Homes &
Communities
Agency

QUARTERLY SURVEY (APRIL TO JUNE) 2016

August 2016

Quarterly survey of private registered providers – June 2016
The quarterly survey report is based on responses from 239 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes. The 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 quarterly survey returns summarised in this report cover the period from 1 April 2016 to 30 June 2016. Where any information received through the quarterly survey indicates a potential concern, this is followed up with providers.

Summary
The quarterly survey findings are that:

- the sector remains financially strong with access to sufficient finance: £14.5 billion of undrawn facilities are in place
- new finance of £1.2 billion was raised in the quarter from banks and capital markets
- the sector has cash balances of £5.6 billion – this is forecast to reduce in the next 12 months to £3.9 billion
- current asset sales receipts of £531 million in the June quarter were below the £713 million forecast in March
- fixed asset sale receipts of £454 million exceeded the March forecast of £339 million for the quarter
- investment in housing supply of £1.8 billion in the June quarter, whilst consistent with the previous quarter, was below the March forecast of £2.5 billion
- the sector continues to forecast strong operating cashflows - in the 12 months ending June 2017 expected net operating cashflow is £5.5 billion; this includes £3.0 billion current asset sales, an increase of £198 million on the 12 month forecast from March
- over the 12 month forecast period expected investment in new housing supply is £9.4 billion; this is the first quarter in which 12 month actual cashflow data has been available to compare against the 12 month forecast; actual investment in new housing supply for the 12 month period ending June 2016 was £6.7billion
- providers making use of free standing derivatives reported an 18% increase in MTM exposure to £3.5 billion as the 15 year swap rate fell from 1.55% in March to 1.13% at the end of June
- in aggregate providers continue to have headroom on available collateral, the regulator has sought additional assurance from providers most affected by the fall in swap rates
- affordable home ownership (AHO) stock available for sale reduced by 10% as sales exceeded completions
- the stock of property available for market sale increased by 1% in the quarter remaining at just over 1,000 units; this remains concentrated in a small number of providers
- income collection data continues to show a consistent performance in comparison to the corresponding quarter end in the previous year

Operating environment
The outcome of the EU referendum was announced close to the end of the quarter. It is unlikely that the quarterly survey returns will fully take any responses to the referendum result into account. However, the survey results suggest that the sector is in a robust position to respond to any changes to the wider economic environment. The Regulator will continue to monitor key market trends and to seek assurance that boards are actively engaged in responding to emerging risks.

The key risks faced by the sector are considered in the Sector Risk Profile published annually by the regulator. The 2016 update will be published in the Autumn. Analysis of the economic operating environment can be found in the HCA monthly housing market bulletin.

Private finance

- the sector's total agreed borrowing facilities are £80.8 billion, £57.3 billion (71%) of which is bank loans
- £66.3 billion is currently drawn, leaving undrawn facilities of £14.5 billion
- 96% (March 97%) of providers forecast that current debt facilities are sufficient for more than 12 months
- new facilities agreed in the quarter totalled £1.2 billion. Bank lending accounted for 40% of the new funding in the quarter; capital markets, including private placements and aggregated bond finance, contributed 56%; the remaining 3% comprised of local authority lending
- of the £80.8 billion agreed facilities £76.4 billion has been secured, a further £2.0 billion of facilities do not require security. There are further agreed facilities of £2.5 billion where security is not yet in place

Cashflows

It is essential that providers have access to sufficient liquidity at all times and so the regulator engages with PRPs that have low liquidity indicators or are forecasting drawdowns from facilities not yet agreed or secured.

Summary cashflow forecast

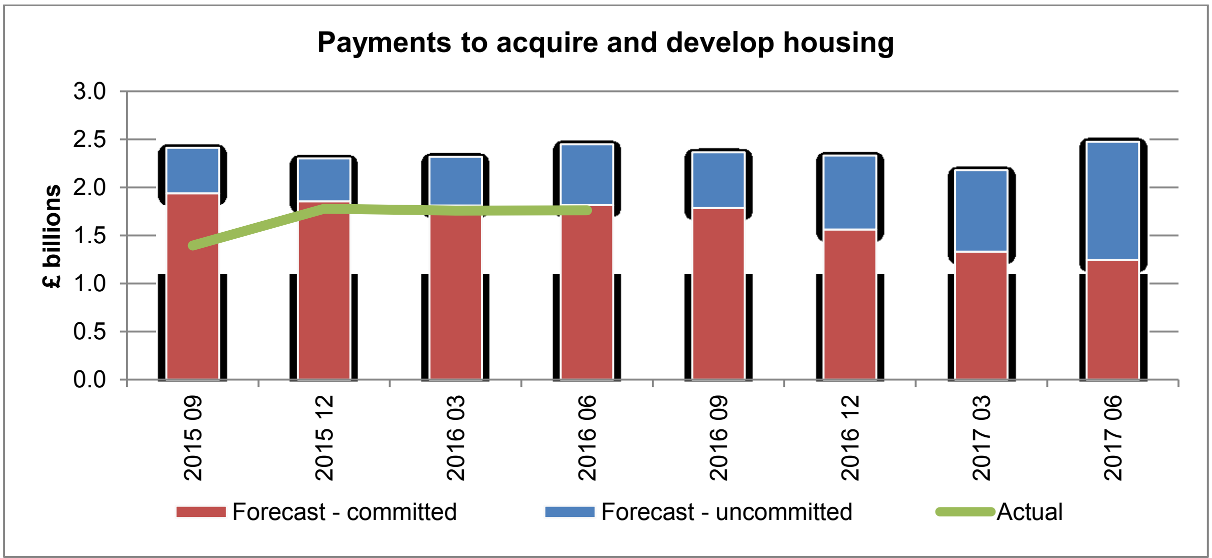
Figures in £ billions	**3 months to 30 June 2016 (forecast)**	**3 months to 30 June 2016 (actual)**	**12 months to 30 June 2017 (forecast)**
Operating cashflows	1.4	1.3	5.5
Interest cashflows	(0.7)	(0.7)	(3.1)
Payments to acquire and develop housing	(2.5)	(1.8)	(9.4)
Disposals of housing fixed assets	0.3	0.5	1.6
Other cashflows	0.0	(0.0)	(0.1)
Cashflows before resources and funding[1]	**(1.5)**	**(0.8)**	**(5.4)**
Financed by:			
Net grants received	0.2	0.1	0.6
Net increase in debt	0.9	0.6	3.2
Use of cash reserves	0.4	0.1	1.7
Total funding cashflows	**1.5**	**0.8**	**5.4**

- the results for the quarter ending June 2016 are the first to include the 1% rent cut implemented on 1st April 2016
- operating cashflow net of interest was £0.6 billion in the quarter ending June 2016, cash interest cover for the 3 month period was 176%
- the sector continues to forecast strong operating cashflows with cash interest cover over the 12 months up to 30 June 2017 projected to be 181%.
- forecast development spending for the 12 months to June 2017 continues to be predominantly funded by debt, cash reserves, operating cashflows and fixed asset sales, with grant funding forecast to contribute 6% of development spending (March 6%)
- cash available to the sector at the June 2016 quarter end was £5.6 billion (March £5.6 billion); this is forecast to reduce to £3.9 billion over the next 12 months

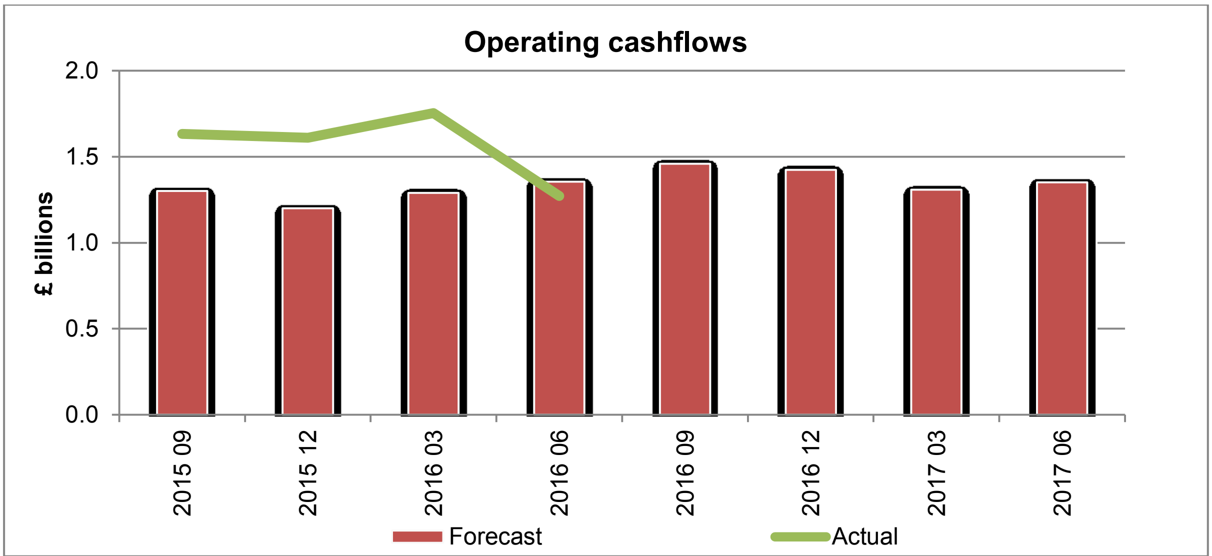
The charts overleaf compare the actual cashflow results with forecasts[2].

[1] There are rounding differences in the calculated totals; figures are reported in £000 in individual returns.
[2] Forecasts are based on the latest available forecast data for each quarter.

Actual payments of £1.8 billion to acquire and develop housing were broadly in line with the previous quarter and contractually committed forecast spend. £6.7 billion was invested in the acquisition and development of housing in the 12 months to June 2016. Payments of £5.9 billion to acquire and develop housing properties are committed in the next 12 months; a further £3.4 billion, not contractually committed, is included in the forecasts.

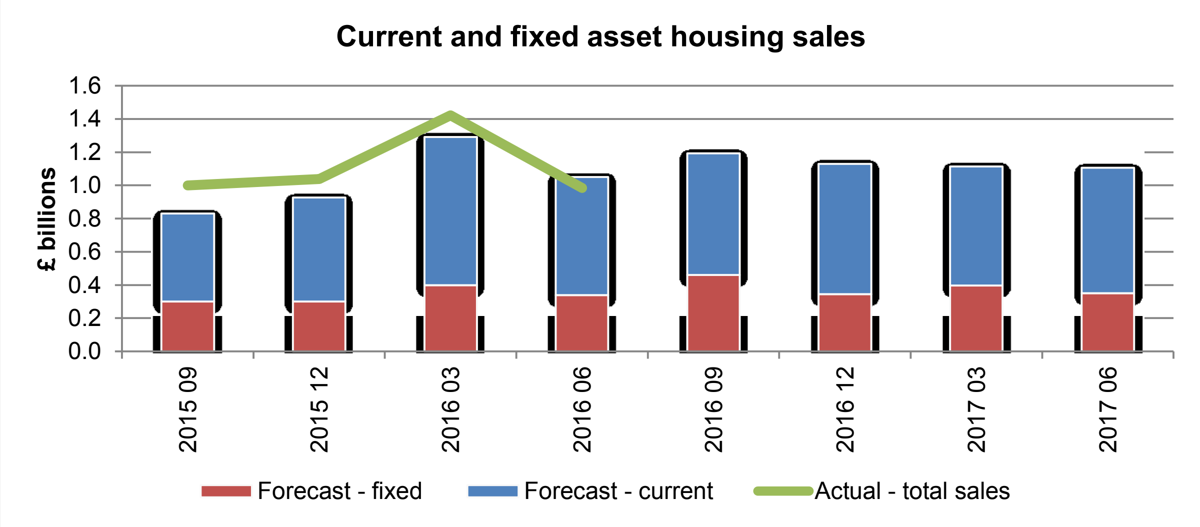


Operating cashflows (including £2.0 billion capitalised repair and maintenance expenditure) are forecast to generate £5.5 billion (before interest costs) over the next 12 months. Although operating cashflows in the quarter were marginally below forecast, they were greater than the figure reported in the comparable quarter in 2015 (June 2016 £1.3 billion; June 2015 £1.2 billion).



Operating cashflows include current asset sales. In June 2016 current asset housing sales of £531 million were below the forecast of £713 million for the quarter. The difference between forecasts and current asset housing sales achieved is concentrated in a small number of providers. Over three quarters of the shortfall is attributable to three large providers. Development programmes are subject to change and the differences are largely a result of timing differences and delays to sale completions.
Where sales revenues are significantly lower than forecast, the individual providers in question have sufficient access to liquidity and the delays do not have a material impact on

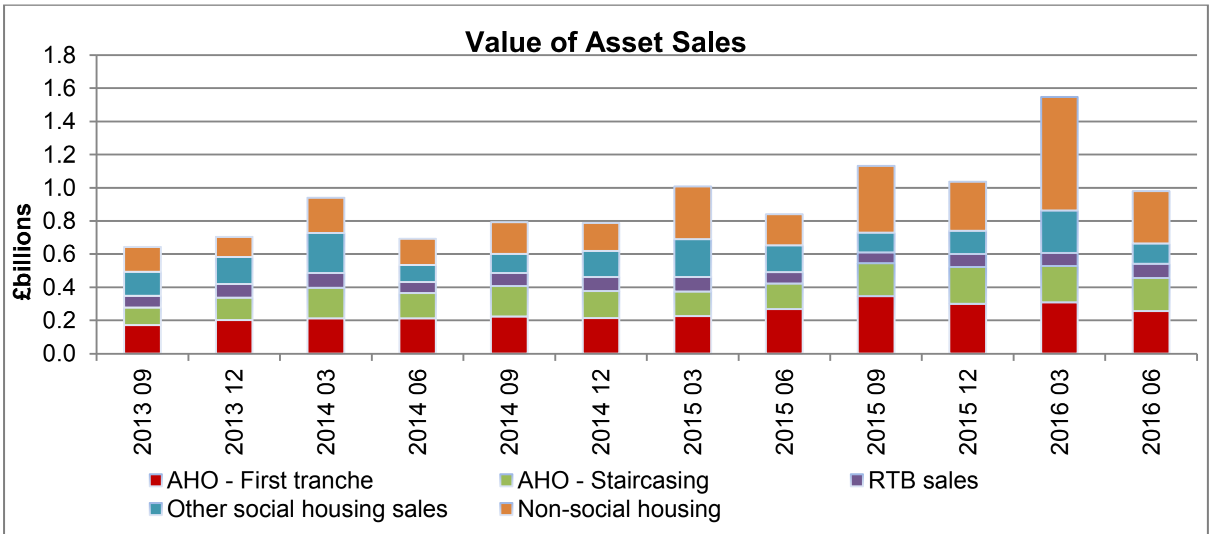
viability. Where this is not the case and the survey return indicates a potential concern, the regulator will seek further assurance from providers.



Fixed asset sales of £454 million in the June quarter exceed the forecast of £339 million. In the June quarter total revenue from sales (fixed and current asset) of £1.0 billion was broadly in line with the forecast from the March quarter.

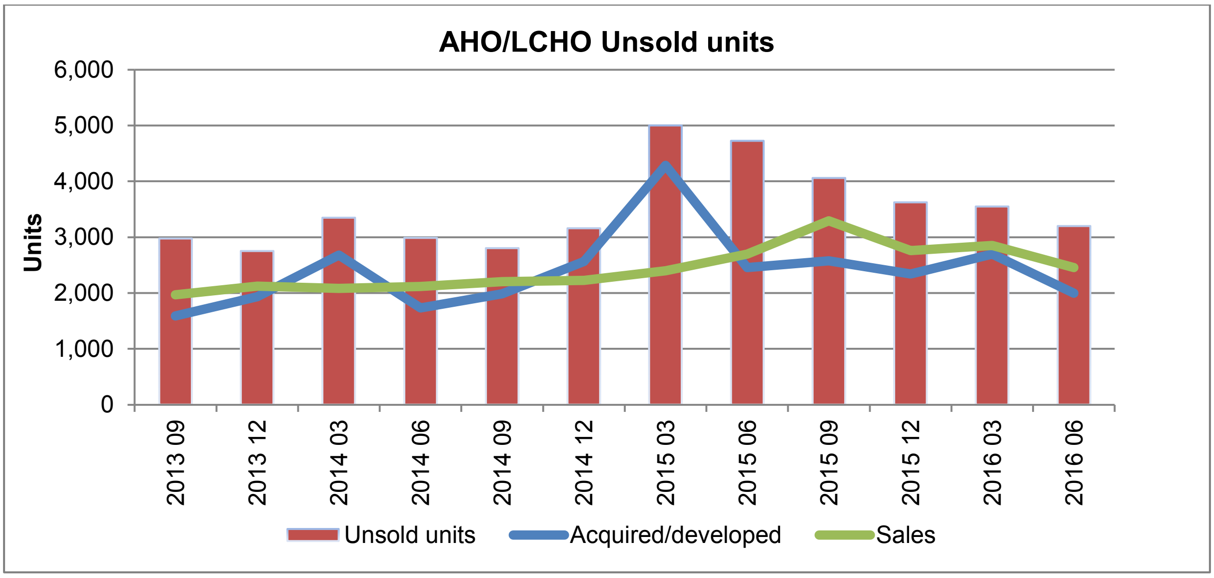
The forecast operating cashflows include £3.0 billion from current asset sale receipts in the 12 months to June 2017; £2.5 billion current asset sales were achieved in the 12 months to June 2016. Forecast fixed asset sales over the 12 months to June 2017 are £1.6 billion. Fixed asset sale receipts in the 12 months to June 2016 were £1.9 billion, exceeding forecasts in each quarter.

Housing market
Overall, asset sales revenue and surplus reflected the seasonal trend in falling below the levels reported in March but were above the level reported in the June 2015 quarter. Total asset sales of £1.0 billion were achieved in the quarter generating a surplus of £324 million (March £1.5 billion, £520 million).



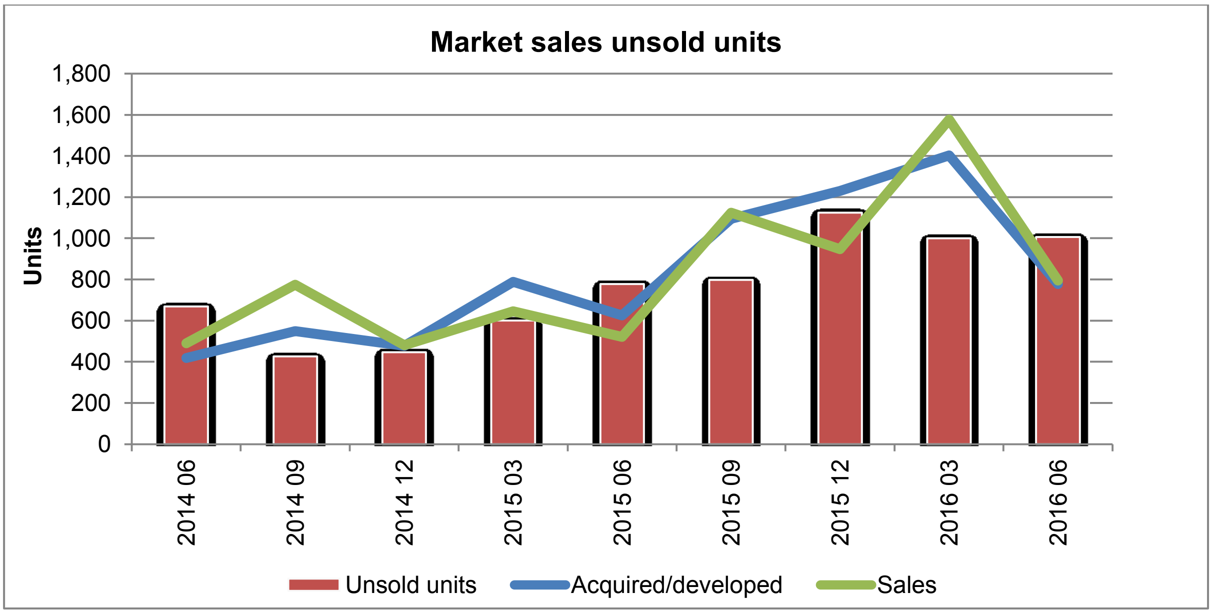
AHO sales continued to exceed completions. There were 2,457 first tranche sales in the quarter (March 2,849) compared to 1,995 AHO completions and acquisitions (March 2,696). This led to a 10% reduction in unsold units in the quarter; at the end of June 2016 3,199 homes remained unsold (March 3,551) of which 914 had been unsold for over 6 months (March 1,006). Half of the unsold AHO stock at the end of the quarter was held by 20 providers.

The pipeline of AHO completions expected in the next 18 months is 18,545 (March 17,902) of which 14,608 are contractually committed.



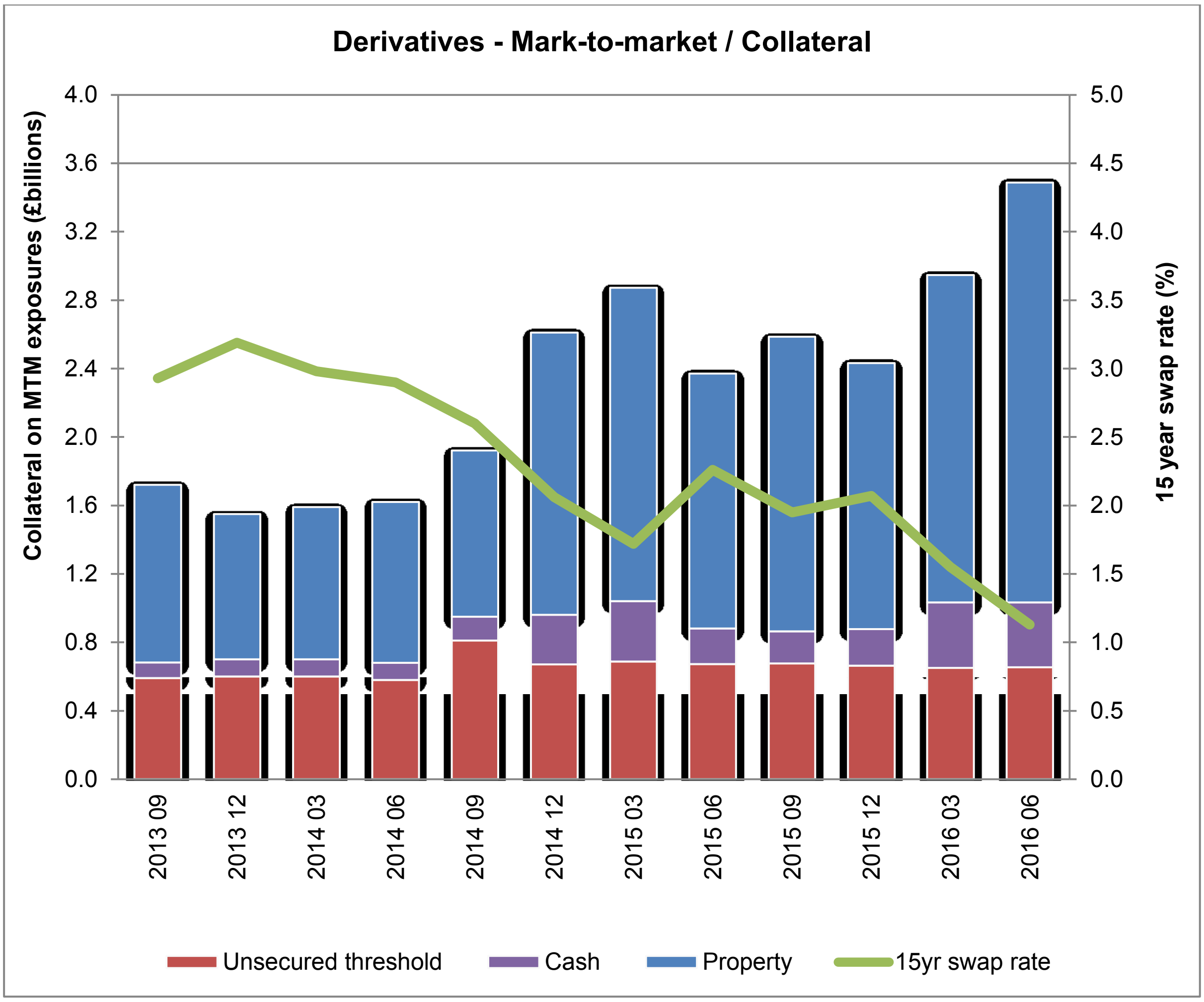
Development for sale is concentrated in relatively few providers. Sales of properties built for open market sale were broadly in line with completions in the quarter. There were 794 sales in the quarter (March 1,576) and 778 homes were developed for market sale (March 1,402). The number of unsold market sale units at June 2016 was 1,007 (March 1,001). For market sales, half of the total unsold stock at the end of the quarter was held by eight providers.

The pipeline for market sale completions expected in the next 18 months is 8,790 (March 7,965) of which 7,819 are contractually committed.



Derivatives

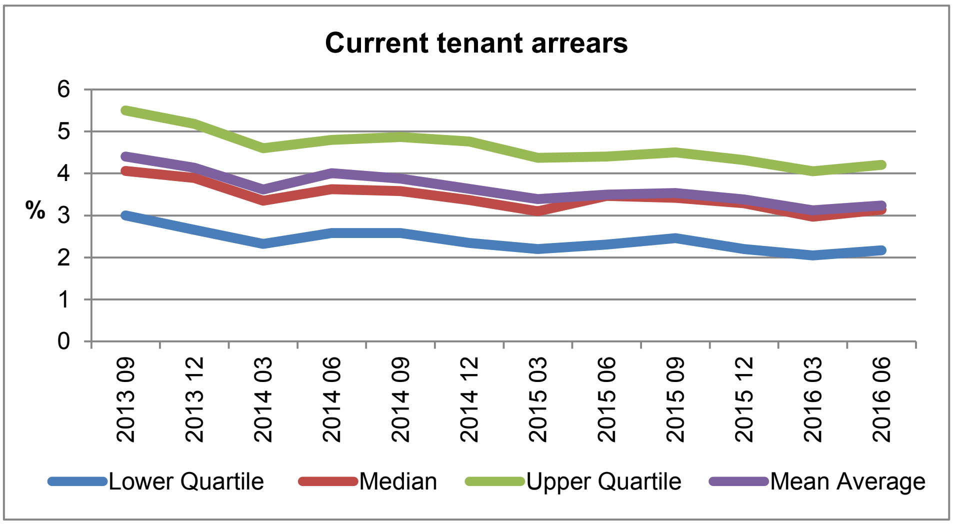
- 49 providers continue to make use of free standing derivatives. The notional value of standalone derivatives remained at £9.7 billion
- the current gross MTM exposure increased to £3.5 billion at the end of June (March £2.9 billion)
- unsecured thresholds and available security pledged to swap counterparties was £4.2 billion; of this total collateral, £2.9 billion (March £2.7 billion) has been employed in the form of property or cash, together with unsecured thresholds of £0.7 billion
- the additional excess collateral available consists primarily of property pledged but not employed



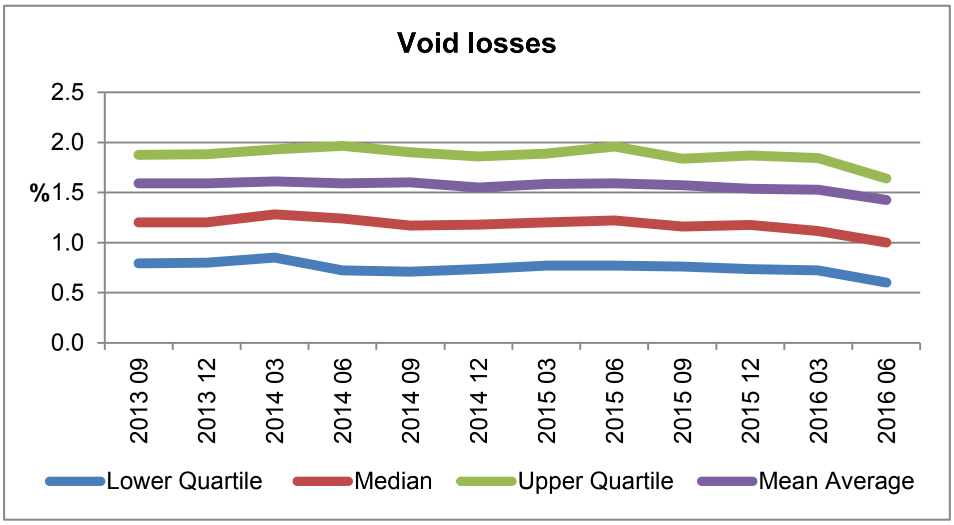
The graph above shows MTM exposures, excluding excess collateral. The decrease in the sterling 15 year swap rate over the quarter was reflected in increased MTM exposure of £540 million. The additional collateral requirement was largely met through an increase in property and a reduction in headroom.

Notwithstanding the adverse movement, collateral given in terms of security and cash continues to exceed the sector's current exposure levels. This provides some mitigation against liquidity risk. Interest rate volatility means that collateral requirements will remain a long term exposure. Individual providers must ensure they have sufficient available security as a further fall in swap rates has the potential to increase MTM exposure. The regulator will continue to monitor on-going movements in the swap rate and engage with providers where there are significant levels of exposure.

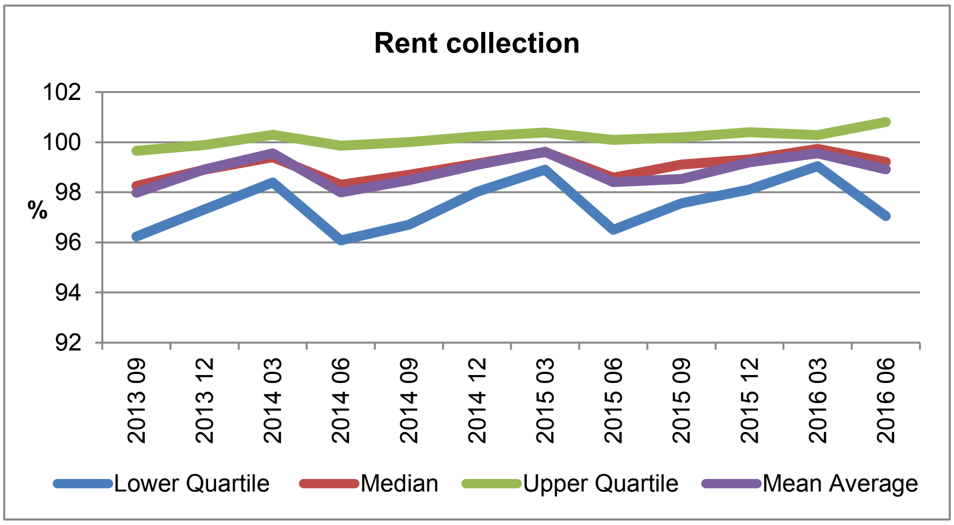
Income collection
Most providers (93%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter are reasonably stable, suggesting that providers are managing income collection risks and maintaining cashflows within business plan parameters. Housing benefit cycles remain likely to have an impact on rent collection data; a decrease in rent collection and increase in arrears in quarter 1 is consistent with the trend established in recent years.



Current tenant arrears increased slightly in the June quarter: the mean average and median were 3.2% and 3.1% respectively (March 3.1% and 3.0% respectively).



Mean average and median void losses remained in line with the previous quarter at 1.4% and 1.0% (March 1.5% and 1.1%).



Mean average and median rent collection were 98.9% and 99.2% (March, 99.6% and 99.7%). In June 2016 24 providers reported rent collection rates of less than 95% (June 2015, 32).

homesandcommunities.co.uk
mail@homesandcommunities.co.uk
0300 1234 500

Homes & Communities Agency

Homes and Communities Agency
Fry Building
2 Marsham Street
London SW1P 4DF

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