

# Town & Country Housing Group

## PRESENTATION TO INVESTOR

4 October 2017

**Bob Heapy** – Chief Executive

**Robin Tebbutt** – Finance Director



# Presentation to Investor, 4 October 2017

- Governance
- Our Changing Operating Environment
- Corporate Strategy; Business Plan; Building for Sale
- Treasury Matters
- 2017 Financial Results
- External Judgements
- Responding to Welfare Reform
- Managing Risk; Fire Safety
- External Auditors
- Future Reporting

# GOVERNANCE - BOARD



## Francis Salway – Group Chairman

- Joined as Chair in 2012
- Chief Executive of Land Securities PLC from 2004-2012
- Non-executive member of Next PLC & Cadogan Estates Limited.
- Chairman of the London Community Foundation
- Visiting Professor of London School of Economics' (LSE)
- Member of the Bank of England Residential Property Forum



## Graham Hill – Vice Chair & Chair of Audit Committee

- Joined 2012
- Chief Executive (Information Division) United Business Media from 1992-1998
- Chief Executive of the NOP market research group Garban PLC, a listed money and securities broking group 1998-1999
- Chief Executive of eAXA, AXA UK PLC London 2000-2001
- Chief Executive of Investment Property Databank Ltd 2002-2005



## Bob Heapy – Chief Executive, Chair of Monson Homes Ltd & TCHG Living

- Joined as Chief Executive 2010
- Has led a number of major organisations in the public and private sectors
- Quantity Surveyor by profession
- 35 years experience in the construction & social housing sectors.

# GOVERNANCE - BOARD



## **Marianne Hay, Chair of TCHG Foundation**

- Joined 2014
- Currently Private Equity Consultant
- Head of Private Banking, Europe, Middle East and Africa, Standard Chartered Bank 2009-2010
- CEO Global Wealth Management, Citigroup 2005-2007
- Head of Private Wealth management, Morgan Stanley 1993-2005
- No. 28 in Fortune list of most influential women in international finance



## **Mark Easton, Chair of Customer Services Committee**

- Joined 2011
- Chief Executive of Redbridge Homes from 2011 to 2012
- Twenty years experience as a senior director in housing including most recently Director of Property Services (interim) for Richmond Housing Partnership & before this Group Director of Marketing for Affinity Sutton



## **Jenine Langrish, Chair of Finance & Investment Committee**

- Joined 2009 – retires 2018
- Member of Christian Aid's Finance & Audit Committee since March 2007
- Former Fund manager and Client Relationship Director for HSBC
- Value for Money Champion of TCHG



# GOVERNANCE - BOARD



## **Christine Pointer, Chair Remuneration & Appointments Committee**

- Joined 2009 – retires 2018
- Senior consultant and director of Agenda UK Limited, which advises and promotes sustainable cultural infrastructure in the growth areas of the Thames Gateway and the Partnership for Urban Southampton and Hampshire
- Chief Executive of Waverley Borough Council from 1995 to 2006
- Chief Executive of Congleton Borough Council from 1992 to 1995



## **Chris Starke**

- Joined TCHG's Audit Committee in 2012 and the Group Board in 2015.
- Finance Director of Phoenix Community Housing.
- Has worked at a senior level in the Housing Sector for over 15 years.
- Chartered Accountant, trained with KPMG.

# GOVERNANCE - BOARD



## Kim Hill

- Joined 2014
- Tenant Board Member
- Employed as Family Liaison Officer at local Special School



## Kayleigh Ward

- Joined 2015
- Formerly trainee tenant board member –worked through a structured training & mentoring programme prior to appointment
- Works as Finance Assistant
- Studying for Association of Accounting Technicians

# GOVERNANCE - BOARD



## **Gaylene Kendall**

- Joined January 2017
- FCCA
- Group Tax and Treasury Director for Kingfisher PLC.
- Previously Head of Treasury, British Airways PLC, managing debt portfolio of £5 billion
- Trustee of the children's charity, Dreamflight



## **Valarie Marshall**

- Joined February 2017
- Chief Executive of Stratagem Corporate Finance and Strategy Ltd.
- Non-executive director of Baronsmead Venture Trust PLC, Fusion Lifestyle Ltd
- Previously Chair of the Council of the University of Kent



## **Mark Dickinson**

- Joined May 2017.
- Founder and Managing Director of Anthology, London (a residential property development company).
- Previously Managing Director, Berkeley Homes and Managing Director, Development for Lend Lease.
- Extensive background in the property sector

# GOVERNANCE

- Board currently numbers 13
- Temporary rule change to allow this until April 2018, when two board members retire
- Recruitment exercise identified more high calibre individuals than needed to fill the normal 12 places

# Our Changing Operating Environment

- Unprecedented government intervention in the sector
- 2015 Budget, 2015 Autumn statement , Welfare & Work Act and the Housing and Planning Act
  - Rents reduce 1% p.a. for 4 years (April 16 - 19 incl)
  - Welfare reform generally but Universal Credit and Benefit Cap specifically
  - VRtB and Pay to Stay
  - Very limited capital grant for rented products
  - Target homeownership products
- Mitigation measures planned in 2015 rolled out with continued efficiency savings and VfM reviews
- New Corporate Strategy 2016 to 2020 reflecting operating environment

# MITIGATION

- Head count reduced by 9% between April 15 and March 17
- New differential service offer focussing on ‘channel shift’ and a digital offer giving headroom for intensive support where needed
- Board has retained some discretionary expenditure (circa 6% of total spending)
- Development constrained by rent cut, but picking up from around 125 this year to 200 next and upwards to around 300 (30, 90, 100 for social or affordable rent respectively). More if capacity exists.
- S&P previously noted our “Strong Commitment to Financial Discipline”

# Corporate Strategy 2016 - 2020

Board approved the new strategy in March 2016. It sets out our approach to meeting the challenging operating environment

## Key Objectives

- To remain a viable, financially strong and resilient business. Deliver VfM through innovation to maximise capacity to reinvest in services and new homes.
- To have sustainable growth, deliver new homes including access to home ownership products. Retain profile of stock by replacing RTB with same tenure. Deliver social rented homes with spare capacity.



# Corporate Strategy 2016 - 2020

## Key Objectives

- Deliver efficient and excellent core services, listen to the views of our residents.
- Excellent governance and leadership, employer of choice attract and retain the best talent.
- Support the most vulnerable in our homes to sustain their tenancies

# Business Plan

- Responding to rent cuts with CPI – 1% cost increases on management and maintenance – on a base reduced in response to announcement during 2015/16
- Strong plan based on prudent assumptions with range of stress testing
- Budgets for 2016/17 & 2017/18 achieved required reduction
- Budget outperformed in 2016/17 and 2017/18 to date

# BUILDING FOR SALE

- Like most Associations, we are undertaking building for sale to generate cross subsidy
- Already have good recent experience of doing this with success
- Strong internal rules (“Tramlines”) ensure we can withstand worst case scenario - failure to sell any of our pipeline units at any given time, or derive any income from them
- Our substantial experience of market and intermediate renting would allow us to bring in some income from unsold dwellings in practice

# BUILDING FOR RENT

- Key to our core social purpose
- Seek to provide the maximum sub market rent dwellings our capacity allows
- But rent cut has reduced that capacity
- Circa 450 in years 1-5
- Shared Ownership; circa 200 years 1-5

# TREASURY

- Sold stock in London borough of Bromley & Bexley for £36m in May 2016 - Strategic withdrawal from London – expensive to manage at distance, enhanced exposure to welfare reform issues.
- Prepaid a facility with Dexia in January 2017, replaced with a revolving facility with Bank of Tokyo Mitsubishi UFG (MUFG)
- In March 2016 & 2017, broke existing embedded fixed rates, and replaced with new fixes at prevailing rates, reducing average interest cost. (2017 average interest cost 3.52%)
- Continue to have substantial liquidity including cash and undrawn facilities. Our “tramlines” (financial risk controls) will make sure we continue to do so

# 2017 FINANCIAL STATEMENTS

- Surplus of £28.1m (before actuarial loss) in 2017
- Approx £14.3m higher than would be under old GAAP ;  
main adjustments:
  - loans amortised cost adjustment £11.6m
  - Increased value of investment properties £2.7m
- Breakage cost of £4.1 m, so surplus under old GAAP,  
excluding this extraordinary item, £17.9m

# External Judgements

- HCA 'regression analysis' TCHG annual social housing cost £2,871 lower than median of £3,550 and in lowest quartile
- Housemark benchmarking evidence strong service KPIs
- S&P reaffirmed A+ rating in January 2017.
- Social Housing Regulator rates us at highest grades of G1 & V1 (In depth assessment April 2016)

# WELFARE REFORM

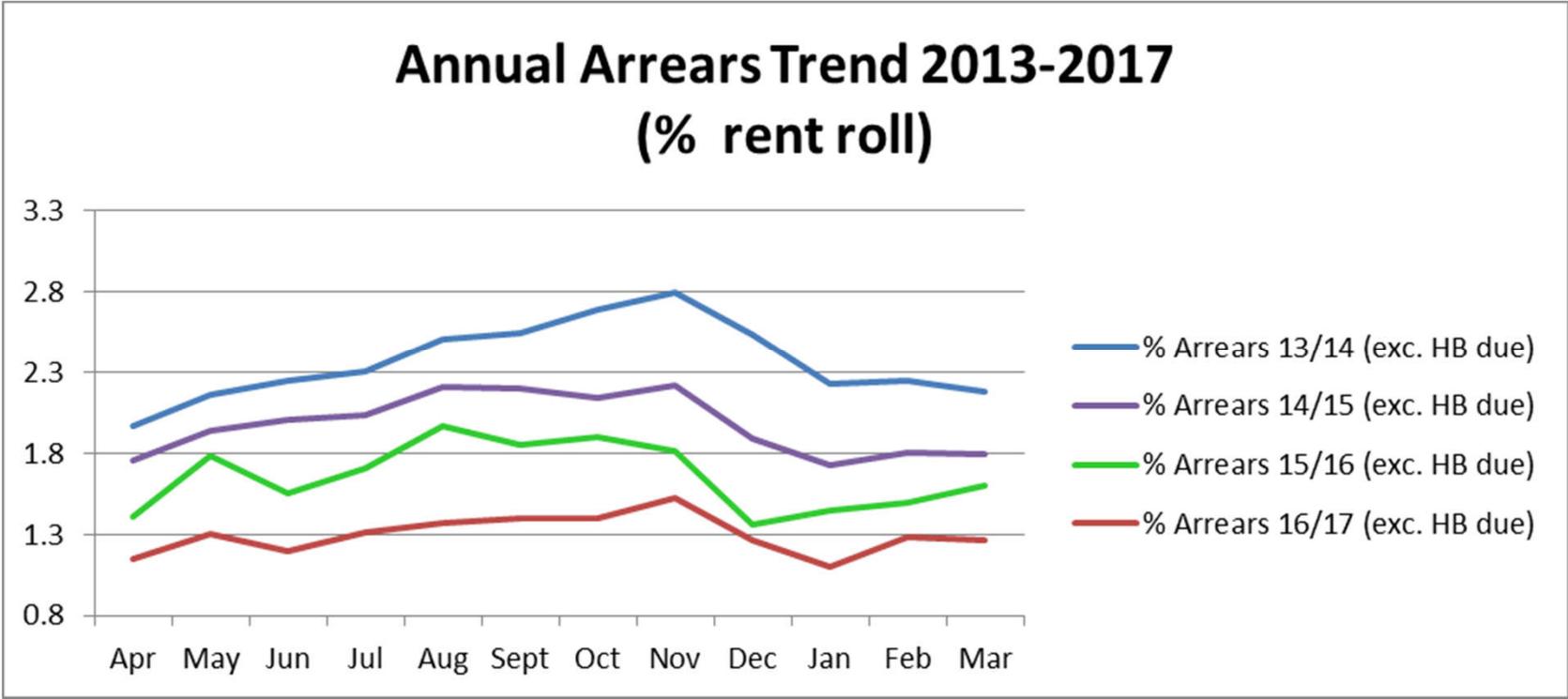
- We have:
  - Worked closely with DWP and key local authorities
  - Enhanced staffing providing support and managing arrears
  - Given clear and timely information to customers through different media channels (e.g. newsletters, mail outs, phone, face to face)
  - Used profiling to proactively identify those affected by the benefit cap & made contact to discuss
  - Promoted mutual exchange - 149 swaps in 12 months and almost 981 tenants registered to the service.
  - 731 new Money Support clients seen (Sept 2016 - Aug 2017) with a £164k (53%) reduction in unmanaged debt
  - Introduced any day, any frequency Direct Debit option
  - Introduced My Home Online so customers can check balances and keep track of rent payments

# WELFARE REFORM

- We are also:
  - Offering budgeting skills and back to work training
  - Encouraging residents to get rent accounts in advance
  - Proactively identifying and contacting those affected by the enhanced benefit cap
  - Promoting direct debit for rent (compulsory for new tenants) – achieving a 9% increase in customers paying this way in 12 months
  - Continuing to facilitate down sizing moves; 98 households currently registered
  - Consistently out-performing our prudent bad debt budget
- All prospective tenants have affordability checks before being offered a tenancy. Protects both the tenant and TCHG.



# WELFARE REFORM



# MANAGING RISK

- Board is acutely aware of its responsibilities for managing risk, certainly not a tick box exercise
- “Tramlines” manage our exposures on:
  - Gearing
  - Liquidity
  - % of debt at fixed rates
  - Duration
  - Interest Cover
  - Size of annual surplus
  - Long term repayment of liabilities
  - “Commercial” Programme (Including shared ownership)
  - Asset Cover

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# MANAGING RISK

- The normal Internal Control Statement approved by Audit Committee then board each year
- Board reviews:
  - Risk Management Framework, including its risk appetite, every year
  - Strategic Risk Register every six months.
  - Tramlines every six months

# MANAGING RISK

- Audit Committee has delegated responsibility for reviewing risk in detail at each meeting
- Takes this responsibility very seriously
- Reviews:
  - Strategic Risk Register every quarter
  - Tramline performance every quarter
  - Regulatory compliance every quarter
  - Operational Risk register every six months
  - All internal audit reports
- Holds an annual informal meeting specifically on risk, with advice from (outsourced) Internal Auditor and executive, seeking to “think outside the box” and identify new areas requiring attention



# MANAGING RISK

- Investment and Finance Committee manages treasury and development risk.
- Reviews and recommends to Group Board:
  - Treasury Risk Management Framework
  - Annual Treasury Plan
  - Tramline Definitions
- Reviews :
  - tramline performance quarterly
  - Performance against treasury plan quarterly
  - Performance against development plan quarterly
  - Development scheme outturn “warts and all” reviews

# FIRE SAFETY

- We do not own any tower blocks
- We own one three storey block, with cladding similar to that at Grenfell Tower on the third storey only
- Despite it not being considered a risk at this lower height, have ordered its removal and replacement
- Board ordered full review of our approach to fire safety – all Fire Risk Assessments in place
- Stand ready to respond to revised guidance and regulations as they emerge

# MERGERS & ACQUISITIONS

- Board did not sign up to the sector's merger code
- Board concluded that although many of the principles of the code are seen as good practice they didn't want to adopt the full provisions of the code as having to fully consider all initial approaches could be distracting for the organisation.
- The Board is open to the principle of merger, but we are a viable stand alone business, and merging is not an essential part of our strategy.
- Criteria for considering the suitability of a potential merger partner, and framework for how consideration takes place, have been set



# EXTERNAL AUDITORS

- Procurement process underway after six years with current auditors
- Specification requires auditor with experience of auditing Registered Providers with at least 5,000 dwellings
- Board will appoint on 14 December 2017

# FUTURE REPORTING

- Will in future produce a Trading statement for first half of financial year (period ended 30 Sept) each year
- First such statement should be available towards end of November 2017.
- Statutory financial statements have hitherto been available in August each year – aiming for July from 2018.

# IN CONCLUSION

- We remain a strong, viable business, despite challenges.
- Governance continues to ensure that we manage risk – including building for sale - appropriately.
- External validation from our regulator (V1 & G1) and S&P Global ratings (A+) confirms this.