Sanctuary Group



Sanctuary Group

Quarterly update

Period ended 30 June 2018

Results reported under IFRS

Agenda

- Highlights
- Operating overview
- Statement of Financial Position, cash flow and treasury information
- Progress with short-term initiatives and business plan

Highlights at a glance – period ended June 2018

Highest ratings achieved for governance and viability

G1 / V1

Revenue

2018: £182.8m

2017: £174.4m

Cost of borrowing

2018: 4.70 %

2017: 4.96 %

Growth

Integration of new care acquisition has increased number of care homes to 103

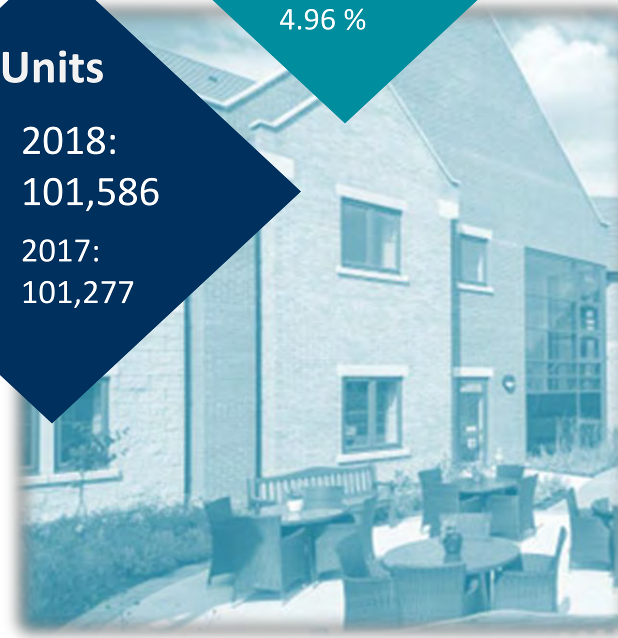
Units

2018: 101,586

2017: 101,277

£90m

of grant funding for 2016-2021 AHP

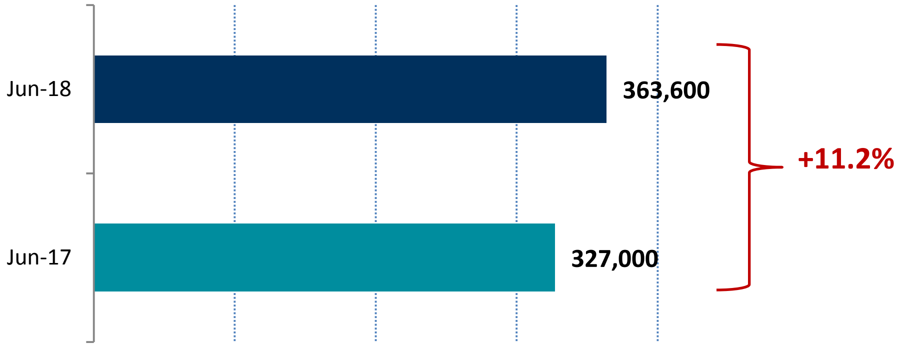


Sanctuary Group

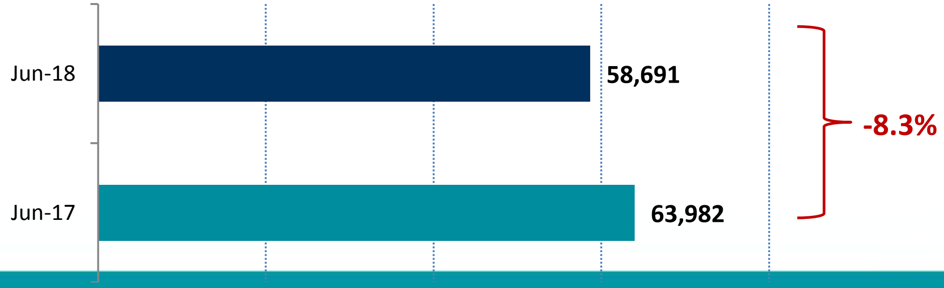
Sustainable cash flow generation

Total Divisional EBITDA * £'000

Cash and facilities available £'000



Cash from operations before working capital movements £'000



Performance

- 2018/2019 is the third year of the one per cent rent reduction applied to properties in England, subject to certain exceptions, as set out in the Welfare Reform and Work Act 2016. In order to mitigate the effects of the rent reduction policy in England and to continue to provide increased value for money to our customers, the emphasis continues to be on cost management. This will be achieved by maximising efficiencies through our Modern Workplace initiatives and reducing reliance on external contractors by driving up the utilisation of the in-house maintenance service.

- In response to the tragic events of the Grenfell Tower fire we have revisited all our fire risk assessments and brought forward a £4 million programme of fire prevention works to ensure that our homes continue to exceed the minimum statutory requirements.

Well positioned to manage future challenges

- The Government has confirmed that increases to social housing rents will be limited to the Consumer Price Index plus 1% from 2020, an £18 million per annum positive impact on cash flow by 2025. This provides the Group with the stability and certainty to invest in new homes and existing homes and services for tenants.

*numbers stated before additional FRA costs to enable a like for like comparison

Agenda

Highlights

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Progress with short-term initiatives and business plan

Group operating segments

At 30 June 2018 (£'000)	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development Property sales	Other	Total June 2018	Total June 2017	Movement
Revenue	98,552	18,080	46,007	14,776	4,305	1,056	182,776	174,449	8,327
Cost of sales	-	-		-	(2,941)	(830)	(3,771)	(3,681)	(90)
Operating costs	(46,743)	(16,941)	(40,932)	(6,827)	-	(1,800)	(113,243)	(101,445)	(11,798)
Divisional EBITDA*	51,809	1,139	5,075	7,949	1,364	(1,574)	65,762	69,323	(3,561)
Additional FRA costs	(350)	(100)	-	(1,400)	-	-	(1,850)	-	(1,850)
Total before depreciation and impairment	51,459	1,039	5,075	6,549	1,364	(1,574)	63,912	69,323	(5,411)
Depreciation (Housing and op assets)	(9,382)	(1,147)	(2,570)	(1,468)	-	(144)	(14,711)	(13,663)	(1,048)
Impairment of investment property	-	-		-	-	-	-	-	-
Reportable segment surplus	42,077	(108)	2,505	5,081	1,364	(1,718)	49,201	55,660	(6,459)
Corporate central overheads							(3,325)	(3,961)	636
Share of profit of joint ventures							843	-	843
Other gains and losses							918	820	98
Operating contribution							47,637	52,519	(4,882)
Interest receivable							791	855	(64)
Interest payable							(32,871)	(34,328)	1,457
Derivative movements							(26)	477	(503)
Surplus on ordinary activities before taxation							15,531	19,523	(3,992)
Taxation on surplus on ordinary activities							(21)	(284)	263
Surplus for the period after taxation							15,510	19,239	(3,729)

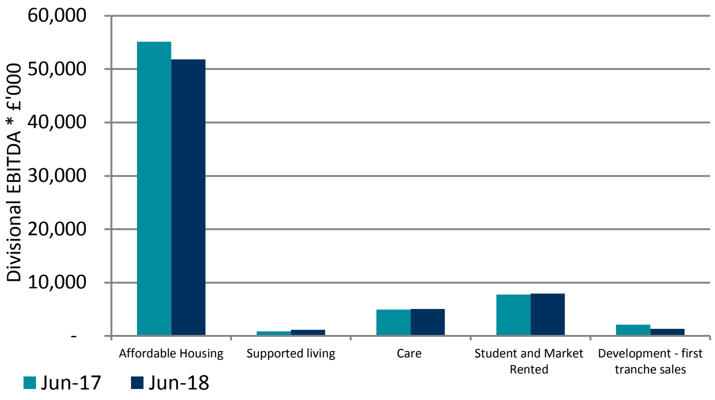
KPIs as reported in the Annual Report and Financial Statements business review

	Affordable Housing	Supported Living	Sanctuary Care	Student and Market Rented	Development Property sales	Other	Total
Divisional EBITDA* (June 2018)	51,809	1,139	5,075	7,949	1,364	(1,574)	65,762
Divisional EBITDA (June 2017)	55,104	860	4,934	7,734	2,106	(1,415)	69,323
Movement	(3,295)	279	141	215	(742)	(159)	(3,561)
Divisional EBITDA* margin (June 2018)	52.6%	6.3%	11.0%	53.8%	31.7%		36.0%
Divisional EBITDA margin (June 2017)	55.1%	4.6%	14.7%	54.4%	36.4%		39.7%

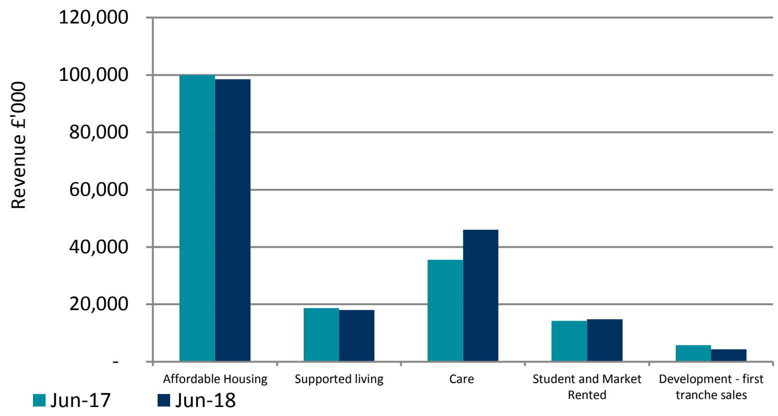
*numbers stated before additional FRA costs to enable a like for like comparison

Revenue and EBITDA analysis

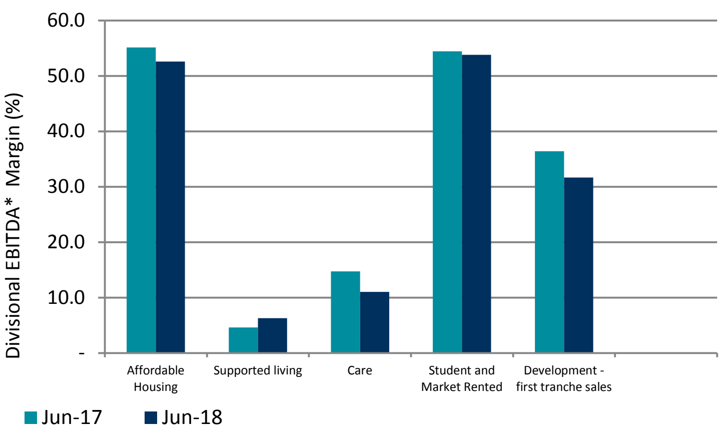
Year on year trend analysis – EBITDA



Year on year trend analysis - revenue



Year on year trend analysis – EBITDA Margin



- The Group has benefited from additional revenue this year as a result of the Embrace Care portfolio, now referred to as Care (North) operations, which were acquired on 19 June 2017.
- Overall Group revenue has therefore increased year on year despite a reduction in rental income and property sales income compared to the same period last year.

*numbers stated before additional FRA costs to enable a like for like comparison

Sanctuary Group

Affordable Housing: modern workplace initiatives

Period to 30 June 2018	Jun-18	Jun-17	Movement
Affordable Housing			
Revenue (£'000)	98,552	99,959	(1,407)
Divisional EBITDA* (£'000)	51,809	55,104	(3,295)
Divisional EBITDA* margin (%)	52.6%	55.1%	(2.5%)
Units in management	79,371	77,590	1,781
Calls to Housing Services Centre - Housing (Rolling year)	288,181	260,515	27,666
Calls to Housing Services Centre - CIT (Rolling year)	282,752	222,790	59,962
Calls to Repairs Customer Services (Rolling year)	589,824	605,657	(15,833)
First time resolution - Internal Maintenance teams	82%	84%	(2.0%)
England and Scotland excluding extra care:			
% void loss from empty homes - England	0.7%	0.8%	(0.1%)
% void loss from empty homes - Scotland	0.5%	0.2%	0.3%
Average relet days social housing - England	24	27	(3)
Average relet days social housing - Scotland	28	18	10
Customer satisfaction (%) - England	80%	83%	(3.0%)
Customer satisfaction (%) - Scotland	83%	83%	-
Complaints / 1000 properties - England	6	6	-
Complaints / 1000 properties - Scotland	9	16	(7)

- This is the third year of the one per cent rent reduction applied to properties in England. In order to mitigate the effects of this rent reduction the emphasis continues to be on cost management. Modern workplace initiatives are in place to reduce reliance on external contractors and drive up the utilisation of the in-house maintenance service.

*numbers stated before additional FRA costs to enable a like for like comparison

Supported Living: consistent high quality working practices

Period to 30 June 2018	Jun-18	Jun-17	Movement
Supported Living			
Revenue (£'000)	**18,080**	**18,733**	**(653)**
Divisional EBITDA* (£'000)	**1,139**	**860**	**279**
Divisional EBITDA* margin (%)	**6.3%**	**4.6%**	**1.7%**
Units in management	**4,388**	**4,124**	**264**

- This division covers our supported living, home care and Sanctuary365 offerings.
- The home care business continues to consolidate operations, concentrating on providing services into the Group's own establishments. Significant effort has been made to ensure a smooth handover to new service providers where continued arrangements have not been financially viable.
- Sanctuary Supported Living aims to expand the business by maximising new marketing opportunities through the development of innovative products and services, improve service delivery by the use of electronic care and support plans and seek to proactively bring all care and support contracts back in house where aligned to Group strategy, thereby maximising income to the Group.
- The use of assistive technology, telecare and telehealth continues to grow within the Group, maximising the profile of Sanctuary365 across Sanctuary Supported Living services where possible.
- Working practices continue to be reviewed to ensure best practice across all services, providing a consistent level of service and to realise economies of scale.

*numbers stated before additional FRA costs to enable a like for like comparison

Sanctuary Group

Older Persons Care: strong revenue growth

Period to 30 June 2018	Jun-18	Jun-17**	Movement
Revenue (£'000)	46,007	35,539	10,468
Divisional EBITDA* (£'000)	5,075	4,934	141
Divisional EBITDA* margin (%)	11.0%	14.7%	(3.7%)
Number of bed spaces in management	5,295	5,191	104
Existing care:			
Total income per bed space per week (£)	733	744	(11)
Care home occupancy (%)	89.6%	94.5%	(4.9%)
Self funder occupancy (%)	32.0%	46.7%	(14.7%)
Care home resident satisfaction (%)	97%	98%	(1.0%)
Care staff costs as a percentage of revenue	64.4%	62.9%	1.5%
CQC compliance	78.0%	84.0%	(6.0%)

- Sanctuary Care (North) integrated into the main Sanctuary Care operation on 1 April 2018, ensuring a consistent delivery of high quality services to our customers. This includes the furtherance of internal quality assessments and procedures which can be evidenced by CQC and Care Inspectorate ratings.

- 2018/2019 is the second year of a three-year strategy designed to deliver improved ways of working and governance to ensure all homes maintain the delivery of high quality care that meets the CQC standards. Sanctuary Care will continue to build on its strong reputation in local areas and build brand awareness in the market place.

- Sanctuary Care will be introducing its industry leading care application (kradle) after a successful trial in three care homes. ‘kradle’ allows care staff to electronically plan, track and measure care delivered to our residents. Staff use mobile devices around the home to deliver care and record well-being, vital statistics and useful information about residents at the touch of a button. It is anticipated ‘kradle’ will contribute towards even higher care standards.

*numbers stated before additional FRA costs to enable a like for like comparison

**prior period comparison does not include the Sanctuary Care (North) acquisition

Student and Market Rented: increased income per bed space

Period to 30 June 2018	Jun-18	Jun-17	Movement
Revenue (£'000)	14,776	14,230	546
Divisional EBITDA* (£'000)	7,949	7,734	215
Divisional EBITDA* margin (%)	53.8%	54.4%	(0.6%)
Units in management	12,532	12,438	94
Student occupancy (%)	90.5%	91.9%	(1.4%)
Student income per bedspace (£'000)	4,700	4,540	160

- The programme of fire prevention works within the Group has resulted in a reduction in EBITDA for the year-to-date. However, when excluding the FRA costs (as shown above) the EBITDA has remained in line with the comparative period. The student business is targeting improvements in revenue, operating profit and service delivery and so performance in these areas is expected to continue as the year progresses.
- The business will continue to seek ways to maximise operational efficiencies while improving the customer experience through technology, including the optimisation of the benefits from our ERP system, as well as the installation of the next generation Kinetic booking solution and events management software.
- Working with asset management, under-utilised assets will be reviewed and opportunities explored for income maximisation or alternative use, thereby maximising the potential revenue generation from each site. A standard operating model will be developed to ensure consistency and economy in the management of market rented and commercial tenancies.

*numbers stated before additional FRA costs to enable a like for like comparison

Development: property sales

Period to 30 June 2018	Jun-18	Jun-17	Movement
Revenue - property sales (£'000)	**4,305**	5,787	(1,482)
Sales surplus (£'000)	**1,364**	2,106	(742)
Average margin	**31.7%**	36.4%	(4.7%)
Development units			
Number of properties on site and in development	**6,713**	1,177	5,536
New starts in period	**210**	345	(135)
Completions in period	**425**	88	337
Sales (England only)			
Sales in period (units)	**25**	25	-
Average OMV (£'000)	**321**	272	49
Average share sold	**53.0%**	74.0%	(21.0%)
Reservations (units)	**30**	15	15

- Sanctuary will continue to work with Homes England and the Scottish Government to deliver more new homes while looking for flexible ways to support them to meet the challenge of the housing shortage.

- The emphasis in the current year will be on continuing to identify land opportunities as well as delivering the current pipeline. In addition, we will need to ensure that our new homes meet the high expectations of our customers.

- A total of 25 new on-site sales centres will be launched during the year. The Group will continue to make sure the local communities benefit from our developments by ensuring contractors deliver community benefits as well as meeting our employment and skills requirements.

Highlights

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Progress with short-term initiatives and business plan

Net assets: investment in properties continues

At 30 June 2018 (£m)	Jun-18	Mar-18	Movement
Non-current assets:			
Intangible assets	68.6	69.1	(0.5)
Property, plant and equipment	3,299.0	3,293.3	5.7
Investment property	234.8	228.0	6.8
Deferred tax asset	3.8	3.8	-
Derivative financial assets	19.2	13.9	5.3
Equity accounted investments	1.4	0.6	0.8
Other investments	31.6	31.6	-
Trade and other receivables	43.2	46.2	(3.0)
	3,701.6	**3,686.5**	**15.1**
Current assets:			
Trade and other receivables	89.6	90.0	(0.4)
Inventory	48.2	61.5	(13.3)
Cash and cash equivalents	79.6	95.7	(16.1)
Non-current assets classified as held for sale	8.7	9.0	(0.3)
	226.1	256.2	(30.1)
TOTAL ASSETS	**3,927.7**	**3,942.7**	**(15.0)**
Current liabilities:			
Trade and other payables	169.3	185.2	(15.9)
Current tax liabilities	0.4	0.4	-
Loans and borrowings	104.7	104.7	-
Provisions	3.6	4.7	(1.1)
	278.0	295.0	(17.0)
Non-current liabilities:			
Trade and other payables	10.3	10.2	0.1
Loans and borrowings	2,610.2	2,623.9	(13.7)
Deferred tax liabilities	0.7	0.7	-
Derivative financial liabilities	3.3	3.3	-
Retirement benefit obligations	41.3	42.6	(1.3)
Provisions	6.7	6.7	-
	2,672.5	2,687.4	(14.9)
TOTAL LIABILITIES	**2,950.5**	**2,982.4**	**(31.9)**
Share capital	-	-	-
Cashflow hedge reserves	0.2	(1.3)	1.5
Revaluation reserves	1.7	1.8	(0.1)
Restricted reserves	0.2	0.2	-
Revenue reserves	975.1	959.6	15.5
TOTAL EQUITY	977.2	960.3	16.9
TOTAL EQUITY AND LIABILITIES	**3,927.7**	**3,942.7**	**(15.0)**

- Inventory relates to housing held for sale and has decreased due to the timing of current property development.
- The Group continues to hold significant cash reserves and available facilities in order to meet its operational and capital requirements.
- Loans and borrowings, which include finance leases payable, have decreased by £13.7 million, across current and non-current liabilities as a result of repayments made during the year.

Sanctuary Group

Cash flow: sustainable cash generation from operating activities

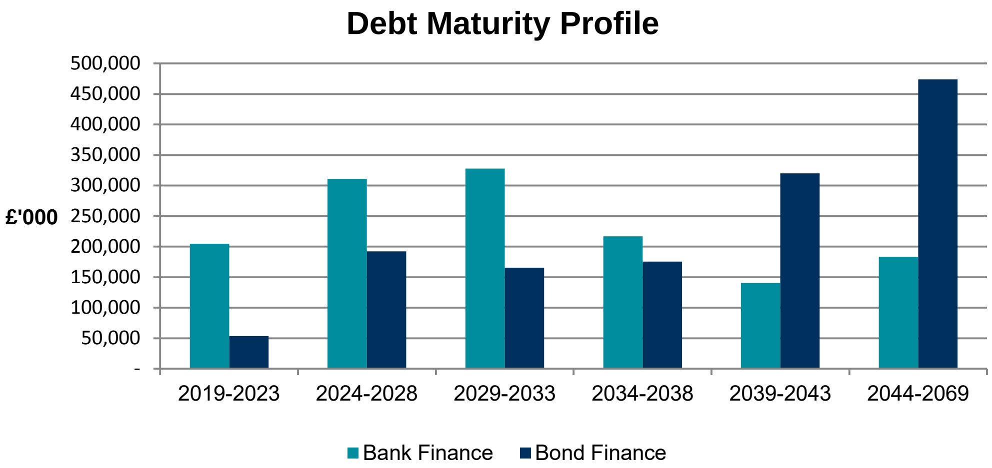
Period to 30 June 2018 (£'000)	Jun-18	Jun-17	Movement
Cash generated from operations before working capital movements	58,691	63,982	(5,291)
Changes in payable and receivables	(16,462)	10,956	(27,418)
Cash from operating activities	**42,229**	**74,938**	**(32,709)**
Servicing of finance and taxation	(31,926)	(29,780)	(2,146)
Net cash flow from operations	**10,303**	**45,158**	**(34,855)**
Capital expenditure and investment	(8,895)	(121,203)	112,308
Financing activities	(17,484)	(23,923)	6,439
Net cash outflow for the period	**(16,076)**	**(99,968)**	**83,892**

Financing	**Jun-18**	**Jun-17**	
Loan advances received	-	-	-
Loan repayments	(17,484)	(23,923)	6,439
Net cash outflow from financing	**(17,484)**	**(23,923)**	**6,439**

- The reduction in cash from operating activities is largely a reflection of short-term working capital movements.
- Net capital expenditure and investment spend is lower than last year due to the differing annual phasing of development activity.
- Development activity for the year-to-date has been funded by grant receipts and existing cash, without the need for additional drawdowns.

Sanctuary Group

Treasury: capacity in funding for expanding business



The Group has capitalised on its strong financial position and credit quality to maintain good levels of cash and available facilities to fund its existing and future development programmes.

Period to 30 June 2018 (£'000)	Jun-18	Jun-17
Capacity	1,413	1,239
Cost of borrowing	4.7%	4.96%
Percentage of fixed rate debt against total debt drawn	91.7%	93.8%
Cash and undrawn facilities	363.6	327.0

Period to 30 June 2018 (£'000)	Jun-18	Jun-17
Opening net debt	(2,622,227)	(2,382,816)
Net cash inflow/(outflow) for the period	(16,076)	(99,968)
Net cash (inflow)/outflow from financing	17,484	23,923
Foreign currency movement	(3,849)	8,169
Non-cash movements	5,399	(5,973)
Closing net debt	**(2,619,269)**	**(2,456,665)**

Operating margin	Jun-18	Jun-17
Operating margin	26.1%	30.1%
Net margin	8.5%	11.0%
Interest cover	1.96	2.00
Gearing	49.3%	47.8%
Debt to revenue ratio*	3.7	3.9
Standard & Poor's credit rating	A+	A+
Moody's credit rating	A2	A1

*before other gains and losses

Sanctuary Group

Treasury: reduction in finance costs

At 30 June 2018 (£'000)	Total Jun-18	Total Jun-17	Movement
Operating contribution	47,637	52,519	(4,882)
Interest receivable	791	855	(64)
Interest payable	(32,871)	(34,328)	1,457
Derivative movements	(26)	477	(503)
Surplus on ordinary activities before taxation	15,531	19,523	(3,992)
Taxation on surplus on ordinary activities	(21)	(284)	263
Surplus for the period after taxation	15,510	19,239	(3,729)

Interest payable has decreased by £1,457,000 due to favourable profiling and historically low variable interest rates.

Derivative movements relate to interest rate swaps that are not hedge accounted, these are shown as liabilities on the Statement of Financial Position.

- Sanctuary Group has once again been given the highest rating for both governance and viability, G1 and V1, from the Regulator of Social Housing (formerly the Homes and Communities Agency). Our credit ratings are A2 from Moody's and A+ from Standard & Poor's.
- The Group and its registered providers comply with the provisions of the National Housing Federation's Code of Governance 2015. In addition, all non-registered provider subsidiaries also comply with relevant provisions of the Code.

Highlights

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Progress with short-term initiatives and business plan

Sanctuary Group

Current initiatives are driving value

Our mission and values

- At the core of our business are Sanctuary’s values. These set the way we conduct ourselves and how we do business.
- Our mission - To remain a market leader in the provision of high quality housing, nursing and residential care and community services.
- We believe no-one should be homeless. Everyone should have a decent home that they can afford and that meets their needs and circumstances.
- We believe care should be accessible to all who need it and should be delivered with dignity, respect and, above all, kindness.

Modern workplace

- Sanctuary was the first housing association to implement an Enterprise Resource Planning (ERP) system group-wide, known as OneSanctuary.
- 5,000 of our staff use the ERP system on a daily basis, for finance, procurement, human resources, service charges, learning and development, housing , maintenance and assets.
- With the implementation complete, the focus going forward is on further maximising the outputs from the system, processes and people we have in place. Our Modern Workplace initiative will ensure the business continues to transform the way we operate, with a constant focus on efficiency and effectiveness in our delivery of services to customers.

Development of new homes

- Aspire to build 30,000 new homes. A combination of homes for those in housing need, older people’s accommodation, care homes and properties for part or outright sale.
- We continue to bid for grant funding from Homes England, the Scottish Government and local authorities.
- The three joint ventures formed with one of the UK’s leading house building and construction groups in order to develop over 600 properties at several specific sites, including a significant element of affordable housing, are on-site and sales have commenced.