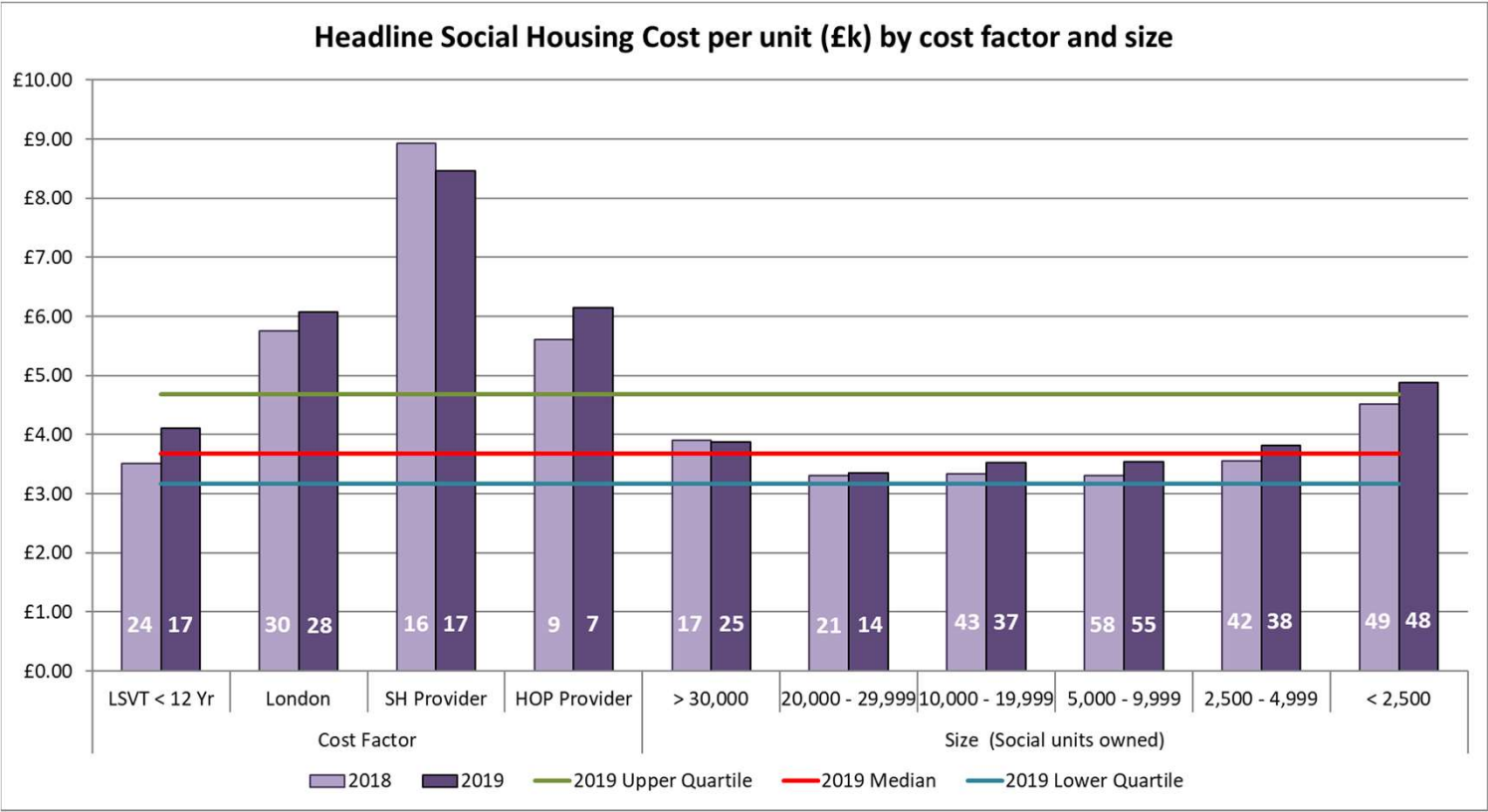
VFM Metrics – 3 Year Trend Analysis (2017-2019)

VFM Metric		Reinvestment (%)	New Supply (Social) (%)	New Supply (Non-Social) (%)	Gearing (%)	EBITDA MRI Interest Cover (%)	Headline Social Housing CPU (£K)	Operating Margin (social) (%)	Operating Margin (%)	Return on Capital Employed (ROCE) (%)
Upper Quartile	2019	8.7%	2.5%	0.13%	53.7%	238%	£4.69	34.6%	30.8%	4.7%
	2018	8.7%	2.3%	0.07%	53.1%	263%	£4.50	37.1%	34.1%	5.4%
	2017	8.6%	2.2%	0.03%	54.8%	278%	£4.36	39.3%	36.0%	5.6%
Median	2019	6.2%	1.4%	0.00%	42.9%	182%	£3.64	29.2%	25.8%	3.8%
	2018	6.0%	1.2%	0.00%	42.9%	206%	£3.40	32.1%	28.9%	4.1%
	2017	5.6%	1.2%	0.00%	43.4%	212%	£3.29	34.7%	31.4%	4.3%
Lower Quartile	2019	4.2%	0.5%	0.00%	30.9%	138%	£3.15	23.1%	20.0%	3.0%
	2018	3.9%	0.5%	0.00%	33.1%	154%	£3.01	25.5%	22.7%	3.3%
	2017	3.7%	0.4%	0.00%	33.5%	174%	£2.96	28.7%	25.0%	3.5%
Weighted Average	2019	6.4%	1.6%	0.31%	46.7%	153%	£4.12	30.5%	25.0%	3.6%
	2018	6.2%	1.5%	0.23%	45.8%	174%	£3.92	32.8%	27.6%	4.0%
	2017	7.3%	1.5%	0.22%	45.8%	169%	£3.78	34.3%	29.7%	4.3%

Summary of sub-sector metrics (Providers owning / managing more than 1,000 homes)

Quartile Data		No of providers		% of sector (social units owned)	Reinvestm ent (%)	New Supply (Social) (%)	New Supply (Non-Social) (%)	Gearing (%)	EBITDA MRI Interest Cover (%)	Headline Social Housing CPU (£K)	Operati ng Margin (Social) (%)	Operati ng Margin (Overall) (%)	Return on Capital Employ ed (ROCE) (%)
All returns	Upper Quartile	217		100.0%	8.7%	2.5%	0.13%	53.9%	238%	£4.69	34.6%	30.8%	4.7%
	Median				6.2%	1.4%	0.00%	43.4%	184%	£3.69	29.2%	25.8%	3.8%
	Lower Quartile				4.2%	0.6%	0.00%	32.6%	139%	£3.18	23.1%	20.0%	3.0%
Provider Sub-Set		Median											
Cost Factor	LSVT < 12 Yrs.	17	7.3%		14.1%	0.6%	0.00%	28.3%	151%	£4.11	26.5%	25.3%	4.7%
	London	28	11.2%		4.8%	1.2%	0.00%	38.1%	159%	£6.07	26.3%	22.7%	2.8%
	SH Provider	17	1.5%		4.2%	0.8%	0.00%	13.3%	228%	£8.46	12.9%	8.0%	3.4%
	HOP Provider	7	3.1%		4.9%	0.0%	0.00%	33.9%	172%	£6.15	20.6%	19.2%	3.4%
Size (Social units owned)	> 30,000	25	44.5%		6.3%	1.8%	0.26%	45.4%	159%	£3.88	32.8%	25.8%	3.7%
	20,000 - 29,999	14	13.3%		5.5%	1.5%	0.16%	46.8%	171%	£3.38	29.9%	27.4%	3.6%
	10,000 - 19,999	37	19.6%		6.8%	1.4%	0.01%	47.1%	158%	£3.52	28.7%	25.2%	4.0%
	5,000 - 9,999	55	14.4%		6.9%	1.4%	0.00%	46.3%	203%	£3.55	29.7%	28.5%	4.1%
	2,500 - 4,999	38	5.4%		6.7%	1.9%	0.00%	43.4%	194%	£3.82	29.8%	25.7%	3.6%
	< 2,500	48	2.7%		4.3%	0.6%	0.00%	34.1%	194%	£4.88	23.3%	20.3%	3.1%

Headline Social Housing Cost per unit medians by cost factor and size



Progress on transparency...

- Some providers 2019 articulating:
 - Clear strategic objectives
 - Measurable targets linked to those objectives
 - Explanation of how resources and assets deployed to deliver
 - Assessment of past performance against targets
 - Honest appraisal of areas of underperformance; and
 - Plans to address areas of poor performance



But...

- Only a minority of providers doing all of this. Common issues include:
 - Vague objectives
 - No targets or targets not obviously linked to objectives
 - No link between reported performance and previous years' targets
 - No future targets
 - No acknowledgement of areas of under performance or plans to address.
- RSH addressing VFM as part of the scope of IDAs where relevant
- Level of assurance from public reporting vs RSH need to seek assurance via provider engagement
- View of compliance with VFM standard reflected in governance judgements.

Areas for future development?

- ESG reporting

Balancing trade-offs (vfm standard) – responding to change



Strategic objectives

- Choices and trade offs
- Articulation – tell your story
- Transparency and accountability

...And reputation

- Strategic
- And operational
- Applies to everyone – traditional sector and new entrants alike

Wider context

- Get the basics right
 - H&S, viability (stress testing), rents, services to tenants, data
 - Watch what we're flagging
 - Reputation (trust)
 - Co-regulation
 - Governance
- Capacity, capability, preparedness(?) to cope with change
 - Economic conditions, consumer, stock quality, standards, regulation
 - Horizon scanning (our publications)
 - Don't wait?
- Tell your story
 - Help us to tell it too
 - Reputation and trust



Round Table Debate

Vantage

Sector Challenge

How do we reconcile the irreconcilable?

- Increase delivery of new homes
- Building safety agenda
- Landlord services and community investment
- Brexit impact?



Making sense of the Sector Challenges

- Development-affordable, market and cross-subsidy
- Commercialisation and diversification
- Raising the bar on building safety-new and existing homes
- Being a truly local landlord
- Efficiency and value for money
- Continuing delivery, whatever the politics

Top Priorities for your Organisation

Survey Results

Development	75%
Investment in stock	50%
Compliance / Building Safety	42%
Improve customer services	33%
Digital	33%
Culture	17%
Merger integration	17%

Top Challenges for your Organisation

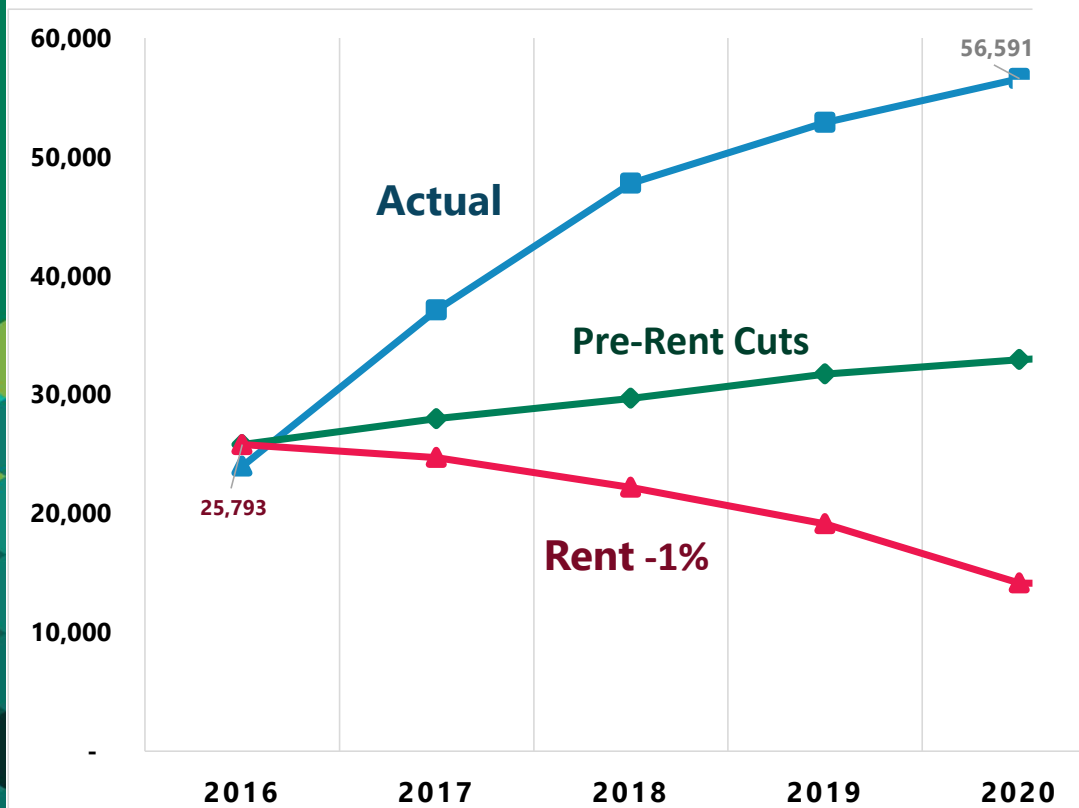
Survey Results

Financial capacity	75%
People / Staff / Culture	33%
Regulatory / Govt policy	33%
Cost management	33%
Delivering asset investment	17%
Human capacity	17%

Delivering business strength



Surplus (£,000)



Key VFM & Quality metrics:

Customer satisfaction	90% YTD
Staff engagement	80% (2019)
EBITDA	283% (18/19)
CPU	£3,085 (18/19)
Op Margin	30.9% (18/19)



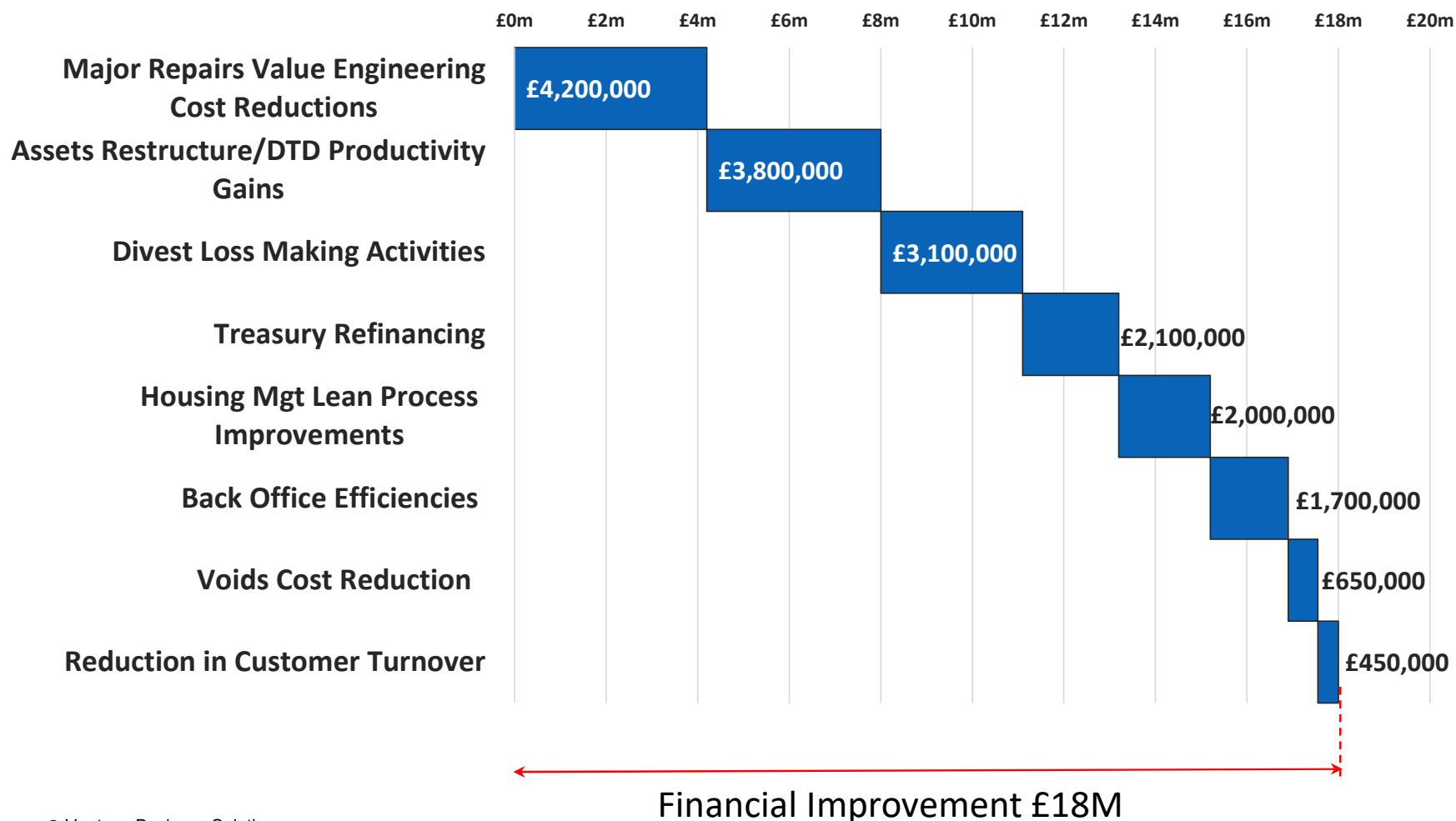
Fit For the Future:

- Divestment from care and support (£20m to £2m turnover)
- Implementing disposals strategy
- Staff structures rationalised (c1,600 to c1,100)
- Rigorous cost reviews e.g. maintenance, gas procurement
- Tight treasury management and stress testing
- Maintaining high Moody's rating

Making What matters Brilliant (what's next):

- Improvements in buildings safety
- Enhanced stock investment – Retirement Living and Intervention Schemes
- Move towards digital services e.g. launch of app
- Higher new build targets mainly houses and no outright sale (3k over 5 years)

Managing our Value Drivers



Top Initiatives / Change Programmes

Survey Results

Restructure/lean/agile/service reviews/transformation	92%
New/upgrade of ICT System	42%
Digital	33%
Leadership/behaviours/culture programmes	33%
Customer excellence/involvement	17%

Are Change programmes delivering outcomes?

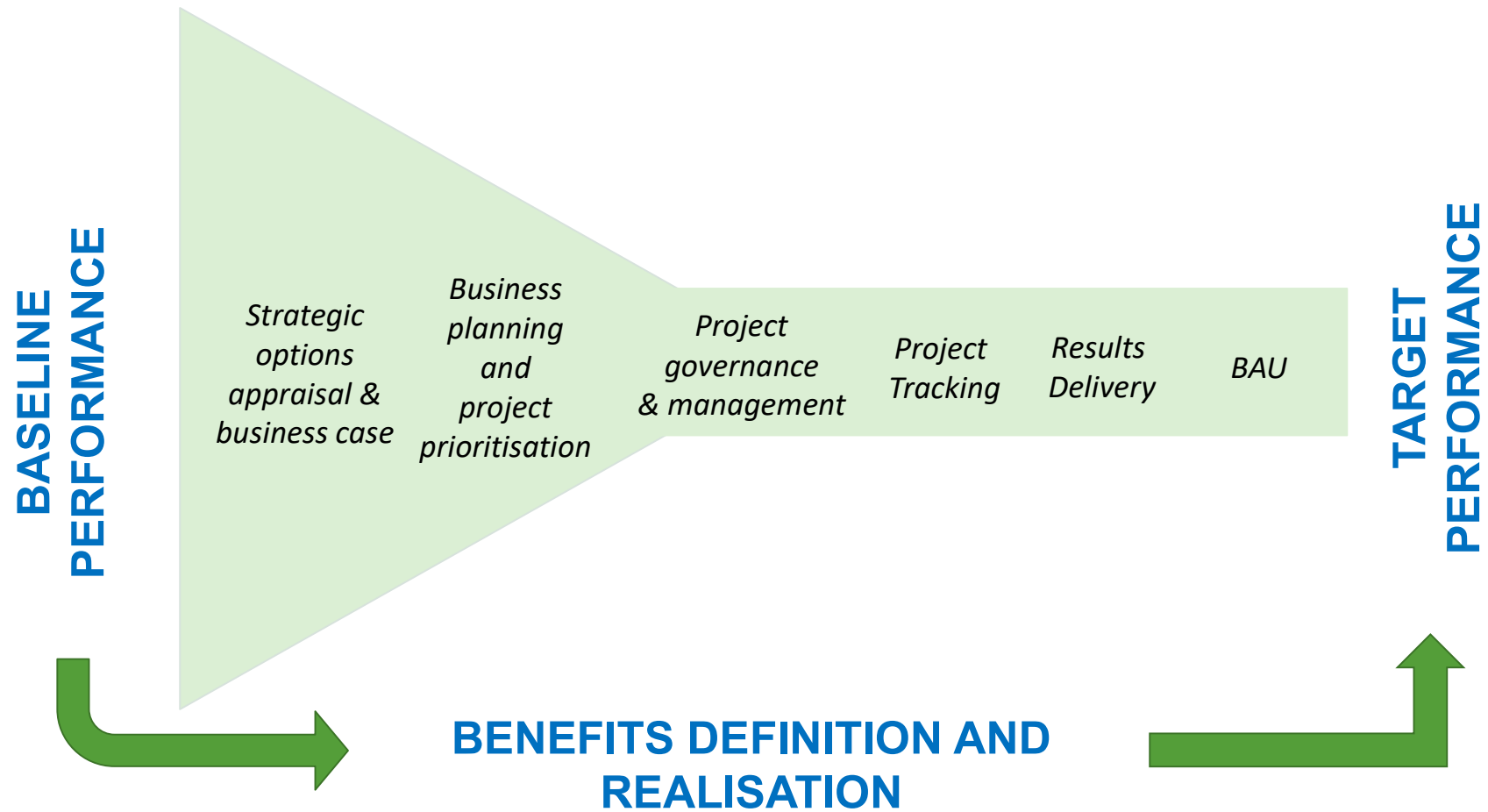
Benefits Realisation



Source: Vantage Surveys 2018/2019

Benefits Realisation

Top Initiatives / Change Programmes





Thank you to our hosts



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