Notting Hill Genesis Trading Update

Six months ended 30 September 2023

Resilient performance delivered in more challenging operating conditions.

The following trading update compares the group's unaudited accounts for the six months ended 30 September 2023 with the unaudited equivalent position, being the six months ended 30 September 2022.

Overview and highlights

- An increase in rental income was offset by increased operating costs, lower new home sales and higher spend on safety and repairs, resulting in a reduction in operating surplus to £78m.
    - Operating costs increased by £38.2m, impacted primarily by the high inflationary environment. Cost inflation has significantly outpaced rental income because rent growth has generally been capped at 7% to help resident affordability.
    - Project phasing impacted the sale of new homes, which is expected to be second half weighted and lower than the last financial year.
    - Lower volumes of shared ownership staircasing due to challenging economic conditions and increasing pressure on residents' finances.
    - Additional £15.1m was spent on safety and repairs.
- The organisation launched a new corporate strategy in the period, 'Better Together', which sets out our vision for improving the services and homes we provide as well as the estates and places where our residents live. This includes a commitment to invest £500m over the next 10 years to improve the quality of residents' homes.
- We continued to invest in our estate to create better homes for our residents. This includes £32.8m on compliance costs such as lifts, fire risk action and remedial works as well as £9.6m on our planned investment programme, which includes energy improvement works, cyclicals and upgrading kitchens and bathrooms.
- We spent £0.6m on social value projects in our communities, such as careers fairs and business incubators, which delivered £11m of social value according to HACT's Social Value Insight tool.

Patrick Franco, chief executive officer, said: "We have delivered a resilient performance in the first half against an increasingly challenging economic backdrop. Our rental income base remained stable although a combination of increased operating costs, higher spend on repairs and lower sales has resulted in a reduction in operating surplus.

"The group remains financially strong, which allows us to continue building new homes, as well as investing to improve our existing homes and estates. We remain on track to deliver our £46m planned investment programme for 2023/2024 creating better homes for our residents, a key goal of our Better Together strategy.

"We are acutely aware of the impact that the external environment is having on our residents and the pressures they face this winter. As an organisation we are focused on providing support through the continuation of our community investment programmes."

Statement of comprehensive income

£ million	**6 months ended 30 September 2023**	**6 months ended 30 September 2022**	**Movement**
Turnover – rent and service charges	318.5	301.4	
Operating costs	(253.4)	(215.2)	
Net surplus on rental operations	65.1	86.2	(21.1)
Turnover – sales	12.0	67.5	
Cost of sales	(10.7)	(57.9)	
Net surplus on new build sales	1.3	9.6	(8.3)
Surplus on disposal of fixed assets	11.0	26.6	(15.6)
Gains from joint ventures	0.7	1.7	(1.0)
Operating surplus	**78.1**	**124.1**	**(46.0)**
Net interest payable	(66.5)	(67.1)	0.6
Gains on financial derivatives	6.7	30.0	(23.3)

Surplus to 30 September	**18.3**	**87.0**	**(68.7)**

Trading update

Turnover increased by 5.7% to £318.5m, however operating costs increased by 17.7%, driven by the challenging macroeconomic environment.

The surplus on rental operations has fallen by £21.1m, with higher expenditure on safety and repairs (£15.1m) and other property costs (£4m). Results for 2022 included £2m surpluses on extra care properties which were sold towards the end of 2022/23.

Turnover on sales has decreased from £67.5m to £12.0m. We sold 41 homes during the six months ended 30 September 2023 (30 September 2022: 242 homes), in line with the new build sales programme which is budgeted to be much lower in 2023/24 overall and is weighted towards the second half. The unsold homes at 30 September 2023 was 10 homes (30 September 2022: 115 homes).

The challenging economic climate has resulted in a lower volume of shared owners purchasing additional shares (known as staircasing). As a result, the surplus on sale of fixed assets decreased by 58.6% from £26.6m to £11.0m.

Net interest and financing costs reduced by £0.6m comprising of £2.8m increase in interest payable from a combination of rising interest rates, addition and drawing down of new revolving credit facilities, offset by £3.4m of additional interest capitalised on development schemes.

The fair value movement of hedged financial derivatives has resulted in a positive movement of £6.7m (30 September 2022: £30.0m). Further positive movements on fully effective hedges of £24.8m (30 September 2022: £43.2m) have passed through other comprehensive income and into reserves.

Statement of financial position

£ million	**As at 30 September 2023**	**As at 31 March 2023**	**Movement**
Housing properties	6,920.2	6,815.4	104.8
Other assets	113.6	114.6	(1.0)

Investments	1,187.2	1,177.4	9.8
Net current assets	250.4	183.9	66.5
Total assets less current liabilities	**8,471.4**	**8,291.3**	**180.1**
Loans due in more than one year	3,430.5	3,275.1	155.4
Unamortised grant liability	1,080.5	1,086.4	(5.9)
Other long-term liabilities	173.9	186.4	(12.5)
Capital and reserves	3,786.5	3,743.4	43.1
Total funding	**8,471.4**	**8,291.3**	**180.1**

Investment and debt analysis

Housing properties have increased by £104.8m to £6,920.2m at 30 September 2023. The increase is largely attributable to the continued spend on the development programme of £119.1m, works on existing properties £23.2m (including £9.7m capitalised fire remediation works), offset by disposal of housing properties through staircasing and other sales and depreciation charges.

Investments have increased during the six-month period by £9.8m to £1,187.2m as at 30 September 2023, due to continued investment in the PRS schemes at Kidbrooke and Aylesbury, delivering 176 homes that are expected to be completed by 31 March 2024.

Due to the political environment and the ensuing market uncertainties, the group 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 2023 was £3,460.8m net of capital loan costs and loan premia (31 March 2023: £3,305.2) and undrawn facilities as at 30 September 2023 were £914.1m (31 March 2023: £1,098.3m), an increase of £155.4m. Notting Hill Genesis remains a financially robust organisation with substantial liquidity. We retain good relationships with our principal lenders and are ready and able to access the capital market as necessary.

The development pipeline and the remediation works are continuing and by their nature affect cashflow, which we continue to manage carefully.

Other financial information

£ million	6 months ended 30 Sep 2023	6 months ended 30 Sep 2022	Movement
Capitalised interest	7.8	4.4	(3.4)
Housing depreciation	28.5	29.0	0.5
Amortisation of intangible assets	3.1	2.7	(0.4)
Other depreciation	1.4	1.4	(0.0)

The capitalisation of the group's borrowing cost has increased due to higher levels of development work in progress, as well as an increase in the interest rate on new drawings in the six-month period.

Key performance statistics (group)

	6 months ended 30 Sep 2023	6 months ended 30 Sep 2022
	%	%
Surplus as % of turnover	5.5	23.6
Operating margin	23.4	33.2
Operating margin - social housing lettings	9.7	28.2
Surplus as % of income from lettings	8.6	21.9
Rent losses (voids and bad debts as % of rent and service charges receivable)	2.3	2.5
Rent arrears (gross arrears as % of rent and service charges receivable)	10.4	9.7
Interest cover (surplus before interest payable, depreciation and amortisation of housing properties as % of interest payable)	158.0	225.4
Gearing (total loans as a % of housing properties at cost)	38.0	37.0

Social value

Continued investment to create places and communities where people can thrive for the long term, as well as providing opportunities for residents to improve their skills, businesses and employment prospects. For every £1 invested in socio-economic programmes focussed on employment, training and apprenticeships, we have seen social value returns of £24.84 (calculated using HACT's Social Value Insight tool).

Regeneration sites at Grahame Park and Woodberry Down are good examples of social value delivered by the Group. Across both estates we invest in a range of projects, including finance and employment support programmes, careers fairs and physical wellbeing sessions. In the first half of the year we invested £0.6m in schemes at these sites, which has delivered social value exceeding £11m in the 6 months to September 2023.

Full-year position

Higher expenditure on repairs and lower shared ownership staircasing receipts are expected to continue to bring adverse pressures on the financial surplus for the year.

For further information, please contact:	
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