

Hexagon

CORPORATE ANNUAL REPORT

2021/22



Stepping to our future

CONTENTS

3 / Welcome

4-5 / Investing into the Future

6-7 / Environmental and Zero Carbon

8-9 / Fire Safety

10-11 / Resident voice and engagement

Corporate
Annual Report



"Chief Executive Tom McCormick retired after 22 years with the Association."



WELCOME

This report comes in exciting and changing times for Hexagon Housing.

The Association recently raised £250m by issuing an own name public bond following a favourable A- Stable investment grade credit rating from Standard & Poors. This will ensure we can pursue our objectives of building new homes, funding fire safety works following changes to guidance, and making our existing homes more energy efficient and greener. The bond issue was oversubscribed by four times and as a result this allowed the margin to be reduced from the initial offer price, which was a very good result. A total of 26 investors funded the final deal.

The Association has continued to work on its environmental and sustainable goals, with two key targets. Firstly, to ensure all homes are Energy Performance Certificate (EPC) level C by 2030, we intend to spend around £10m; and secondly, to ensure all properties are zero carbon by 2050, we will spend in the region of £90m by 2050. These cost assumptions now inform our long-term business plan.

The comprehensive plan of fire safety works endures. We continue to prioritise remedial works, to address any fire safety matters raised in our Fire Risk Assessments and any other matters raised to ensure full statutory health and safety compliance.

Our refurbished head office has created a new modern environment that is suitable for hybrid working following the lifting of

lockdown restrictions. This new way of working is aimed at ensuring the Association is more effective and efficient than ever before.

Shortly after this year end, in June 2022, Chief Executive Tom McCormick retired after 22 years with the Association. His successor, Sheron Carter, joined Hexagon and she will continue to drive the Association forward. We very much welcome Sheron as our new Chief Executive and thank Tom for his contribution over many years.

Thank you to all our residents who continued to engage throughout the year, the Board Members, staff, and our partners who provide their skills and time into ensuring Hexagon Housing continues to deliver the best possible service to residents.

Simon Fanshawe

"We very much welcome Sheron Carter as our new Chief Executive."



Chair, Simon Fanshawe





INVESTING FOR THE FUTURE

Hexagon Housing had a loan portfolio that had a restrictive gearing covenant.

This covenant restricted the amount Hexagon could borrow to develop new homes and to carry out fire safety and decarbonisation works on its existing homes.

As the headroom on this gearing covenant became tighter, the Hexagon Board took the decision to slow down the development programme and prioritised the fire safety remedial works. The Board then took the decision to place a moratorium on new development until a solution could be put in place for the gearing covenant issue.

This solution came in the form of a refinancing exercise where Hexagon would repay and renegotiate the terms, including the covenants, on some of the existing debt and borrow new money to carry out the fire safety works and the net zero carbon investment in its existing homes, and develop new homes.

Working with Savills Financial Consultants, two options for refinancing were considered, and after much research and deliberation, issuing a public bond was considered to be the best route for the Association. The public bond was the cheaper option over the longer term of the bond, and aside from an asset cover covenant, it also provided more financial flexibility and options for any future refinancing requirements.

Living room at
Biggin Hill.



"This new investment will enable Hexagon to carry out its capital investment projects"

NatWest and Santander were appointed as joint bookrunners. NatWest helped with the sustainable finance framework and Santander provided assistance and advice on the credit rating, which was required for the public bond issuance.

The public bond received significant interest from investors. Hexagon was looking for a £250m investment, and the bond was four times oversubscribed with investment bids coming from UK pension and asset management companies, a European bank, and from worldwide investors. This proved that Hexagon is an attractive investment proposition.

With the bond issue being oversubscribed, Hexagon was able to drive down the margin, and therefore reduce the overall coupon rate to 3.625%, a result the Association is very happy with.

This new investment will enable Hexagon to carry out the capital investment projects as detailed above. It simplifies the overall treasury structure and provides options for future refinancing and places the Association in a better financial position moving forward.



Izzet Dizdar, Finance and IT Director at Hexagon, said:

"This public bond is an important milestone in Hexagon's history and will facilitate us in achieving our key corporate objectives. These are carrying out fire safety remedial works, improving the energy efficiency of our existing stock, building new homes and continuing to contribute positively to the lives of our customers and the communities that we operate in.

"Issuing a public bond with a sustainability link was important to us. We have been working hard over the years in reducing our environmental impact as well as tackling fuel poverty. Our new Sustainable Finance Framework sets out how we will continue in our sustainability journey over the coming years."

ENVIRONMENTAL AND ZERO CARBON

Solar panels
on roof at
Glynde Road,
Bexleyheath.

Greener path to the future

During the year we maintained our Gold SHIFT (Sustainable Homes Index for Tomorrow) status. Two key focuses this year have been working towards ensuring all properties achieve EPC (Energy Performance Certificate) band C or above by 2030; and to have a roadmap in place to achieve net zero carbon by 2050.

Net zero carbon roadmap

Our consultants, Turner and Townsend, were appointed to help develop the net zero carbon roadmap. They looked at the current portfolio of properties and how they are performing and helped identify the retrofit works required to achieve the net zero carbon target. Crucially this helps us to identify opportunities where existing planned works incorporate these retrofit works and ensures all the works meet our environmental sustainability targets; and this becomes business as usual.

It is worth noting that Turner and Townsend commented that the average SAP rating for our properties at 72.49 was slightly higher than the average for the whole of the UK of 68, demonstrating our focus on achieving sustainability.

EPC improvement

A key focus throughout the year has been continuing the small scale efficiency works to improve homes with low EPC ratings. This has included loft insulation works. With a rolling programme of scheduled work for the circa 900 properties identified as currently being lower than band C, we are on target to ensure all our properties are EPC band C or above by 2030. This has two benefits, firstly, to achieve the target, and secondly to help keep energy costs down for residents.



Retrofitted cavity walls insulation at Ledbury Street, Peckham.



The Association is on track for a greener future.

Sustainable homes

A new Environmental Sustainability Strategy, which was developed with residents input, was approved by the Board. This strategy sets the path for the required retrofit works, and the timeframes by which they are to be achieved, working clearly to reach net zero carbon by 2050.

The refinancing has ensured that there are funds available for this work. Hexagon will make significant investment in improving the energy efficiency of properties whilst simultaneously helping to reduce fuel poverty.

Future proofing the supply chain

In order to get the maximum value from our spending, the plan we developed will ensure we start looking into the supply chain and ensuring a robust chain is in place to deliver the required works. This involves appointing contractors who are experienced and reliable. This will also include identifying the sustainable materials to be used, and pay attention to establishing a robust and sustainable supply chain, so we are able to source what is required in the future if there are any issues within the supply chain.

We will be exploring partnerships to benefit from economies of scale with appropriate partners for the purchasing of products and undertaking retrofit works.

The Association is on track for a greener future.

“ The results of these inspections will be reviewed by a specialist fire engineer to ensure our response is thorough and proportionate. ”



FIRE SAFETY

The year started with a full complement of staff for the new fire safety team, with a dedicated Fire Safety Manager in place. The team focuses on ensuring that all fire safety matters are managed robustly, proficiently, and that residents are as safe as possible.

Removal of
cladding from
Parkspring Court.

High rise properties

The programme of fire safety works continued throughout the year, with the key priority being the work required on buildings over 18m high. The Association directly manages two properties over 18m high, Patrick Court and Parkspring / Atrium Court.

A full internal and external investigation of the flats at Patrick Court was undertaken to ensure each flat is compartmentalised as per fire safety standards. No issues were found with the internal fire stopping within the building, between the communal parts and the flats. Work will shortly start to address issues found with approximately 30% of the external wall system at the block.

The works at Parkspring / Atrium Court are at an advanced stage with the overwhelming majority of the problematic material removed and replacement ongoing. The Association was successful in securing £4.2m funding from the Building Safety Fund to help offset the cost of these £6.2m works.

As leaseholders on four other housing blocks, we are working with the freeholders of the buildings to ascertain the scheduled programme of work required. This includes reviewing the investigative work carried out to ensure it is suitable, critically examining any remediation proposals, and minimising any impact on the residents.



Intrusive surveys

All of the purpose-built multi-unit buildings managed by Hexagon have been reviewed and assessed in relation to their potential risk. This has fed into a risk prioritised programme of intrusive surveys. This inspection programme is more extensive and widespread than is required by government guidance, however we want to make sure that any issues are highlighted so the need for remediation can be evaluated. This two-year programme of work commenced to enable us to highlight any construction defects or use of materials contrary to current government guidance / best practice. The results of these inspections will be reviewed by a specialist fire engineer to ensure our response is thorough and proportionate.

Fire risk assessments

The programme of fire risk assessments continued with properties considered higher risk having assessments annually, those classed as medium risk every two years, and those classed as lower risk every three years. Where any remedial action has been highlighted we have responded to the work required; this has included changing fire safety doors, resolving fire stopping issues, installing additional fire / smoke detection and addressing day-to-day management issues such as housekeeping.

A new contractor was appointed to undertake the work and remedial works recommended by the fire risk assessments. The new contract in place has been drawn up to provide Hexagon with total flexibility and ensures we maintain control over the contractor, the works they undertake, and the pace at which it is carried out.

Work undertaken included 40 fire alarm installations at a cost of circa £200,000, and the installation of 264 front entrance doors, and 86 fire doors at a cost of £828,000.

“ The results of these inspections will be reviewed by a specialist fire engineer to ensure our response is thorough and proportionate. ”

Looking ahead

A Fire Safety Management Framework was drawn up. Residents were consulted on this to get their input for putting this framework into place. A key element of this is the Resident Expectations, which sets out the fire safety measures Hexagon will take and also the expectations we have of residents in terms of behaviour, actions we cannot allow and why.

The Framework was approved by the Board and sets out how Hexagon will manage the risk relating to fire with the aim of making the standards to be applied clear to staff and contractors.

We are working with a consultancy on how we store and use all the asset information available, enabling us to see the bigger picture with information in one place. This will help ensure all departments can work together effectively with the schedules of work, development, and maintenance, providing a clear overview for all those involved.



Remedial fire safety works at Parkspring Court, Erith.





Residents involved in the procurement of the new repairs contract.

There are regulatory changes emerging which will focus on how housing associations engage with their residents.

Having always encouraged active involvement from residents, Hexagon is pleased that these new regulatory changes are coming; involving residents is something the Association has continually sought. We actively encouraged residents to have their say on the proposed national policy by responding to the KPIs that the government is looking to introduce.

Jane Eyles was appointed as a new Lead for Resident Voice and Engagement in January 2022, bringing with her a wealth of experience to help drive even greater resident engagement.

The focus has, once again, been on engaging with residents, and reassuring them that communication is a two way process. Residents are best placed to provide feedback and communication to the Association. By encouraging residents to have their say, safe in the knowledge that they will be heard, Hexagon is best placed to act upon any concerns that residents may have.



Performance Review Group

The Performance Review Group (PRG) looked at the key performance indicators (KPIs), and what was important to them. A key outcome for the Association was producing a KPI report which meets the group's expectations, presenting information in a way which is clear and easy to read. This in turn encourages greater feedback from the group and helps identify what Hexagon can do to improve.

The communication strategy has been reviewed and the website is now being used as a tool to disseminate information to residents. By subscribing to the relevant pages, residents can view the specific information available, and of relevance, to them.

Corporate
Annual Report



Resident Advisory Group

The Resident Advisory Group (RAG) reviewed 18 policies and strategies throughout the year including: Customer Service Standards; Sustainability Strategy; and Value for Money Strategy. They made 57 recommendations during the year, and all but three of the recommendations were accepted and acted upon.

The insight that RAG provides is invaluable; residents are best placed to feedback on all tenancy and property issues.

Repairs contractor procurement



Three residents selected from the Repairs Group were actively involved on the selection panel to procure a company to take responsibility for the responsive repairs and void service for the Association. The Repairs Group itself also provided valuable input in formulating questions for the bidders. Additionally the PRG provided information regarding scrutiny which were included in the key performance indicators as part of the procurement process.

Working with residents, Echelon, consultants for the procurement process, CEO Mathew Baxter, commented "Hexagon's residents played a critical role in the procurement process from beginning to end; they were professional, knowledgeable and passionate about making sure that the contract and contractor would provide the best long-term outcomes for Hexagon and it was a pleasure to work with them."

With such active and valuable input from the residents on the selection panel, they helped choose Gilmartins as the new repairs and voids contractor for the Association.



Resident with Stock Improvement Manager.

“ Hexagon's residents played a critical role in the procurement process from beginning to end ... it was a pleasure to work with them.”

Estate Champions

The Estate Champions continued to be active throughout the year by providing informal and valuable inspections on properties. This provides really useful information and feedback on the condition of the estates. This is done on a monthly basis between the scheduled quarterly inspections. They reported 383 issues during the year. By providing information on the state of the blocks, cleanliness, and any repairs required, or identified fire risks, we are able to address issues as they arise

Continual engagement

With other active groups running throughout the year, including Estate Graders, Resident Inspectors, Design Panel, and the Disability and Inclusion Group, Hexagon's residents continue to be engaged, informative, and active participants in helping monitor and benchmark the Association. We are grateful to all those involved in the different groups for their time and valuable input.

Looking ahead

A Fire Safety Management framework was drawn up. Residents were consulted on this to get their input for putting this framework into place.

We are working with a consultancy on how we store and use all the asset information available, enabling us to see the bigger picture with information in one place. This helps ensure all departments are working together with the schedules of work, development, and maintenance, providing a clear overview for all those involved.

A bespoke Risk Engineering Strategy for fire safety and property matters was approved by the Board and sets out the strategy moving forward with the emphasis on ensuring all Hexagon Housing's properties are safe for residents.





THE BOARD

In September 2021, the Board said goodbye and thank you to Board Member, Dermot Finn. Dermot had served the maximum term of nine years on the Board, many of those as Chair of the Remuneration Committee. Dermot was also Lead Board Member for IT.

The Board also bade farewell to Carol Bernstein following her resignation for personal reasons in March 2022. Carol was lead Board member for Housing Management and Customer Services.

Following the Resident Board Member election held in the summer of 2021, Members welcomed Roseann Ayton onto the Board.

Members also welcomed Claud Williams in September 2021 when he joined the Board following his success at being selected after a competitive interview process.

DENISE
SENNER



LOUISE
RICHARDSON



CAROL
BERNSTEIN
to March 2022



IAN
WATTS



RUTH
CHAMBERS



DERMOT
FINN
to September 2021



SIMON
FANSHAWE



JEANETTE
KENYON



TOM
MCCORMACK



MARK
ALLAN



PAUL
WILLIAMS



ROSEANN
AYTON
from September 2021



CLAUD
WILLIAMS
from September 2021



Corporate
Annual Report

THE EXECUTIVE TEAM

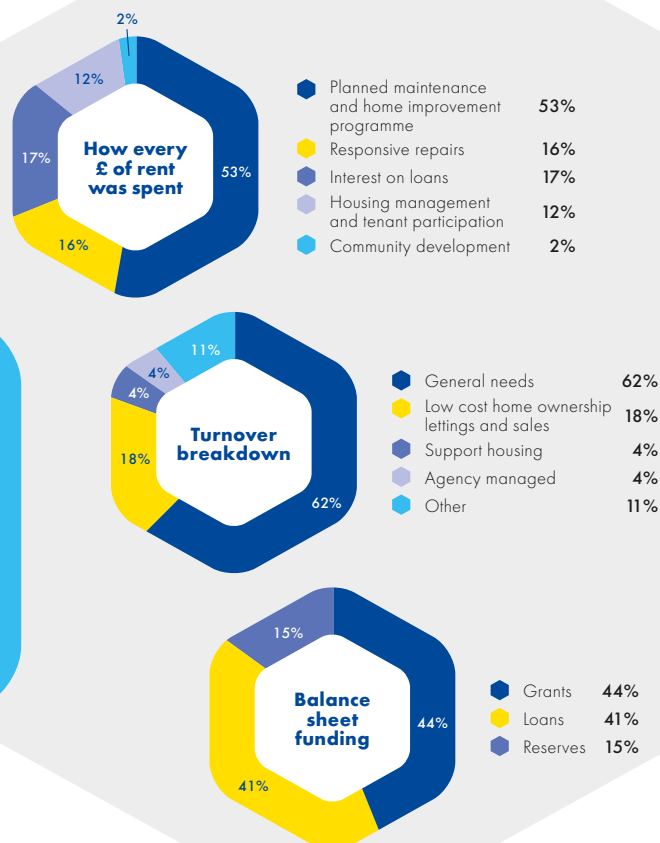


Name	Length of Service	Employer	Occupation
Mark Allan ^{3,4}	5½ years	Chisel Housing	Co-ops & Tenants Officer
Roseann Ayton ⁴	6 months	N/A	Freelance Project Manager and Trainer
Carol Bernstein ^{1,3}	4½ years	Portfolio of roles	Chartered Accountant
Ruth Chambers ^{1,2}	7½ years	Self-employed	Campaign & Public Policy Consultant
Simon Fanshawe ² (Chair)	2 years	Self-employed	Company Director, Writer & Broadcaster
Jeanette Kenyon ²	8½ years	Self-employed	Property Development Consultant
Tom McCormack	10½ years	Hexagon Housing Association	Chief Executive
Louise Richardson ^{3,4}	2½ years	Bird College Conservatoire for Dance & Musical Theatre	Academic Assessments & Policy Co-Ordinator
Denise Senner ⁴	4½ years	Self-Employed	Horticulturalist
Ian Watts ^{1,2,3}	8½ years	PA Housing	Executive Director of Customer Services
Claud Williams ²	6 months	Dream Nation	Entrepreneur, speaker and coach (founder of Dream Nation)
Paul Williams ¹ (Vice Chair)	2 years	N/A	Retired

¹Audit & Risk Committee; ²Remuneration Committee; ³Performance Management Committee, ⁴Resident Board Member



FINANCIAL SUMMARY



Statement of Comprehensive Income for the year ended 31 March 2022

Group turnover increased by 15.0% to £40.6m in 2021-22, compared to £35.3m in 2020-21. £3.3m of this increase is a one-off income from Brickfield Cottages insurance claim. A further £1.5m of the increase is in income from first tranche sales as there were more sales this year. The main source of turnover is income from social housing lettings, which increased by 2.4% on average in the year.

Operating costs excluding fair value and pension adjustments decreased by 14.3% to £23.2m from £27.1m. Operating margin from social housing lettings excluding fair value adjustments and all property sales increased to 22% from 7%. This is largely due to a one-off £6.3m impairment charge included in the 2020-21 operating cost relating to a scheme under construction, which did not recur in 2021-22. Excluding this one-off non-cash impairment charge in 2020-21, operating costs excluding fair value and pension adjustments increased by 12% to £23.2m from £20.8m. Similarly, excluding the same impairment charge from 2020-21, the operating margin excluding fair value adjustments and all property sales decreased to 22% from 28%. The reduction in the margin is mainly due to the increase in management costs, service charge costs and responsive repairs.

Net financing costs were 6% higher at £3.6m which was due to the increase in interest costs arising from additional drawdowns from the revolving credit facility. £2.6m (2021: £1.4m) was realised through a combination of staircasing sales of shared ownership properties and the sale of housing properties which were uneconomic to repair.

There is an overall £15.8m total comprehensive income surplus for the year against the £0.017m deficit in the previous year. The main operational cause of the deficit in 2021 is the £6.3m one-off non-cash impairment charge as stated above. There was also a £1.0m gain from actuarial valuation in the year for the SHPS multi-employer defined benefit pension scheme (2021: £4.2m loss). Finally, there was a £5.5m gain arising from change in the value of financial instruments (2021: £5.2m).

Group reserves currently stand at £61.4m (2021: £45.6m). The Board has adopted a policy of using the cash generated by its operating activities to fund the improvement and development of housing stock, thereby reducing borrowing requirement and interest costs and enabling rents to be kept at affordable levels.

The Group spent £8.2m on acquiring and developing properties in the year, of which £0.06m was funded through capital grants. There were no handovers in the year with 153 units under development. The Group's loans increased to £207.4m from £206.7m. £37.6m of loan facilities were available at year end. The weighted average interest rate on the Group's loan portfolio was 2.24% (2021: 2.28%). The Board estimates that the investment value of the Group's properties was £820m, of which £398m were in unsecured properties.

The financial performance of the Group, as set out in the statement of comprehensive income, is shown as operating results plus the impact of fair value measurements of longer-term liabilities such as derivative contracts and pensions payments. Commentary on the performance of the Group excludes movement in fair value measurement of derivative contracts and pension payments as these are influenced by factors outside of the organisation's control.

Statement of Comprehensive Income

For the year ended 31 March 2022

Group	2022 £000			2021 £000		
	Operating results	Fair value and pension adjustments	Total	Operating results	Fair value and pension adjustments	Total
Turnover	40,590		40,590	35,263		35,263
Cost of sales	(4,143)		(4,143)	(3,085)		(3,085)
Operating costs	(27,040)	924	(26,116)	(31,631)	904	(30,727)
Surplus on disposal of fixed assets	2,631		2,631	1,448		1,448
Operating surplus	12,038	924	12,962	1,995	904	2,899
Interest receivable	1		1	13		13
Interest payable and finance costs	(3,502)	(133)	(3,635)	(3,362)	(68)	(3,430)
Movement in fair value of financial instruments		2,610	2,610		2,565	2,565
Surplus for the year	8,537	3,401	11,938	(1,354)	3,401	2,047
Tax				31	-	31
Actuarial gains/(losses) on defined benefit pension scheme		1,006	1,006		(4,180)	(4,180)
Change in fair value of hedged financial instrument		2,854	2,854		2,660	2,660
Movement in fair value of investment properties					(575)	(575)
Total comprehensive (expenditure)/income for the year	8,537	7,261	15,798	(1,323)	1,306	(17)

HEXAGON HOUSING ASSOCIATION

Statement of Financial Position as at 31 March 2022

Group	2022 £000			2021 £000		
	Before fair value and pension measurements	Fair value and pension measurements	Total	Before fair value and pension measurements	Fair value and pension measurements	Total
Fixed assets						
Intangible assets	1,632		1,632	1,625		1,625
Housing properties	493,217		493,217	484,143		484,143
Investment properties	135	815	950	135	815	950
Other	2,774		2,774	2,227		2,227
	497,758	815	498,573	488,130	815	488,945
Current assets						
Stock – properties developed for sale	18,208		18,208	18,018		18,018
Debtors – receivable within one year	2,485		2,485	2,895		2,895
Debtors – receivable after one year	1,761		1,761	1,760		1,760
Cash and cash equivalents	3,441		3,441	5,027		5,027
Less: creditors – amounts falling due within one year including short term pension deficit liability	(28,395)		(28,395)	(16,850)		(16,850)
Net current assets	(2,500)		(2,500)	10,850		10,850
Total assets less current liabilities	495,258	815	496,073	498,980	815	499,795
Creditors: amounts falling due after one year	(412,711)	(17,086)	(429,797)	(424,941)	(22,550)	(447,491)
Provisions for liabilities	7		7	(22)		(22)
Net assets excluding pension liability	82,554	(16,271)	66,283	74,017	(21,735)	52,282
Pension liability		(4,879)	(4,879)		(6,676)	(6,676)
Net assets	82,554	(21,150)	61,404	74,017	(28,411)	45,606
Capital and reserves						
Income and expenditure reserve	82,554	(11,995)	70,559	74,017	(16,402)	57,615
Cash flow hedge reserve		(9,907)	(9,907)		(12,761)	(12,761)
Revaluation Reserve		752	752		752	752
	82,554	(21,150)	61,404	74,017	(28,411)	45,606

Full financial statements can be downloaded from our website www.hexagon.org.uk

Hexagon

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