

Midland Heart Presentation

July 2020

Meet the team



Glenn Harris MBE

Chief Executive



Joe Reeves

Executive Director of
Finance and Growth



John Drozd

Director of Finance



Introduction

Our Mission



- Founded in 1925, we are a leading housing organisation in the Midlands that has successfully **consolidated thirteen Housing Associations** over a period of 50 years
- We own and manage **c.33,000 homes** and provide a range of quality services for **c.70,000 customers**
- Our purpose is to build and maintain affordable **homes** that enable people to **live independently**

Our Mission

- We are committed to our founding charitable aims and are focused on delivering...



**Core landlord
service**



**Building affordable
homes**



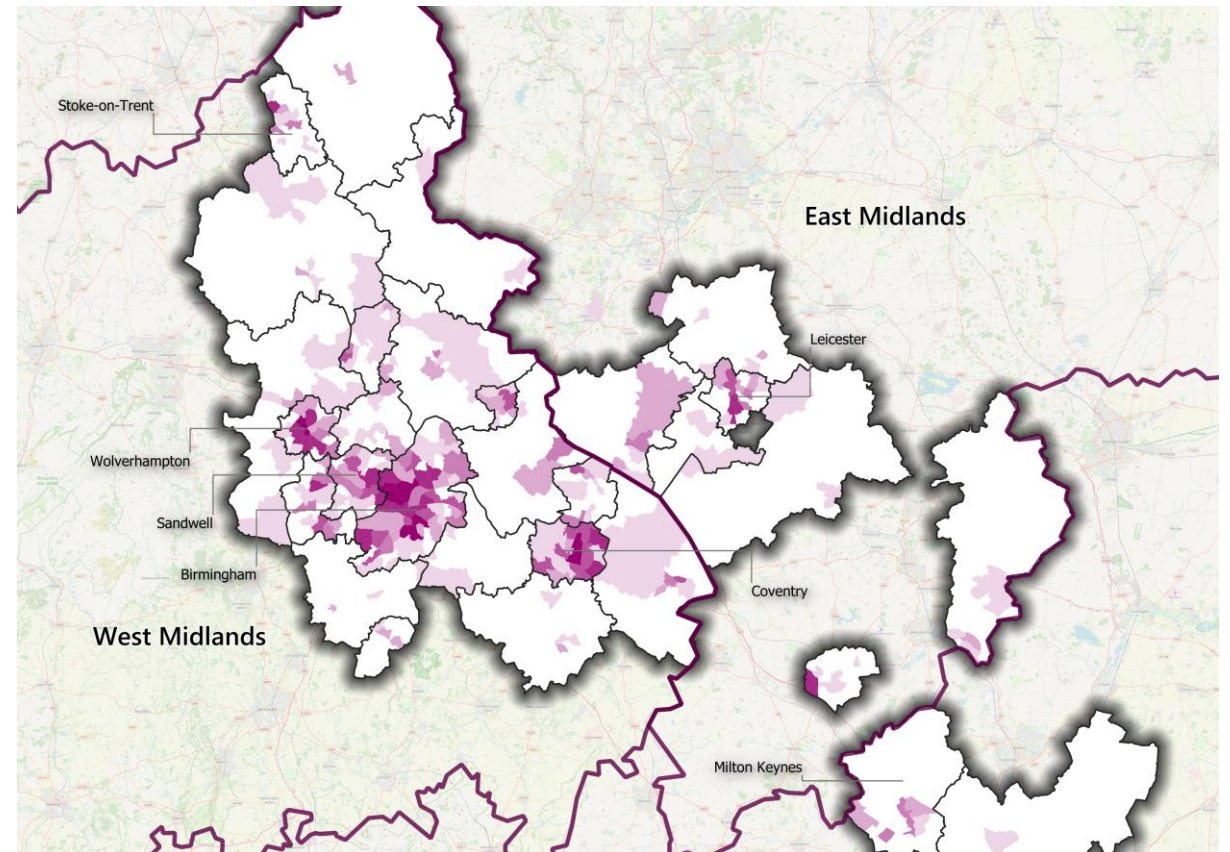
**Being a great
employer**

Our Geography

Top 10 areas by Local Authority

Local Authority	Properties
Birmingham	12,453
Coventry	3,794
Wolverhampton	2,513
Sandwell	1,588
Stoke-on-Trent	1,115
Dudley	1,060
Leicester	949
Tamworth	638
Lichfield	525
Nuneaton and Bedworth	510

Our geographical spread



Performance, where are we now?



90%

Customer satisfaction



90%

Repairs satisfaction



£87m

New homes



£238m

Group cash and
undrawn facilities



G1 V1

A1 Moody's Rating



4.46%

Arrears level



80%

Colleague engagement

Social Value

This **cuts across all that we do**, in 2019/20:



General Needs rent to market rent was c. 62%

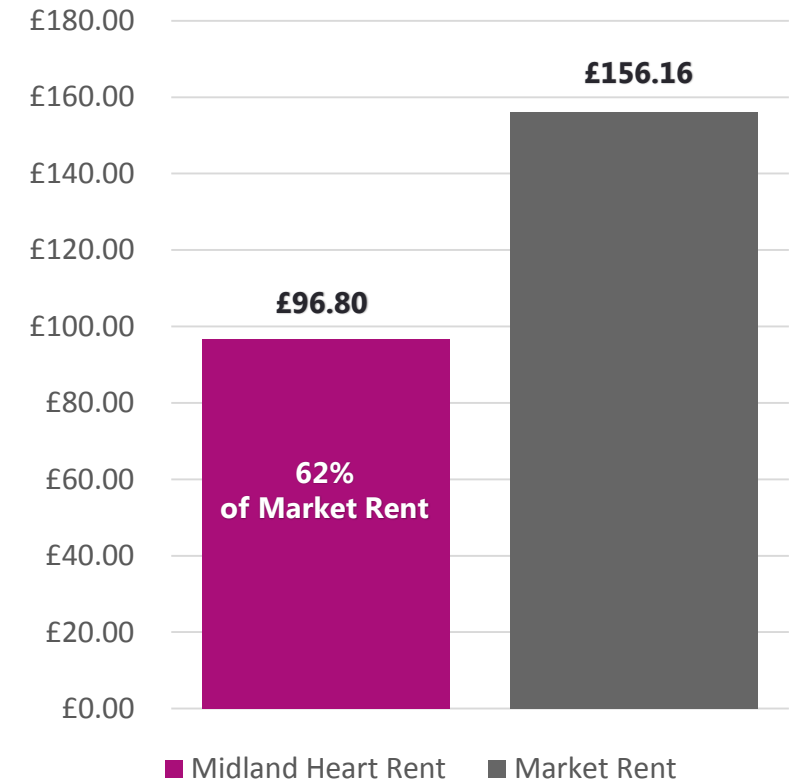


12,000 lifestyle activities to our elderly customers

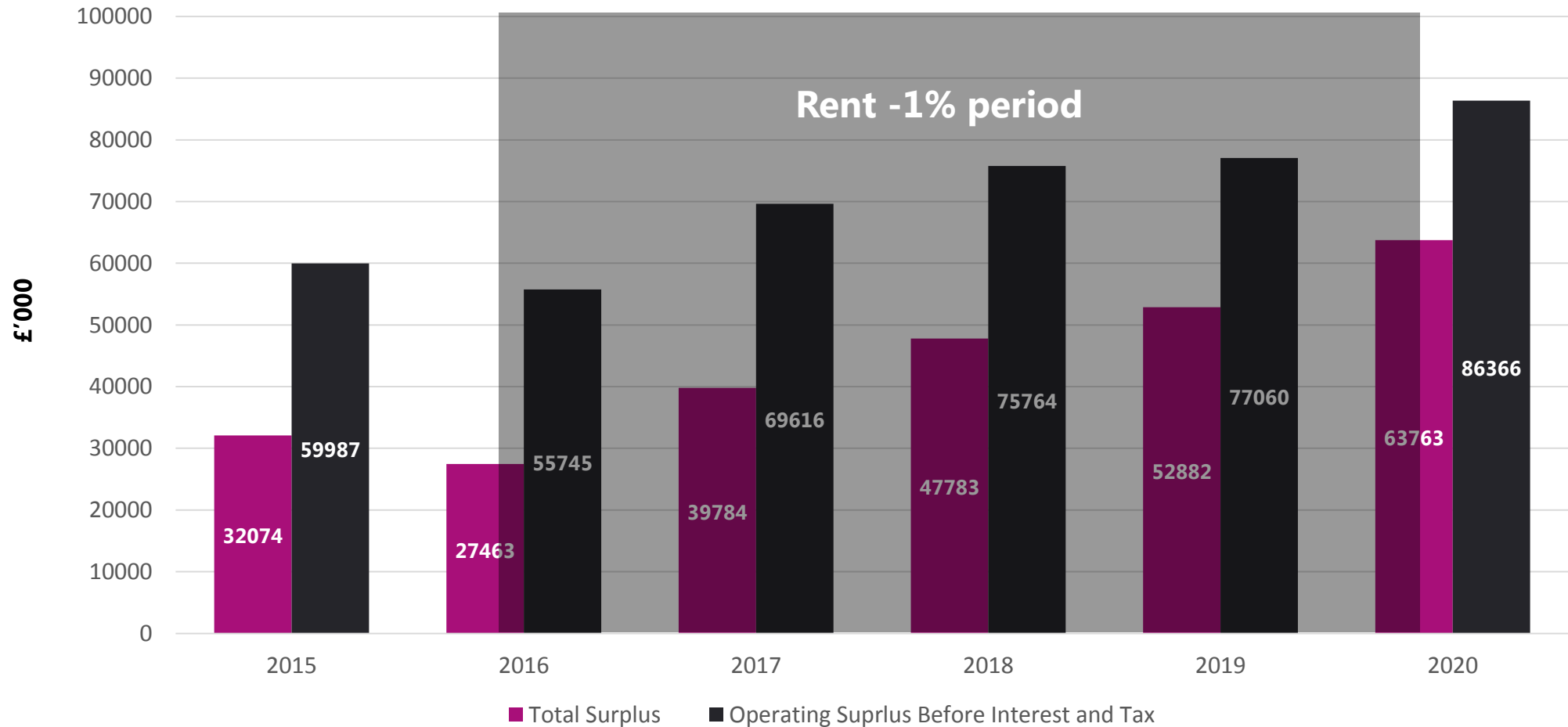


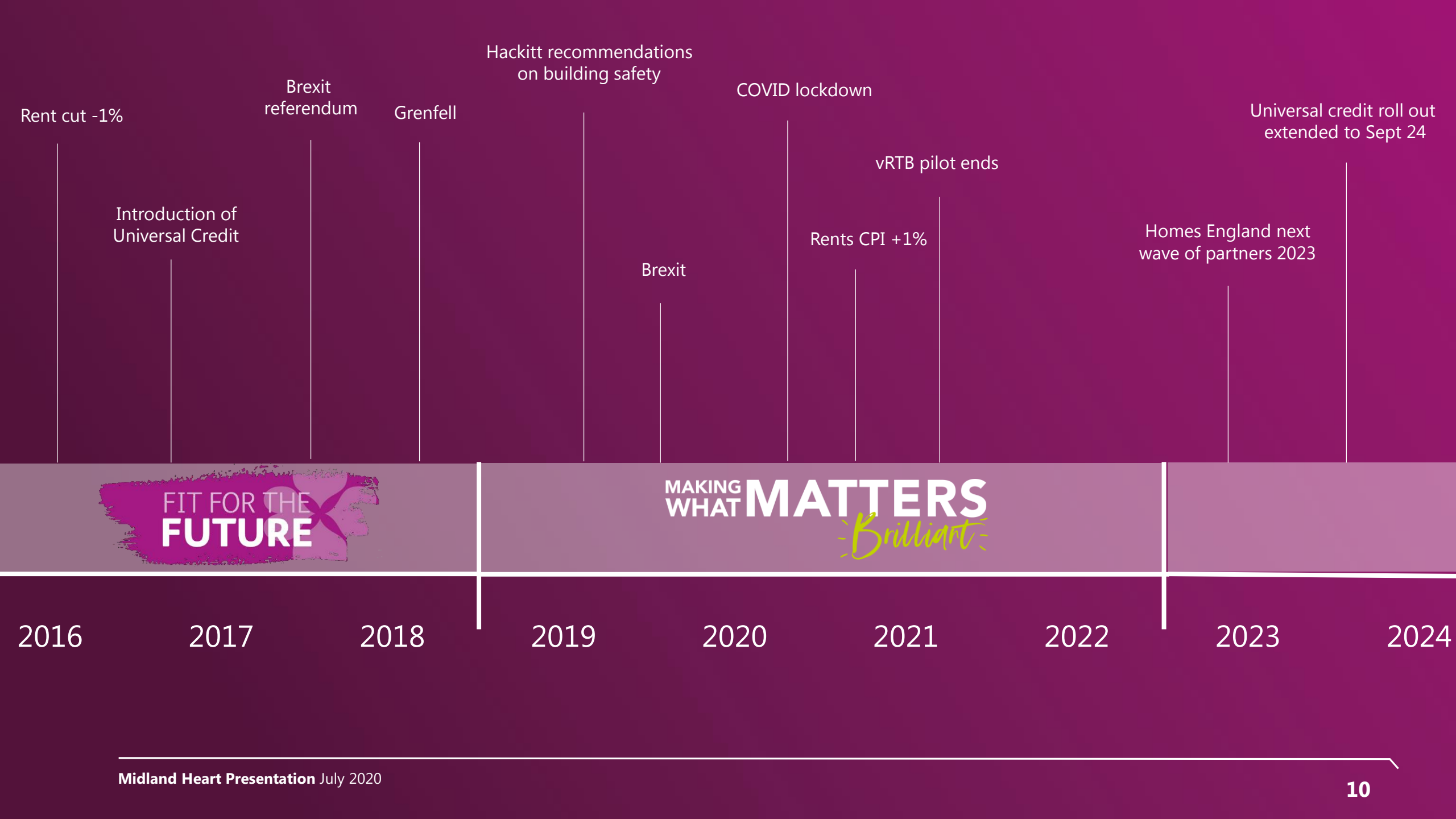
1,867 customers referred to our **Money Advice Team**, of those 99% sustained their tenancy

Social Economic Value



Surplus Journey 'Strong Through Adversity'





Rent cut -1%

Introduction of
Universal Credit

Brexit
referendum

Grenfell

Hackitt recommendations
on building safety

COVID lockdown

Brexit

Rents CPI +1%

vRTB pilot ends

Homes England next
wave of partners 2023

Universal credit roll out
extended to Sept 24

FIT FOR THE
FUTURE

MAKING
WHAT MATTERS
Brilliant

2016

2017

2018

2019

2020

2021

2022

2023

2024



How did we get here?

We have simplified our business and reshaped our service offer

- ♥ Simplified governance structure
- ♥ We are no longer a registered care provider
- ♥ No further homes for outright sale in current programme
- ♥ Investing in our people

Hackitt recommendations
on building safety

COVID lockdown

vRTB pilot ends

Rents CPI +1%

Brexit

MAKING
WHAT **MATTERS**
Brilliant

2019

2020

2021

2022

Our 2019-2024 Corporate Plan – **Making What Matters Brilliant** – focuses on making investments in services offered to customers, in properties and in Midland Heart colleagues



Investing in Homes



INVESTING
IN HOMES

- Assets investment over £100m, a 37% increase over the previous 5 years
- £15m to modernise Retirement living portfolio
- £8m spent on Intervention Schemes

Measure	18/19	19/20 (subject to audit)	2024 target
Void loss %	New KPI	1.3% (0.74% general needs)	1%
Re-let days	19.3 days	20.1 days	16.5 days

Investing in Homes



INVESTING
IN HOMES

Hagley Road

Planning agreed for 19 new dwellings for general needs housing



St Thomas House

Planning submitted for conversion into 7 one-bed apartments





**PEOPLE
FOCUSED**



People Focused

Measure	18/19	19/20 (subject to audit)	2024 target
Voluntary turnover	14%	14%	12%
Time lost due to sickness	4.2%	2.8%	3.5%
Colleague engagement	70%	80%	80%

Service First



- Accelerated our customer digital journey
- Connect 360 launched to frontline colleagues
- Launched our lettings portal

Measure	18/19	19/20 (subject to audit)	2024 target
Customer satisfaction	84%	90%	90%
Repairs satisfaction	90%	91%	92%
Routine repairs completed on time	97%	95%	≥95.5%

Growth and Partnerships

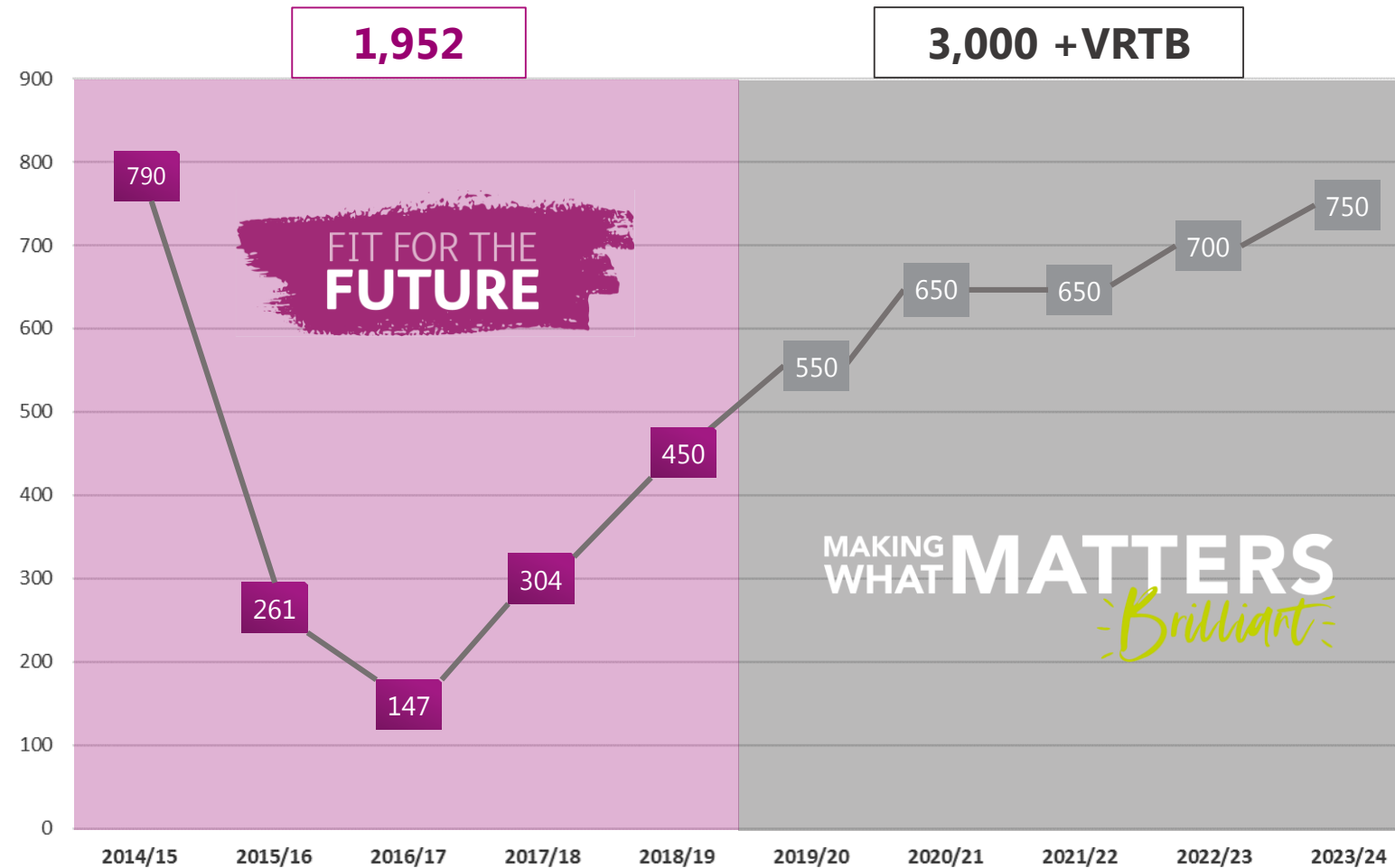


**GROWTH &
PARTNERSHIPS**

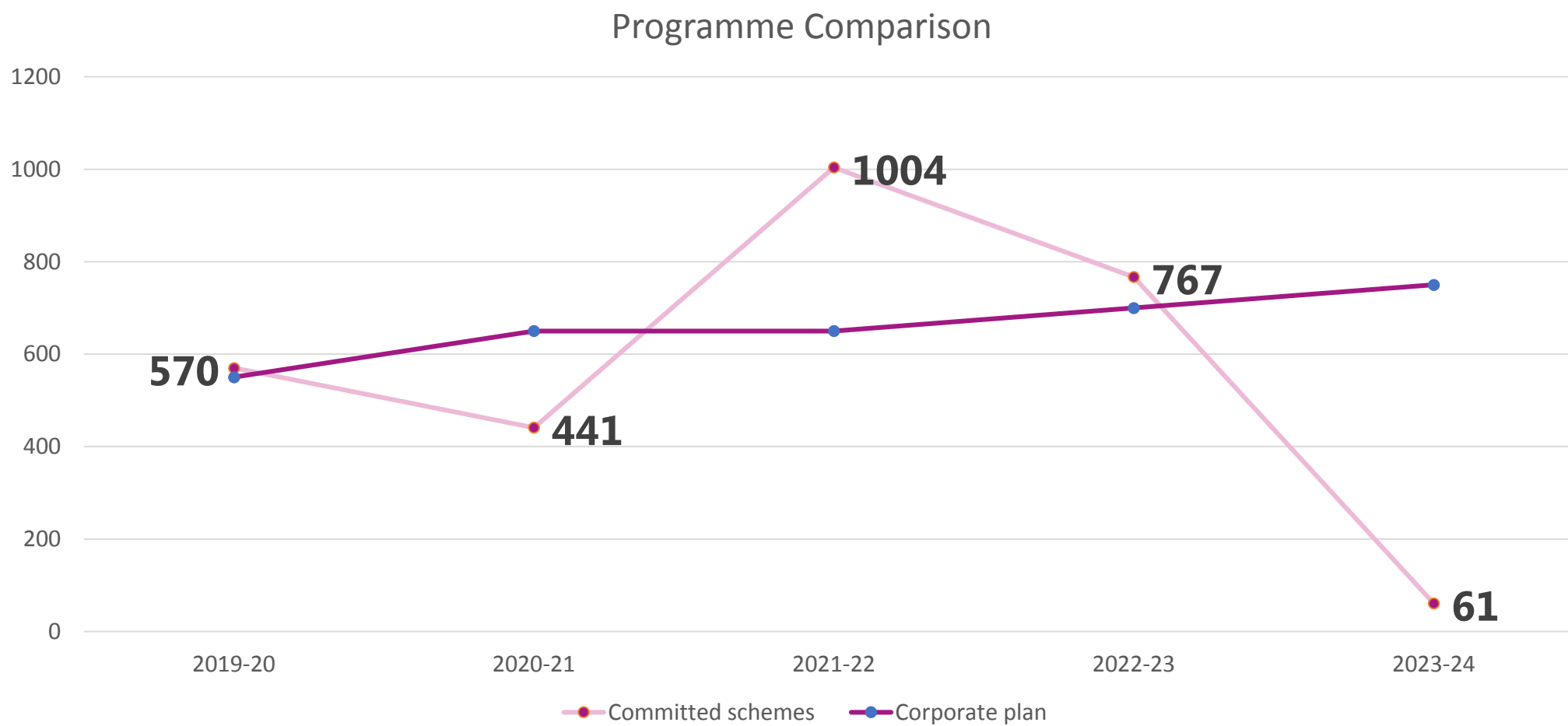
Housing Delivery Strategy

- Clear Board commitment to deliver over 3,000 homes over a five year period
- Undertake to replace homes sold through the voluntary right to buy programme
- Continue to harness the use of the Continuous Market Engagement programme with Homes England
- Focus on development through partnerships

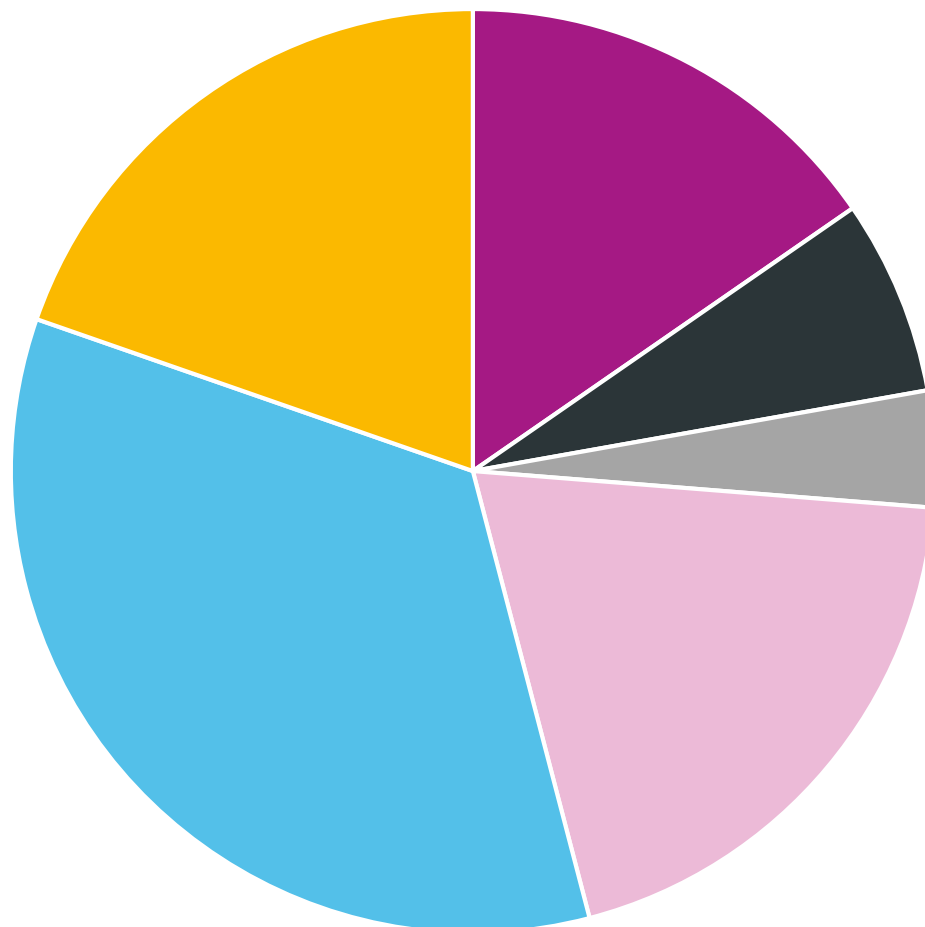
Development actual and planned completions



Covid-19 impact on programme



Position at the start of year 2



Progress to 3000 completions at April 2020

Target: 461 (15%)

Emerging: 205 (7%)

Pipeline: 122 (4%)

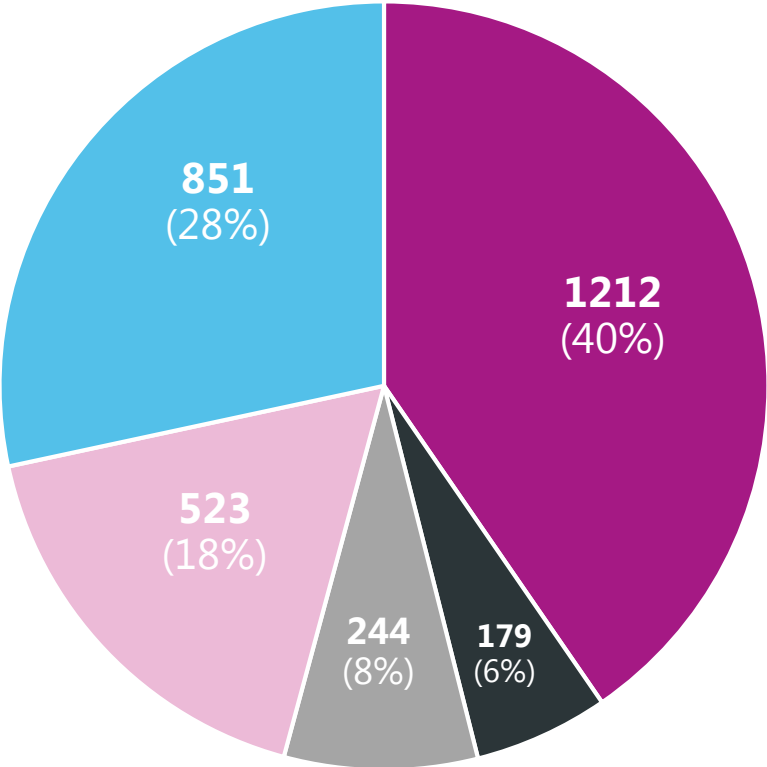
Approved: 590 (20%)

On Site: 1032 (34%)

Completed: 590 (20%)

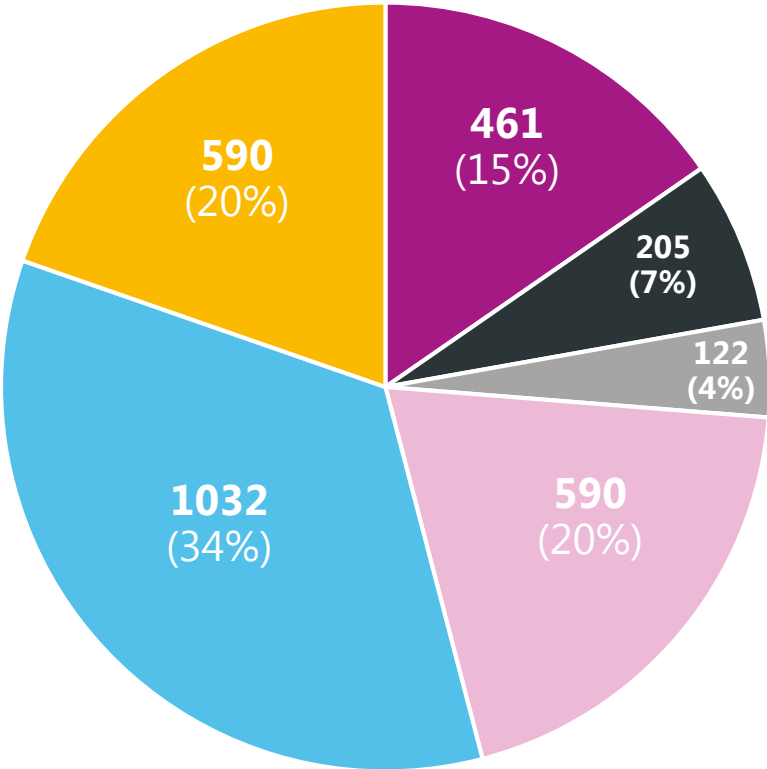
Position at the start of year 2

to March 2019



■ Target ■ Emerging ■ Pipeline ■ Approved ■ On site

up to April 2020



■ Target ■ Emerging ■ Pipeline ■ Approved ■ On site ■ Completed

Analysis of development programme

Affordable Housing

Shared Ownership – 695

New Homes – 27 %



Affordable Housing

Affordable Rent – 1,444

New Homes – 56%

Affordable Housing

Social Rent – 297

New Homes – 12%



Market Housing

Outright sale – 8 new homes – 0.5%

Market Rent – 95 new homes – 4.5%

Analysis of development programme

Archetype – 83% are houses



2 bed houses
943 (37%)



1 & 2 bed apartments
371 (15%)
includes 95 Market Rent at Wolsey Island)



3 bed houses
882 (35%)



Bungalows
building 53 (2%)



1 or 4 bedroom houses
290 (11%)

Analysis of development programme

Procurement

Partnership/Package- 1425 (56% of new homes)

Land acquisition- 115 (4% of new homes)

Refurb of existing homes- 20 (1% of new homes)

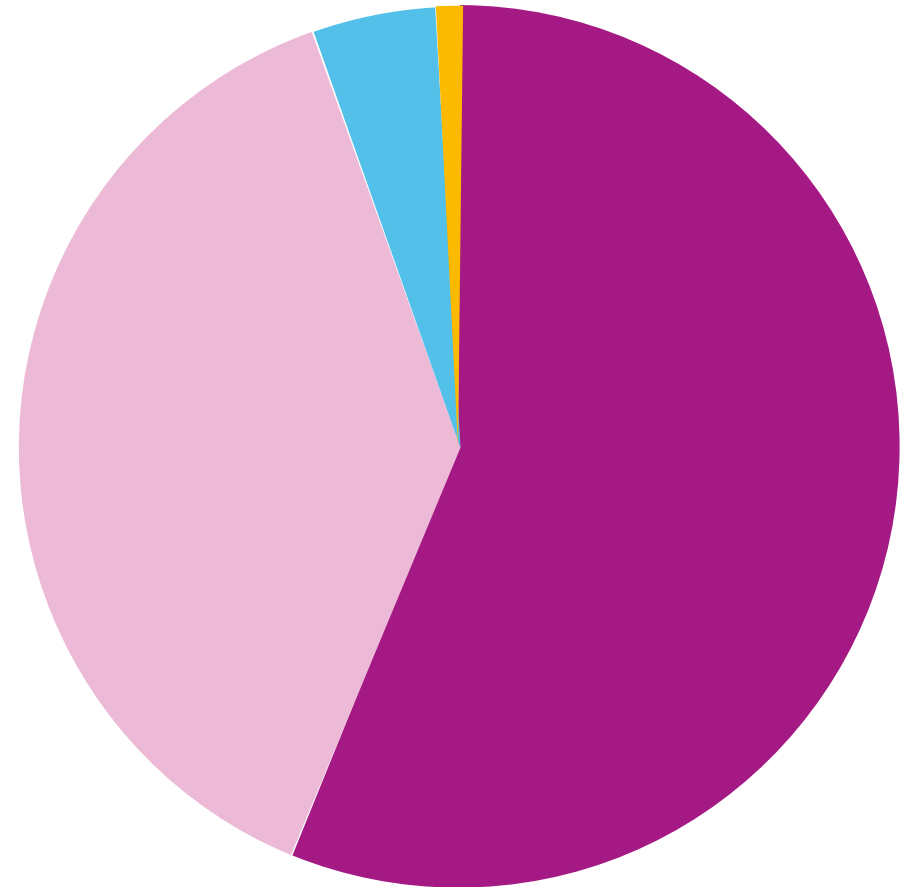
Section 106 agreements- 979 (39% of new homes)

Geography

West Midlands – 1,282 new homes

East Midlands – 1,257 new homes

Total: 2,539



Countryside case study

Working with Countryside Partnerships PLC

Midland Heart signed a partnership agreement with Countryside Partnerships PLC in 2019, for 1,000 units of affordable housing on mixed developments sites over a four year period.

Sites will be made available with corresponding package prices from Countryside, which if they meet investment hurdles will be taken forward by Midland Heart.

This presents a significant benefit to the housing delivery programme and enables Midland Heart to tap into Countryside's vast expertise of land and development transactions.



Countryside case study

Sites in construction	Units
Plough Hill, Nuneaton	105
Meadowcroft, Nuneaton	59
Kings Road, Birmingham	47
Lea Hall, Birmingham	10
Jackson Street, Coalville	130
Sites exchanged STP	
Mast Site, Rugby	158
Cochrane Road, Dudley	132
Waterloo Road, Bidford-on-Avon	50
Total	691



Safe and strong



**SAFE &
STRONG**

Safe

We want to have a strong set of VFM metrics, including a cost per unit being in the lower quartile in the social housing sector.

- Strong track record in delivering building safety compliance (inspection and servicing)
- primary authority partnership status with West Midlands Fire Service
- No ACM cladding on our properties

Strong

Our aim by 2024 is to achieve an **operating surplus of greater than 30%, excluding sales** and meeting our own financial golden rules in respect of interest cover, gearing and liquidity.

Safe and strong

COVID 19 Case Study



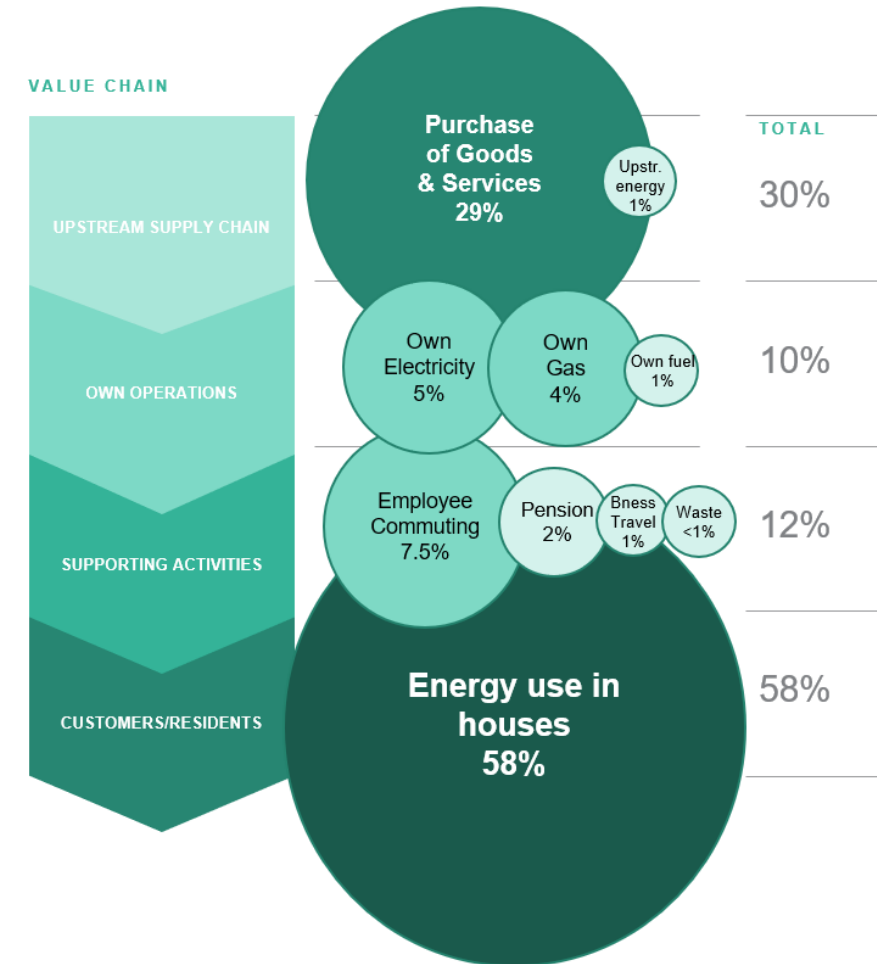
**SAFE &
STRONG**

- No staff furloughed
- No money sought from government teams/tax deferment
- Delays in construction but Development schemes all back on site
- Arrears up c £100k a week but manageable
- Slow down in sales but increasing post lockdown
- Increase in repairs backlog but due to be cleared by year end

Looking to a Greener Future

We are working with Arup to develop our **green strategy** this year, key elements:

- Maximise our green contribution through planned asset investment
- Smarter ways of working



Financial Performance & Planning

Financial Statement – Income Statement

GROUP STATEMENT OF COMPREHENSIVE INCOME	2019 (£'000)	2020* (£'000)
Turnover (A)	219,277	200,934
Operating expenditure (B)	(151,498)	(139,701)
Surplus on disposal of property, plant and equipment	8,781	24,829
Surplus on revaluation of investment properties	500	304
Operating Surplus	77,060	86,366
Interest receivable	1,019	656
Interest and financing costs	(24,611)	(23,173)
Surplus before Tax	53,468	63,849
Taxation	(586)	(86)
Surplus for the year	52,882	63,763
Operating Margin (A-B / A)	30.9%	30.4%

Turnover Decrease

- Strategic decision to withdraw from care provision (part year impact)
- Strategic decision to significantly reduce outright sales (part year impacts) and focus on affordable rental properties

Increase in Surplus of PPE

- Due to pilot voluntary right to buy (now ended)

Financial Statements – Balance Sheet

GROUP STATEMENT OF FINANCIAL POSITION	2019 (£'000)	2020* (£'000)
Housing properties	1,506,068	1,556,943
Investment properties	23,337	25,325
Other fixed assets	31,031	33,267
Total Fixed Assets	1,560,436	1,615,535
Debtors	12,895	13,974
Properties for sale and work in progress	5,422	5,432
Cash and cash equivalents	75,598	91,211
Creditors: amounts falling due within one year	(54,657)	(52,607)
Net Current Assets	39,258	58,010
Total Assets less Current Liabilities	1,599,694	1,673,545
Creditors: amounts falling due after more than one year	(1,295,584)	(1,319,950)
Pension: defined benefit liability	(44,955)	(17,209)
Total Net Assets	259,155	336,386
Revenue reserves	327,691	415,868
Cash flow hedge reserve	(68,536)	(79,482)
Total Reserves	259,155	336,386

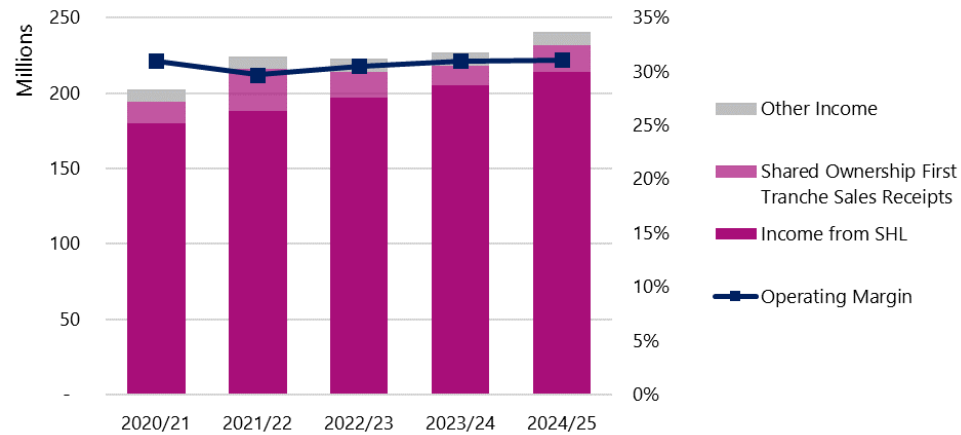
Business Plan - Inputs

- Prepared using conservative economic assumption and established risk model
- Substantial stress testing, including covenant performance
- Business plan validated annually by external treasury advisors
- Annually approved by Audit and Risk Committee, and Board

Key Business Plan Assumptions	2021	2022	2023	2024	2025
RPI	N/A	2.50%	2.50%	2.50%	2.50%
CPI	N/A	1.00%	2.00%	2.00%	2.00%
Rental Inflation	N/A	CPI + 1%	CPI + 1%	CPI + 1%	CPI + 1%
Cost Inflation	N/A	CPI + 0.50%	CPI + 0.50%	CPI + 0.50%	CPI + 0.50%
Wage Inflation	N/A	CPI + 1%	CPI + 1%	CPI + 1%	CPI + 1%
Build Cost Inflation	N/A	CPI + 1.50%	CPI + 1.50%	CPI + 1.50%	CPI + 1.50%
Variable Interest Rates	1.50%	1.75%	2.00%	2.50%	3.00%

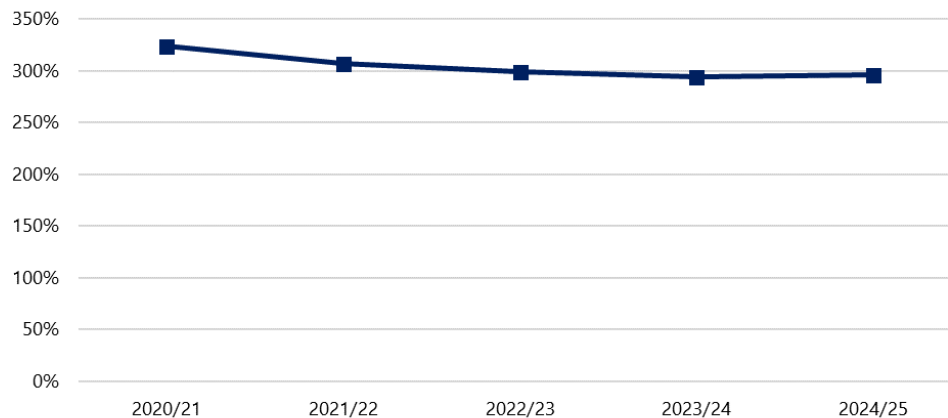
Business Plan - Output

Turnover and Operating Margin

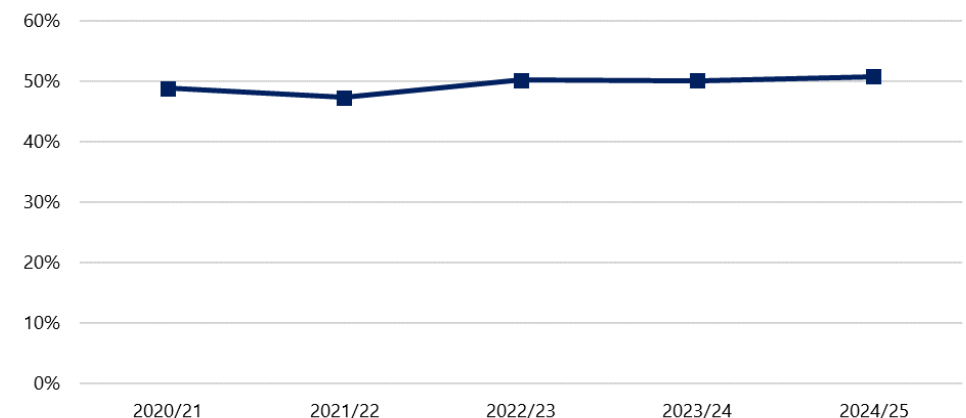


- Steady operating margin, interest cover and gearing
- Increasing share of income from Social Housing Letting - result of strategic decision to move away from care provision and outright sales, and focusing on traditional social housing letting

Interest Cover



Gearing



Treasury Overview

Treasury Position and Golden Rules

Cash and Facilities



Total Available: £238m
Total Cash: £91m
Total Facilities: £147m

Unencumbered Assets



Units: c6,500
(c5k units required for Bond Issue)
MVT: c£452m
EUV: c£364m

Gearing
Rule: 70%

MOODY'S
A1 rating

Interest Cover
Rule: 150%

Cashflow
Min 18 months
Cash Required: met

Treasury Policies

Formal Treasury Management Policy approved each year by the Executive team. The framework of the Policy is to:

- Minimise risk
- Preserve asset values
- Preserve cash liquidity
- Minimise costs within those parameters

Credit Risk



- Credit limits for all financial institutions
- Approved list of counterparties
- Minimum credit rating criteria

Liquidity Risk



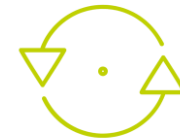
- Liquidity available to cover 18 months cash flow excluding Development sales
- Daily monitoring of bank balances
- Cash flow forecasting

Interest Rate Risk



- Fixed Rate 60% to 100%
- Derivatives for hedging only
- Regular monitoring and stress testing

Refinancing Risk



- 18 month liquidity Rule maintained
- Mix of maturities/repayment profiles
- No more than 35% in one issue

Credit and Peer Analysis

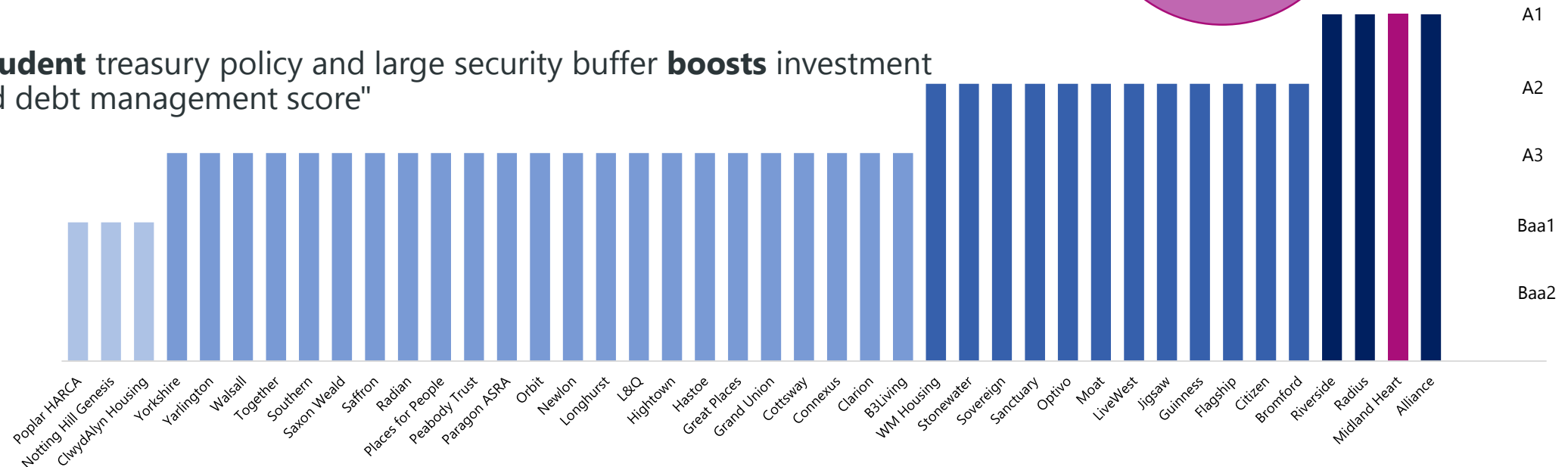
Moody's Public Credit Rating

"**Clearly defined**, long-term strategy and **tight** internal controls underpin **high financial management score**"

"**Effective** and **timely** track record of responding to adverse financial circumstances is credit positive"

"**Prudent** treasury policy and large security buffer **boosts** investment and debt management score"

BEST IN CLASS
A1 CREDIT
RATING



Source: Moody's Sub-Sovereign Rating List, 12 June 2020

Peer comparison

Value for money metric	Lower quartile (All HAs, 18/19)	Upper quartile (All HAs)	Midland Heart (2018/19)	Midland Heart (2019/20)*
EBITDA MRI Interest Cover	138.8%	238.4%	282.7%	264.7%
Headline Social Housing Cost per Unit	3.183	4.692	3.085	3.325
Operating Margin (SHL)	23.1%	34.6%	36.9%	33.9%
Operating Margin (Overall)	20.0%	30.8%	30.9%	30.5%
Gearing	33.6%	53.9%	30.1%	28.1%

Summary

MAKING
WHAT **MATTERS**
Brilliant



Strong

leading A1 stable rating
from Moody's
Clearly defined strategy



Simplified

Simple governance
structure
No longer providing care
Building affordable
homes



Demand

Waiting lists currently at
16,000 active users
Re-let an average of 120
homes per month



Safe

Strong track record in
delivering building safety
compliance

Thanks for participating!

Q&A

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