Statement

18 December 2020

Stonewater first-half operating margin and rental income grow

Key highlights of unaudited trading for the six months ending 30 September 2020 include:

- **Operating margin was 33.1% versus 32.4% over the same period last year**
- **Excluding variance on asset disposals, the operating surplus in the six months to 30 September 2020 increased by £4.6m**
- **Swift action taken to support customers and business operations during the COVID-19 pandemic meant a much lower bad debt charge than expected at 1.5%**
- **Income from rents and service charges was up £3.6m on the first half of the previous year, due to rent increase of 2.7% after end of four years 1% annual rent cuts**
- **Void losses were 0.8% (2019/20 half-year (H1): 1.1%)**
- **67 shared ownership homes were sold at a 19% margin, generating a surplus of £1.3m (2019/20 H1: 58 units generating a surplus of £1.2m). Full-year sales are projected in line with revised plans at 180**
- **217 properties were handed over and the total for the full year is projected to exceed 679 homes**
- **A £75m private placement was issued with US investors in June, to further support the development programme and to maintain financial strength**
- **Liquidity of £427.8m in cash and undrawn banking facilities (excluding £103m deferred bond funding) as at 30 September 2020**

Stonewater made a rapid and effective response to the COVID-19 pandemic, and is able to report an increased operating margin and reduced void losses in the first six months of 2020/21.

The unaudited results for the six months ending 30 September 2020 also saw a rise in shared ownership sales and operating surplus up by £4.6m, excluding variance on asset disposals.

Income from rents and service charges was up £3.6m on the first half of the previous year, due to rent increases of 2.7% following the end of four years of 1% annual rent cuts.

Excluding surpluses on disposal of fixed assets and charitable donations, Stonewater's operating margin was 33.1% vs 32.4% over the same period last year. Void losses in this half year were 0.8% (2019/20 half-year (H1): 1.1%). The target for the full year is 1%.

The timing of shared ownership sales is dependent on handovers of new developments. The expected slowdown in sales, due to the COVID-19 lockdown, resulted in a revised target of 180 sales to be achieved in the current financial year. 67 units were sold in the first half of the year at a strong margin of 19%, generating a surplus of £1.3m (2019/20 H1: 58 units generating a surplus of £1.2m). Sales for the full year are projected to be in line with revised plans at 180.

Stonewater made an unaudited operating surplus of £34.4m in the first six months of 2020/21, against £39.8m for the same period in 2019/20. Last year included £12.8m surplus from asset disposals which comprised £5.6m surplus from Voluntary Right To Buy (VRTB) and £7.2m from disposal of London stock.

After net interest expense of £16.5m, the surplus after interest was £17.9m, against £23.9m for the same period last year.

Asset disposals

Existing properties are sold for asset management reasons and in this half year the surplus on disposals added £2.7m to the operating surplus. The equivalent figure for 2019/20 H1 was £12.8m, which included sale of London stock at a £7.2m surplus.

Development and Capital Expenditure

Despite initial disruption to construction in the early parts of the year caused by the pandemic, the majority of Stonewater contractors returned to site from the end of May 2020 and the handovers in the six months to 30 September 2020 were in line with our expectations.

Our annual development spend target was revised from £220m to £164m. Spending on the expanding development programme in the first six months was £64m (2019/20 H1 £66m) out of the full-year budget of £164m.

In the first half of 2020/21, 217 properties were handed over and the total for the full year is projected to exceed 679 units. Two-thirds of these will be for rent – predominantly affordable rent – and the remainder will be shared ownership. Stonewater has an ambitious plan to increase development to 1,500 units per year by 2023/24, in the same tenure proportions.

Capital maintenance spending was £2.8m (2019/20 H1: £5.5m) out of the full-year budget of £13.0m (2019/20 actual: £16.0m). The component replacement programme has been impacted by lockdown and spend in the first six months of 2020/21 is significantly lower than in the previous year.

Funding

Further financing was sought in early 2020, with a £75m private placement with US investors completing in June.

John Bruton, Executive Director – Finance for Stonewater, said: “In this extraordinary year, it is good to be able to report a strong set of unaudited half-year results. We quickly adapted our operations to COVID-19 restrictions and took appropriate precautionary action to reduce our costs. Our Brexit preparations have remained under review and we have conducted extensive financial modelling, stress-testing and risk-mitigation planning on the threats to our business plan. This is in line with regulatory requirements.

“Demand for our shared ownership homes has remained strong, so, although there have been some programme delays due to lockdown, our prices and margins have been robust. We expect to sell around 180 homes in the full year and also to increase our completion of all homes to more than 679 – two-thirds of which will be for predominantly affordable rent.

“Although we are fortunate in that we do not have any significant fire safety exposure, we are increasing investment in our existing homes to ensure they continue to be safe.

“We continue to enjoy good investor support and we are confident we have the stress-testing checks in place to ensure we are able to continue to deliver on our business plan commitments for our customers across the country.”

Ends

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About Stonewater

Stonewater is a social housing provider, with a mission to deliver good quality, affordable homes to people who need them most. We manage around 32,500 homes in England for over 70,000 customers, including affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, domestic abuse refuges, a dedicated LGBTQ+ Safe Space, and young people's foyers.

Our ambitious house-building programme aims to build a minimum of 1,500 new homes a year from 2023/24 and we have a good pipeline of development to achieve this, driven by our vision of everyone having the opportunity to have a place that they can call home. We plough our surplus into building new homes, improving our existing housing stock and investing in customer services.

Our 800+ employees embody our values – being ambitious, passionate, agile, commercial and ethical. For the second consecutive year we achieved a 'One Star' rating in the 2020 Best Companies Top 100 best not-for-profit organisations to work for and made the list for the top 25 best housing sector organisations to work for in the UK.

With an annual turnover of around £191 million and £1.8 billion in assets, Stonewater is a strong, dynamic and well-managed social business, with a long-term rating of A+ (stable outlook) by independent credit ratings agency, S&P Global Ratings and a top G1/V1 governance and viability ranking from the Regulator of Social Housing.

For more information, visit our website at https://www.stonewater.org/media-pack/media-kit/