Homes &
Communities
Agency

QUARTERLY SURVEY OF PRIVATE REGISTERED PROVIDERS

June 2015

Quarterly survey of private registered providers – June 2015

The quarterly survey report is based on responses from 245 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes. The quarterly survey is a key regulatory return in assessing PRPs' compliance with economic regulatory standards. The survey provides a regular source of information regarding the financial health of PRPs, in particular with regard to their liquidity position.

The regulator has introduced a new operational approach which strengthens the level of assurance on providers' viability. More information on the new approach is contained within Regulating the Standards. To support this, additional cash flow data and loan security information was collected for the first time in the current quarter. Where any information received through the quarterly survey indicates a potential concern, this is followed up with providers. Whilst the format has changed this quarter, this report continues to make use of aggregated data from the surveys to summarise and comment on the financial position of the sector as a whole.

Summary

The quarterly survey findings are that:

- the sector remains financially strong with access to sufficient finance, £12.8 billion of undrawn facilities are in place
- new finance of £1.2 billion was raised in the quarter through both bank loans and capital markets
- the sector has cash balances of £4.9 billion - this is expected to reduce in the next 12 months to £3.8 billion
- the sector forecasts strong operating cashflows for the next 12 months, including £2.1 billion of current asset sales and backed by fixed asset sales of over £1.2 billion
- the sector plans to invest £9.0 billion in housing supply over the next 12 months
- providers making use of free standing derivatives reported a reduction in mark-to-market (MTM) exposure in the quarter; providers have further collateral available should MTM exposures increase
- affordable home ownership (AHO) stock available for sale reduced by around 5% in the quarter as sales exceeded completions
- the stock of property available for market sale showed an increase of 30% in the quarter; this stock is concentrated in a small number of providers
- income collection data shows a consistent performance in comparison to the corresponding quarter end the previous year
- it should be noted that forward projections will not include the impact of changes announced in the July budget, it may be necessary for some providers to fundamentally reassess their business plans

Operating environment

The quarterly survey returns covered in this report are as at 30 June 2015. As noted in the summary above, the returns do not reflect changes to future social housing rent levels and welfare reforms announced in the budget on 8 July.

The key risks faced by the sector are considered in the Sector Risk Profile published annually by the regulator; a revised Sector Risk Profile will be published in September 2015.

Analysis of the economic operating environment can be found in the HCA monthly housing market bulletin.

Private finance

- the sector's total borrowing facilities total £76.9 billion, 73% of which is bank loans
- £64.1 billion is currently drawn, leaving undrawn facilities of £12.8 billion
- cash available to the sector is £4.9 billion (March £4.8 billion)
- new facilities arranged in the quarter totalled £1.2 billion. Bank lending accounted for 71% of the new funding in the quarter; capital market funding, including private placements, contributed 27%; the remaining 2% was a local authority loan
- 97% (March 95%) of providers forecast that current debt facilities are sufficient for more than 12 months
- Of the £76.9 billion total loan facilities, £73.4 billion has been secured, a further £1.6 billion of facilities do not require security. There are facilities of £1.9 billion where security is not yet in place.

Cash flows

In June 2015, the quarterly survey collected cash flow data for the first time. It is essential that providers have access to sufficient liquidity at all times. The regulator will engage with PRPs with low liquidity indicators or forecasting drawdowns from facilities not yet agreed or secured.

Summary cashflow forecast for the 12 months to 30 June 2016

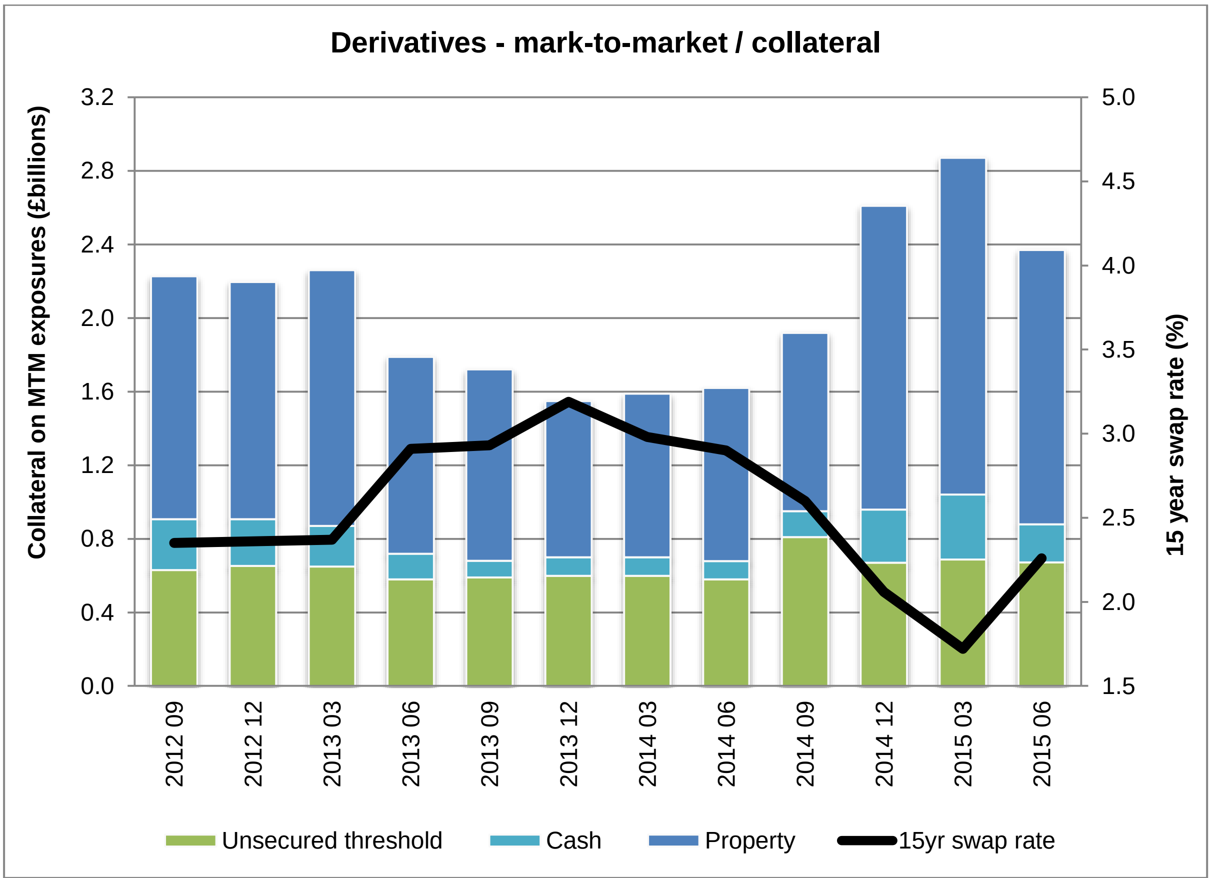
	£bn
Operating cashflows	5.2
Interest cashflows	(3.1)
Payments to acquire and develop housing	(9.0)
Disposals of housing fixed assets	1.2
Other cashflows	(0.4)
Cashflows before resources and funding	**(6.1)**
Financed by:	
Net grants received	0.7
Increase in net debt	4.1
Use of cash reserves	1.2
Total funding cashflows	**6.1**[1]

- cash available to the sector at the June 2015 quarter end was £4.9 billion; this is forecast to reduce to £3.8 billion over the next 12 months (£1.2 billion used to finance providers, less £0.1 billion becoming available for use as it is released from security covering derivative positions)
- cash interest cover is projected to be 168%
- within operating cashflows, £2.1 billion current asset sales are forecast of which £1.7 billion relates to committed development. This makes a significant contribution to the cash interest cover
- payments of £6.2 billion to acquire and develop housing properties are committed in the next 12 months, with a further £2.8 billion not contractually committed
- development spending is predominantly funded by debt, cash reserves, operating cashflows and fixed asset sales, with grant funding 8% of development spending
- loan drawdowns of £5.9 bn are forecast with repayments totalling £1.8 billion (movements on revolving credit facilities are shown gross within these figures)

[1] There is a rounding difference of £0.1bn in the calculated total

Derivatives

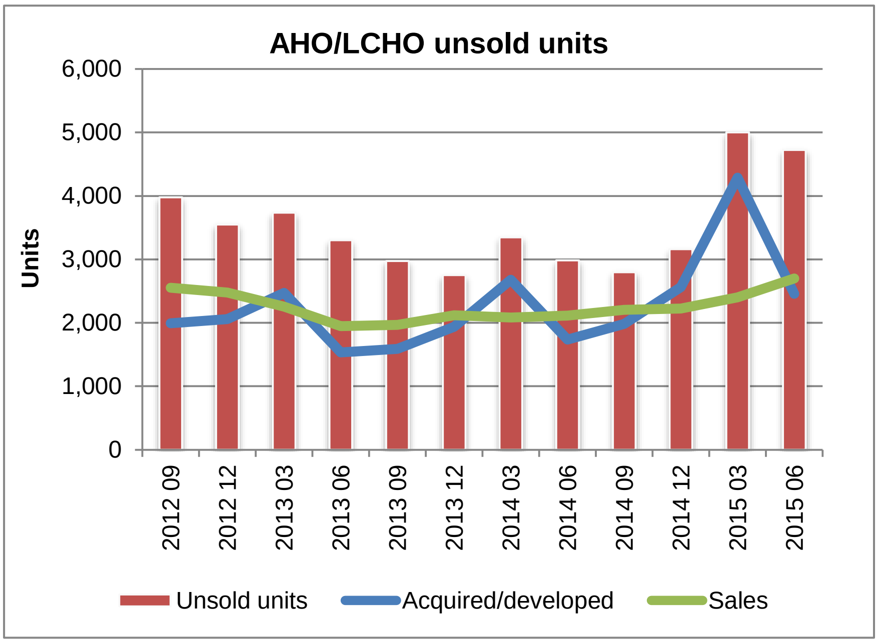
- the number of providers making use of free standing derivatives was 48. The notional value of standalone derivatives was £9.5 billion (March £9.3 billion)
- the current gross MTM exposure decreased to £2.4 billion (March £2.9 billion); collateral of £2.1 billion (March £2.7 billion) has been employed against this exposure in the form of property or cash, with unsecured thresholds of £0.7 billion also employed



The graph above shows MTM exposures, excluding excess collateral. It illustrates movements in exposure relative to the sterling 15 year swap rate. The increase in the swap rate over the quarter was reflected in decreased MTM exposure. At sector level, collateral given in terms of security and cash continues to exceed current exposure levels and to provide some mitigation against liquidity risk. At sector level, providers report total available security and unsecured thresholds pledged to swap counterparties of £3.7 billion, against a total of £2.7 billion employed at the quarter end. Interest rate volatility means that collateral requirements remain a long term exposure.

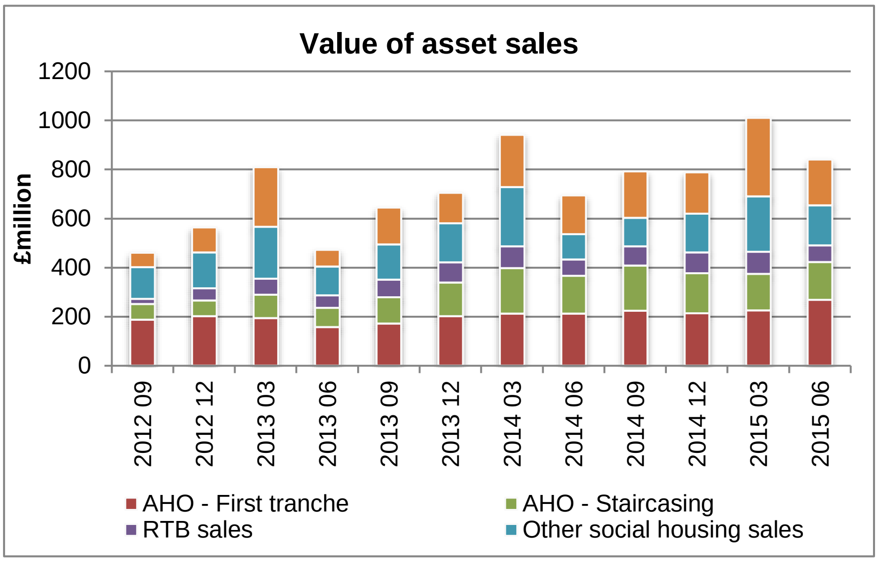
Housing market

- on AHO, 2,697 first tranche sales were achieved in the quarter (March 2,401), 4,723 homes remained unsold (March 4,999) of which 984 had been unsold for over 6 months (March 978)
- there were 2,458 AHO completions and acquisitions in the quarter (March 4,286)
- pipeline AHO completions expected in the next 18 months are 18,906 (March 16,197) of which 15,264 are contractually committed
- on market sales, 521 sales were achieved (March 645); 779 homes remained unsold (March 601), of which 186 had been unsold for over 6 months (March 161)
- there were 625 homes developed for market sale in the quarter (March 788)
- pipeline market sales completions expected in the next 18 months are 6,719 (March 5,834) of which 5,671 are contractually committed
- total asset sales of £839 million (March £1 billion) were achieved in the quarter generating a surplus of £294 million (March £372 million)



The number of completions is a significant driver of the fluctuations in unsold units. Higher completions at the end of the 2011-15 Affordable Homes Programme led to an increase in the stock of properties available for sale at the March quarter end. As sales have been achieved and fewer completions have taken place in the current quarter, the stock of unsold units has reduced.

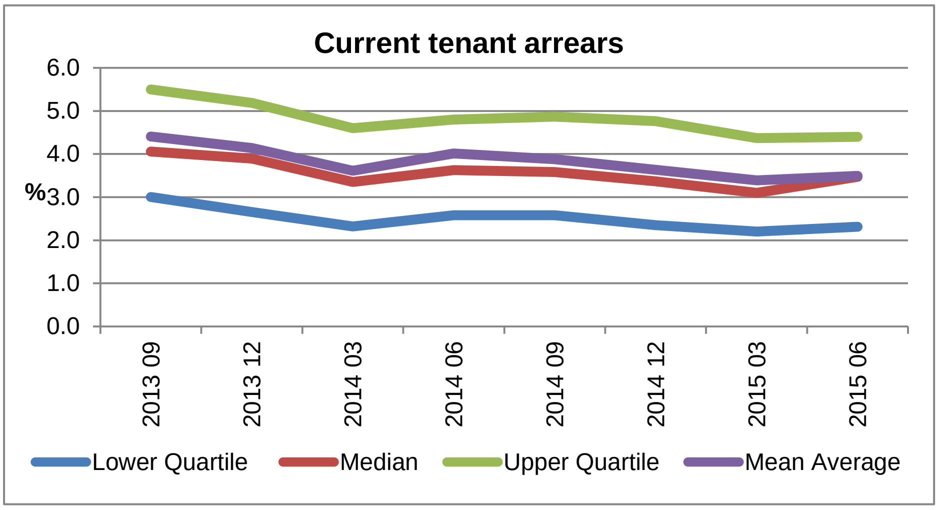
Significant levels of AHO development and sales activity are concentrated in relatively few providers; half of all the unsold AHO stock at the end of quarter 1 is held by 25 providers. For market sales, over half of all the unsold stock at the quarter end is held by 10 providers.



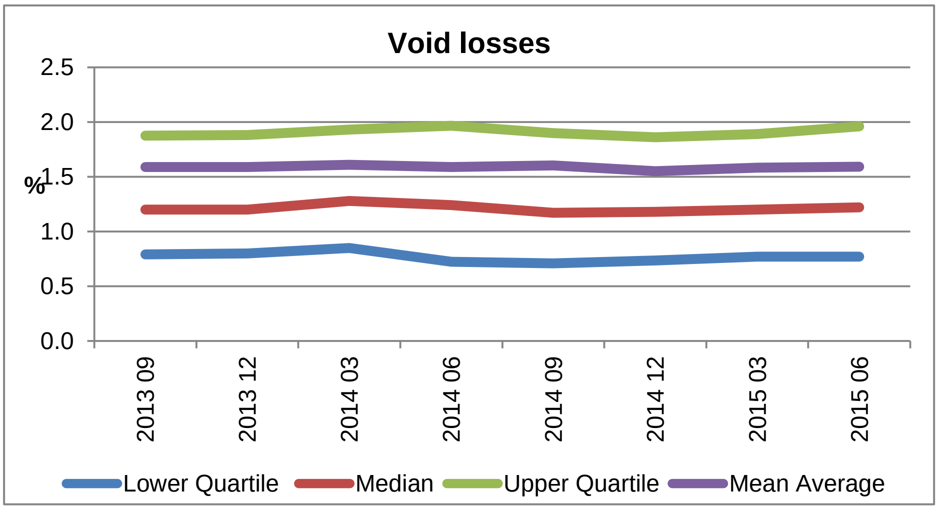
Revenue from asset sales includes AHO (first tranche and staircasing sales), Right to Buy (RTB) and other social and non-social housing sales. Both revenue and surplus on sales were below the levels reported in March, this follows the normal seasonal trend.

Income collection

Most providers (91%, March 91%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter appear to be reasonably stable and suggest that providers are continuing to manage the risks and to maintain cash flows within business plan parameters.

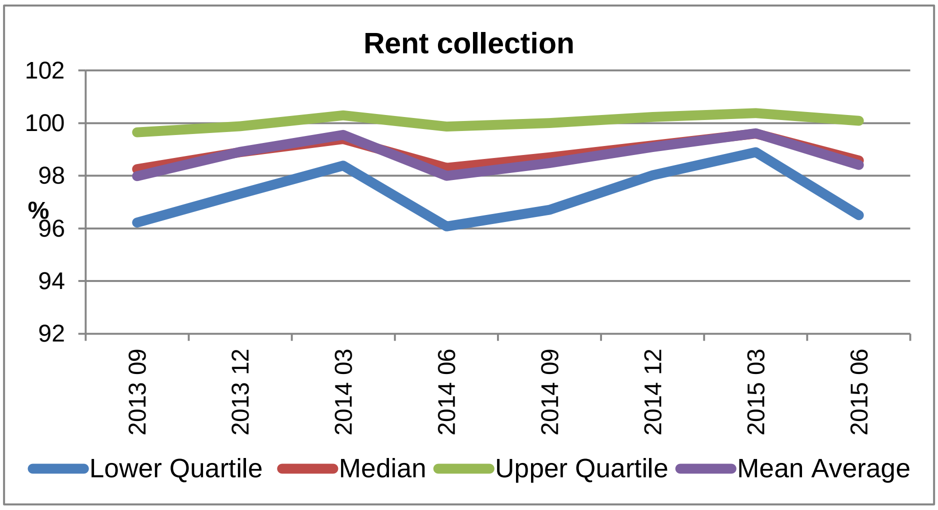


The current tenant arrears reported this quarter showed a small increase in comparison to the previous quarter. The mean average figure was 3.5% (March 3.4%). The median level of rent arrears was 3.5% (March 3.1%).



Mean average and median void loss percentages are unchanged from those reported last quarter at 1.6% and 1.2% respectively.

Housing benefit cycles are considered to have a significant impact on rent collection data; the downturn in rent collection reported in quarter 1 follows the trend seen 12 months ago.



Mean average and median rent collection percentages were 98.4% and 98.6% respectively (March both 99.6%). The number of providers reporting rent collection rates of less than 95% was 32 (March 4).

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