RNS Number : 8272N
London & Quadrant Housing Trust
27 September 2023

London & Quadrant Housing Trust ('L&Q') - Publication of Financial Statements

L&Q today announces the publication of its consolidated audited financial statements for the financial year ended 31 March 2023 which demonstrate how the housing association is investing record amounts to improve residents' existing homes while transforming services and building new affordable homes.

All comparatives are to L&Q's consolidated audited financial statements for the financial year ended 31 March 2022 ('2022').

Investment of £347m (2022: £262m) in L&Q's maintenance programme during the year is a material increase which will address its strategic priority of improving the quality and safety of resident's homes. This programme has delivered, and will continue to deliver, major internal and external works inclusive of measures to address damp and mould, fire safety, energy efficiency and wide-ranging estate improvements.

In making this investment, L&Q has faced strong inflationary pressures. Despite the challenges faced, EBITDA at £313m (2022: £327m) was at a similar level to prior year performance. In the year-ended 31 March 2023, L&Q achieved an operating surplus of £162m (2022: £271m) and net debt was stabilised at £5.3bn (2022: £5.3bn). Available liquidity at £1.2bn (2022: £1.2bn) demonstrates that L&Q has a well-capitalised balance sheet that can absorb risk

The financial statements can be accessed via the following link:

https://www.lqgroup.org.uk/investors/financial-performance

A copy of this document will shortly be filed with the National Storage Mechanism.

Highlights

For the year ended 31st March 2023, L&Q achieved turnover of £1,176m (2022: £1,112m), EBITDA of £313m (2022: £327m) and an underlying surplus after tax of £40m (2022: £154m).

- Turnover increased by 6% to £1,176m (2022: £1,112m). Of turnover, 55% (2022: 55%) was generated from core social housing lettings activities. A further 38% (2022: 38%) was from market sales activity (including shared ownership first tranche sales), 4% (2022: 3%) from market rents and 3% from other activities (2022: 4%).

- EBITDA fell by 4% to £313m (2022: £327m), EBITDA margin was 22% (2022: 24%) and EBITDA interest cover was 169% (2022: 222%). The year-on-year decrease in EBITDA reflects our focus on delivering our strategic objectives and provisions for build defect liabilities (please see below 'Reconciliation of audited financial statements against trading update').

- Surplus after tax was £40m (2021: £154m). The lower like for like performance is primarily due to a net impairment charge of £109m (2022: £90m) and a downward valuation of investment properties of £85m (2022: £35m upward valuation). L&Q's surpluses will be re-invested back into ensuring the safety of residents, the quality of homes and services, supporting communities, and increasing the supply of new social housing.

- Net debt reduced by £19m to £5,295m (2022: £5,314m) and available liquidity remained constant at £1.2bn (2022: £1.2bn) demonstrating continued success to conserve cash flows.

- L&Q continues to maintain a strong financial position with total assets less current liabilities at £13,185m (2022: £13,586m) and net assets at £5,615m (2022: £5,587m). The reduction of total assets less current liabilities is due to £550m loans classified as creditors due within one year that as at the publication date have been fully refinanced and extended by a weighted average life of 5 years. The housing properties portfolio grew by 3% to £11,354m (2022: £11,026m).

- Housing completions at 4,047 (2022: 4,157) of which 71% (2022: 61%) were for social housing tenures. This further demonstrates L&Q's commitment to maximising its social purpose, while simultaneously, lowering its risk profile for commercial activity.

- L&Q invested £598m (2022: £531m) in new social housing, demonstrating continued progress against our ambition to tackle the housing crisis and £11m (2022: £0) in new market rent properties. A further £51m (2022: £114m) was invested in private housing for sale we develop ourselves and £62m (2022: £76m) in joint venture partnerships. Profits generated from non-social housing activities are re-invested in the delivery of social housing.

- L&Q invested £347m (2022: £262m) in residents' homes, which includes investment in fire safety works. Building safety remains a priority, with L&Q continuing the delivery of one of the largest inspection and remediation programmes in the country, covering some 1,900 buildings (low rise and high rise) containing over 32,000 homes. L&Q has completed inspections on 1,031 buildings with 206 building requiring remediation (74 buildings with remediation started and 13 buildings with remediation complete).

- L&Q's Major Works Investment Programme is the industry's largest investment programme – almost £3bn over 15 years – to improve the safety, comfort, and environmental performance of resident's homes. This will see all L&Q homes maintained to the Decent Homes Standard – a technical standard set by the government for social housing.

- In a year when the cost-of-living crisis has significantly impacted many of the most vulnerable residents, the charitable L&Q Foundation has played a vital role in supporting those who need with L&Q investing £10m (2022: £9m) into the L&Q Foundation. A core service offered is Pound Advice, which works with a network of providers to give tailored support to people on a range of financial advice and debt management issues. In 2023, Pound Advice has helped more than 2,800 residents secure over £10 million. The gains made for residents have ranged from small one-off grants to large payments of benefits and everything in between. Additionally, L&Q's in-house tenancy sustainment advisors supported 564 residents to manage their tenancies more successfully. Alongside financial inclusion support, L&Q's employment service helps people increase their incomes by finding paid work. The team has helped over 500 people start work in the last year.

- Regulatory ratings are at G1 for governance and V2 for viability.

Commenting on the results Waqar Ahmed, Group Director, Finance said:

"L&Q, and the wider housing sector, has experienced significant financial pressures at a time when we are making record levels of investment to improve the safety, quality and sustainability of existing homes, transform services, deliver a realistic year-on-year increase in new affordable homes, and continue providing additional support to help improve the lives of residents who need it most.

"These financial pressures mean we have to prioritise where investment is directed, but through new approaches to working in partnership with residents, we are ensuring the investment is directed where residents need it most."

He added: "Our financial statements show an impairment of £109m (2022: £90m), which has lowered operating surplus but has no impact on EBITDA. The impairment represents the adverse implications of build programme extensions as we address defects, expected build cost inflation, tenure conversion, our decision to land-bank sites and a higher cost of capital."

In the last financial year, L&Q completed 4,047 (2022: 4,157) new residential homes, of which 71% (2022: 61%) are for social housing tenures. During the same period, building work started on an additional 2,760 homes (2022: 2,103), with the majority of these starts being later phases of existing developments.

Mr Ahmed said: "Despite economic headwinds and market uncertainty, we are committed to doing all we can to tackle the housing crisis by building more high-quality homes. Homelessness and overcrowding are two of the greatest issues facing Britain, and they will only be alleviated by increasing the supply of social housing.

“During the final quarter we saw early signs of recovery in sales rates and a pick-up in land sales activity that has contributed to better-than-expected sales margins. Of note, with the end of Help to Buy, we have seen, and continue to expect an uplift in demand for shared ownership as evidenced by higher reservation rates and higher than expected first tranche percentages sold.

“In the medium term we are committed to lowering our risk profile and are targeting lower debt metrics through a reduction in gross capital expenditure. Our focus remains on our existing development pipeline rather than new approvals meaning we expect to continue to reduce the number of sites that we are operating from and homes in the development pipeline.”.”

Reconciliation of audited financial statements against trading update

On 10 May 2023, L&Q published its unaudited trading update for the year ending 31 March 2023 that excluded any further adjustments that are subject to audit review such as impairment and provisions. In the trading statement, there was no provision made for impairment, but guidance was given that L&Q estimated impairment to be in the range of £80m to £100m.

Following the completion of the audit, the following adjustments have been made compared to the trading statement:

- A £84m impairment on fixed assets, £26m impairment on current assets under development and £1m impairment release on joint ventures schemes that increases operating costs and reduces operating surplus and surplus after tax by £109m. There is no impact on EBITDA.
- A £15m net increase in provision for build defect liabilities that increases operating costs and reduces EBITDA, operating surplus and surplus after tax by £15m.
- A decline in the change in value of investment properties of £85m against £83m shown in the trading statement decreasing operating surplus and surplus after tax by £2m. There is no impact on EBITDA.
- A £1m increase in depreciation that increases operating costs and reduces operating surplus and surplus after tax by £1m. There is no impact on EBITDA
- A £2m reduction in capitalised major repairs that increases EBITDA by £2m. There is no impact on operating surplus and surplus after tax.
- Tax credit on surplus on ordinary activities of £25m against an initial estimate of £22m in the trading statement increasing surplus after tax by £3m.

The following table discloses the impact that these adjustments have had on applicable financial measures disclosed in the trading statement:

Financial Measure	Unaudited Trading Update for the period ending 31 March 2023	Audited Financials for the period ending 31 March 2023	Change
Operating Surplus	£289m	£162m	(£127m)
Surplus after Tax	£164m	£40m	(£124m)
EBITDA[1]	£326m	£313m	(£13m)
EBITDA margin[2]	23%	22%	(1%)
EBITDA interest cover[3]	176%	169%	(7%)
Gross debt to EBITDA[4]	16.5x	17.2x	0.7x

Notes:

[1] Operating surplus – change in value of investment properties – amortised government grant + depreciation + impairment – capitalised major repairs +/-actuarial losses/gains in pension schemes

[2] EBITDA / (turnover + turnover from joint ventures – amortised government grant)
[3] EBITDA / net cash interest paid
[4] Gross debt / EBITDA

ENDS

This update may contain certain forward-looking statements reflecting, among other things, our current views on markets, activities and prospects. Actual outcomes may differ materially. Such statements are a correct reflection of our views only on the publication date and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared.

For further information, please contact:

investors@lqgroup.org.uk

James Howell, Head of External Affairs 020 8189 1596

www.lqgroup.org.uk