Paragon Treasury Plc

Paragon Asra Housing Limited ('PA Housing') trading update and unaudited financial results for the year ended 31 March 2023

PA Housing, the parent company of Paragon Treasury Plc and a Registered Provider owning and managing 24,000 homes in the East Midlands, London and Surrey, announces its trading highlights and unaudited summary financial results for the 2022/23 financial year.

Headline results

Over the year, PA Housing has delivered an operating surplus of £39.6m from turnover of £181.1m, equating to an operating margin of 22 per cent. Total comprehensive income after loan interest and other adjustments was £36.1m; this included a positive movement in the fair value of hedged financial instruments and investment properties of £28.8m. Total available liquidity as at 31 March 2023 was £299m.

As noted in our 2022 Financial Statements and our 2022/23 half-year trading update, the social housing sector has been affected by the adverse economic conditions within the wider UK economy. Through the course of the year, our Board made appropriate decisions to mitigate these impacts and ensure retention of adequate financial capacity. Within this context, the unaudited results reflect an acceptable outcome and are in line with the revised forecast monitored by the Board through the year.

Our non-recurring fire safety remediation expenditure to address historic defects at a small number of high rise blocks has continued to have a significant impact on headline results. Total expenditure on these activities in the year was £6.2m. Our underlying operating margin excluding these additional costs was 24 per cent.

Property sales

During the year we completed 148 new build shared ownership sales, delivering a surplus of £5.0m at an average sales margin of 23 per cent. As at the year end date we had 130 unsold homes.

Asset disposals activities, comprising a mix of shared ownership staircasing, Right to Acquire sales, and ad hoc vacant possession sales in line with our asset management strategy, delivered a surplus of £5.4m.

Other highlights

In other areas of core activity:

- Rent and service charge losses through vacant properties ended the year materially in line with budget, reflecting success in significantly driving down our average re-let times for vacant homes.
- Service costs were above budget, with results heavily impacted by mid-year renewal of utilities contracts which saw significant price increases due to the volatile market conditions.
- Responsive repair costs were above budget, driven by higher job volumes as we worked to meet our residents' requirements and additional resources deployed to improve turnaround times for empty homes.
- Overhead costs ended the year £2m below budget, with savings generated to maintain capacity for asset investment in the wake of the UK economic turmoil.

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Areas of focus

Our Board continues to closely review financial plans and risks. In the short term, our 2023/24 operating budget reflects the more constrained environment created by prevailing economic conditions. We continue though to ensure full investment so as to meet Decent Homes and building safety compliance standards, and to drive up the energy efficiency of our homes. We are working to strengthen financial capacity in the longer term, so that enhanced investment into our estates can be accommodated.

The Board accepts that the current economic compromises our ability to meet all golden rules, but extensive scenario testing gives assurance that our financial plans remain robust and resilient. Work is ongoing to further strengthen our financial resilience, and the Board will review future investment capacity in relation to our golden rules.

Our exposure to new build property sales has already been adjusted downwards. Accordingly, our golden rule governing how much of planned turnover arises from this sales activity is now reduced from 25% to 20%, and we plan to reduce this further to 15% once the current sales pipeline has been worked through.

Beyond the financials, we are completely focused on driving up the standards of our services to residents. A number of workstreams are in progress to achieve this, including a simplified and more responsive operating model, changes to our repairs service delivery models, and investment in new technology to better support our customer facing teams. In the year ahead we will take opportunities to share details of this work with investors and stakeholders.

ESG

Our 2023 ESG report will be released around the time that we publish our 2023 Financial Statements, planned for September 2023. Headline results for the year in certain key areas are as follows:

- 74% of our homes achieved at least an Energy Performance Certificate C rating, with 21% achieving at least a B rating. (2022: 62% at least C and 11% at least B)
- Our tenancy sustainment team supported 2,377 residents through the year, delivering income gains of £4.3m through additional benefits and grants. (2022: 2,100 residents and £4.4m of gains)

Damp and mould

Our work on damp and mould risks in our homes continues, and we have a number of control measures in place to manage the position:

- Our approach to tackling damp and mould aligns with the recommendations made by the Housing Ombudsman.
- We are recruiting additional dedicated resources in both of our regional offices to support diagnosis and resolution of damp and mould issues.
- We conduct full stock condition surveys of all our homes on a five-yearly cycle, covering 170 internal and external data components.
- Any damp and mould found during a survey is risk-assessed in accordance with the Housing Health and Safety Rating System guidance, with these ratings in turn aligned to the Decent Homes Standard to ensure appropriate action.
- We have carried out historical review of all repair requests and other data sources over the past 12 months where damp and / or mould are mentioned in the commentary, with similar reviews to be performed at regular intervals going forward.
- For issues of condensation, damp, or mould, we assess, treat, and remove the mould as quickly as we can. We then identify what has caused it and where we need to, arrange to carry out works to stop it returning.
- We continue to review and update the information we provide to our residents on condensation, damp, and mould on our website and through other media.
- Our Board is receiving regular updates on our management of damp and mould cases.

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Statement of Comprehensive Income to 31 March 2023 (unaudited)

	2022/23 £m	2021/22 £m	Variance £m
Rent and service charges income	151.3	140.8	10.5
Shared ownership first tranche sales	21.5	19.5	2.0
Other income	2.8	3.2	(0.4)
Amortisation of Social Housing Grant	5.5	5.4	0.1
Turnover	**181.1**	**168.9**	**11.2**
Core operating costs	(108.0)	(96.8)	(11.2)
Depreciation and impairment	(22.4)	(21.6)	(0.8)
Cost of first tranche sales	(16.5)	(13.7)	(2.8)
Surplus on fixed asset disposals	5.4	7.6	(2.2)
Operating surplus	**39.6**	**44.4**	**(4.8)**
Net interest	(33.4)	(29.7)	(3.7)
Gift aid, taxation and other adjustments	1.1	1.3	(0.2)
Fair value accounting movements	28.8	20.4	8.4
Total comprehensive income	**36.1**	**36.4**	**(0.3)**

Statement of Financial Position as at 31 March 2023 (unaudited)

	31 Mar 23 £m	31 Mar 22 £m
Negative goodwill	(5.4)	(6.1)
Tangible fixed assets - housing properties	2,155.6	1,971.8
Tangible fixed assets - other	24.3	23.5
Current assets	108.7	129.0
Current liabilities	(111.1)	(52.3)
Total assets less current liabilities	**2,172.1**	**2,065.9**
Creditors due after more than one year	(1,523.9)	(1,466.9)
Pension liabilities and other provisions	(17.0)	(23.5)
Total net assets	**631.2**	**575.5**
Reserves	**631.2**	**575.5**

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Other key metrics and indicators as at 31 March 2023 (unaudited)

Headline financials

	31 Mar 23	31 Mar 22
Operating margin (social housing lettings)	20%	23%
As above excluding fire safety remediation spend	23%	27%
Operating margin (all activities)	22%	28%
EBITDA-MRI interest cover (loan covenant basis)	133%	146%
Available liquidity	£299m	£362m
Cash	£17m	£29m
Total loans and borrowings	£1,086m	£994m
Net debt	£1,069m	£965m
Gearing (loan covenant basis)	54%	52%

Core lettings business

	31 Mar 23	31 Mar 22
Current resident rent arrears	4.3%	4.0%
Rent loss through voids	2.4%	2.6%
Re-let times (general needs properties)	36 days	57 days

Development and sales

	31 Mar 23	31 Mar 22
Completed homes: rented social tenures	180	132
Completed homes: shared ownership	104	185
Completed homes: other	0	1
New build shared ownership homes sold	148	127
Unsold homes total	130	174
Unsold homes > 6 months	49	71
Average sales margin	23%	30%

Note: The above 2022/23 figures are based on unaudited management accounts and are subject to change following audit. In particular, pension scheme year end accounting entries are not yet finalised and so final audited figures will differ in this respect.

Disclaimer

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