Notting Hill Genesis Trading Update

6 months ended 30 September 2020

Overview

Notting Hill Genesis (NHG) is one of the largest housing associations in England, providing around 66,000 homes across London and the South East. NHG works in the community, providing homes for lower-income households. This is our primary purpose, and everything else we do supports that aim.

The COVID-19 coronavirus pandemic has evolved rapidly in 2020, and NHG has evaluated the potential impact of this on various areas of the business. This is discussed in further detail throughout the trading update.

The following trading update compares the NHG unaudited accounts for the six months ended 30 September 2020 with the unaudited prior year equivalent position, being the six months ended 30 September 2019.

Consolidated Statement of Comprehensive Income

	6 months ended 30 Sep 2020	**6 months ended 30 Sep 2019**	**Movement**
	£m	**£m**	**£m**
Turnover	483.9	343.5	140.4
Cost of sales	(147.7)	(59.9)	(87.8)
Operating costs	(190.2)	(200.0)	9.8
Surplus on disposal of fixed assets	9.2	13.3	(4.1)
Gains from joint ventures	3.0	11.8	(8.8)
Operating surplus	**158.2**	**108.7**	**49.5**
Net interest payable	(71.5)	(60.7)	(10.8)
Movements in respect of financial derivatives	2.1	3.7	(1.6)
Surplus to 30 September	**88.8**	**51.7**	**37.1**

Trading Update

Overall, turnover increased by 40.9% to £483.9m, while operating surplus increased by 45.5% to £158.2m from £108.7m. The growth in surplus can be attributed to increase in private sales up 587.4% from £25.8m to £177.5m primarily due to sales at the Canada Water, Wooddene and Manor Place Depot sites.

We sold 243 homes (30 September 2019: 337 homes) during the 6 months ended 30 September 2020. Due to the lower number of units staircased and less favourable surplus achieved on other sales, the surplus on sale of fixed assets decreased by 30.8% from £13.3m to £9.2m.

Joint venture income has decreased by 74.4% from £11.8m to £3.0m as there has been less sales activity in this area in 2020.

Net interest paid has increased by 17.8% to £71.5m due to the additional finance costs in relation to the sale of the Canada Water site and the reduction in interest capitalised.

The fair value movement of hedged financial derivatives has resulted in a positive movement of £2.1m (30 September 2019: £3.7m).

Consolidated Statement of Financial Position

	As at 30 Sep 2020	**As at 31 March 2020**	**Movement**
	£m	**£m**	**£m**
Housing properties	6,648.5	6,593.0	55.5
Other tangible assets	128.9	133.1	(4.2)
Investments	1,075.5	1,064.2	11.3
Net current assets	404.1	454.2	(50.1)
Total assets less current liabilities	**8,257.0**	**8,244.5**	**12.5**
Loans due in more than one year	3,296.8	3,364.7	(67.9)
Unamortised grant liability	1,229.8	1,212.2	17.6
Other long-term liabilities	303.1	322.1	(19.0)
Capital and reserves	3,427.3	3,345.5	81.8
Total funding	**8,257.0**	**8,244.5**	**12.5**

Investment and Debt Analysis

Housing properties have increased by 0.8% during the 6 months ended 30 September 2020. We have completed 442 properties (30 September 2019: 630 properties) since 1 April 2020, of which 81 (18%) (30 September 2019:127 (20.2%)) were specifically built for social or affordable rent. An additional 41 (30 September 2019: 128) homes have been delivered via stock transfers or the purchase and repair programme. We currently have over 10,082 (30 September 2019: 12,540) homes in our overall development programme, of which 61% (30 September 2019: 58%) are designated as affordable or social tenure types. The movement of 2,458 relates primarily to handovers, 651 as a result of aborted schemes and 803 homes on the sale of the Canada Water site.

Investments have increased by 1.1%, which is primarily due to expenditure on market rent properties in our Folio business. Investment properties are revalued annually by an external third party valuer at 31 March. Investment properties have not been revalued at 30 September in either year.

Due to the COVID-19 pandemic and the ensuing market uncertainties, the Board and management continue to review the carrying value of investments. Management have also considered the likelihood of recovery of all debtors with specific consideration to the level of arrears, and likelihood of non-payment.

Group debt as at 30 September 2020 was £3,418.3m (as at 31 March 2020: £3,486.2m) and undrawn facilities as at September 2020 was £879.6m (as at 31 March 2020: £474.5m).

It is currently difficult to measure the potential impact of Covid 19 crisis on every area of operations on which restrictions remain in place. However, NHG remains a financially robust organisation with substantial liquidity. NHG retains good relationships with its principal lenders, and is ready and able to access the capital market as necessary.

Principal Financing Activities

During the half year, the Bank of England confirmed NHG as eligible to access its Covid Corporate Finance Facility from July 2020 with a limit of £300.0m. As at 30 September, £255.0m had been utilised.

In addition, our market rent subsidiary, Folio London Limited secured £250.0m by issuing a seven year bond. The bond was secured on 1,523 homes in London and Chelmsford. The yield was 1.248%. The bond was priced on 21 September 2020 and the proceeds received on 5 October 2020. The funds were used to reduce intra group financing.

Other financial information

	6 months ended 30 Sep 2020	6 months ended 30 Sep 2019	Movement
	£m	£m	£m
Capitalised interest	8.7	11.9	(3.2)
Housing depreciation	25.7	26.1	(0.4)
Other depreciation	4.9	4.0	0.9

The decrease in capitalised interest is mainly attributable to the carrying value of on-site schemes at 30 September 2020, which is £243.0m lower than the carrying value of schemes on site at 30 September 2019. In addition, the impact of the first UK-wide lockdown due to COVID-19 in March 2020, meant that some development sites halted construction for some time. All developments are now back on site.

Housing depreciation has remained broadly consistent year on year.

Key performance statistics

	6 months to 30 Sep 2020	6 months to 30 Sep 2019	Movement
	%	%	%
Surplus as % of turnover	18.4	15.1	3.3
Operating margin	32.7	31.6	1.1
Operating margin - Social Housing lettings	33.7	25.5	8.2
Surplus as % of income from lettings	36.7	22.2	11.2
Rent losses (voids and bad debts as % of rent and service charges receivable)	2.6	2.8	(0.2)
Rent arrears (gross arrears as % of rent and service charges receivable)	9.0	7.7	1.3
Interest cover (surplus before interest payable, depreciation and amortisation of housing properties as % of interest payable)	246.0	205.6	40.4

Gearing (total loans as a % of housing properties (including investment properties and unsold homes) fell from 40.7% at 31 March 2020 to 40.5% at 30 September 2020.

Full year position

We are currently undertaking a comprehensive safety review across a six-block residential development in West London, the Paragon, following receipt of expert advice regarding the construction of the buildings. Approximately 1,000 residents were asked to vacate their homes to protect their health and safety, while further investigative work is being carried out.

The financial impact on NHG arising from the Paragon works will be included in the financial statements for the year ending 31 March 2021.

The Board set a budgeted surplus of £50.1m for the 6 months ended 30 September 2020, achieving £88.8m, with a full year budgeted surplus to 31 March 2020 of £101.2m. Although the current operating environment is more volatile than usual, and the costs arising at the Paragon remain uncertain, we currently expect to achieve the budgeted surplus.

Neither the budget, nor the year end estimate include allowances for mark to market movements in financial derivatives, or for movements in the value of investment properties.

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