Regulator of
Social Housing

Quarterly survey for Q2

July to September 2019

November 2019

Contents

Introduction 2

Summary 2

Regulatory expectations 4

Private finance 5

Cashflows 6

Development 8

Housing market 9

Derivatives 12

Income collection 13

Introduction

1. This quarterly survey report is based on regulatory returns from 218 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

2. 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 July 2019 to 30 September 2019.

3. The regulator reviews each PRP's quarterly survey. It considers a range of indicators and follows up with PRP staff in all cases where a risk to the 12-month liquidity position is identified. We have assurance that all respondents are taking appropriate action to secure sufficient funding well in advance of need.

Summary

4. The quarterly survey findings are:

- The sector remains financially strong with access to sufficient finance:
    - £21.6 billion of undrawn facilities are in place. Debt facilities total nearly £100 billion.
    - Cash balances total £5.2 billion; this is forecast to reduce over the next 12 months to £3.4 billion, as cash is used to fund planned capital expenditure.
    - New finance of £2.8 billion was agreed in the quarter, including £1.6 billion from banks and £1.0 billion from capital markets.
    - Loan repayments of £0.6 billion were made in the quarter.
    - Cash interest cover, excluding current asset sales, was 149% in the quarter to September 2019 against a forecast of 136%. Interest cover is forecast to average 128% over the next 12 months as expenditure on capitalised repairs and maintenance is expected to increase.
    - Income collection data continues to show a stable performance consistent with seasonal trends.
- Performance in the quarter reflects some challenges with regards to sales receipts and margins. However, this has not destabilised the sector's overall strong financial position:
    - Including both current and fixed asset sales, total sale receipts were £1.4 billion in the quarter, generating surpluses of £0.4 billion. Current asset sales receipts were 23% below the forecast of £1.2 billion.
    - Investment in housing supply was £2.9 billion in the quarter to September 2019. This was below the June forecast contractually committed spend for the quarter of £3.3 billion.

- During the quarter, 3,576 Affordable Home Ownership (AHO) units were developed and 3,773 units were sold. There was a 5% decrease in the number of unsold units to reach 6,688 at the end of September. Half of the unsold AHO units were held by 16 providers.

- During the quarter there was a 23% increase in the number of AHO units unsold for more than six months, which reached 2,614 at the end of September. This reflects a peak in development activity in the quarter ending March 2019.

- Margins on AHO sales averaged 23.3% in the quarter, the lowest rate achieved in the last three years.

- During the quarter 1,561 market sale units were developed and 1,404 were sold. The number of unsold properties increased by 8% to 2,229, the highest level recorded since the data was first collected in June 2014. Over half of the total unsold market sale units were held by six providers.

- The number of market sale properties unsold for more than six months increased by 59% to 883. As with AHO units, this reflects a peak in development in the quarter ending March 2019.

- The sector's spending on capitalised major repairs in the quarter was around £450m, 19% below forecast. The main reasons for variances relate to delays in repair programmes and the re-profiling of planned works.

- Providers making use of free-standing derivatives reported mark-to-market (MTM) exposure of £2.6 billion, a 15% increase since June, reflecting a decrease in swap rates at the quarter end. In aggregate, providers continue to have headroom on available collateral on MTM exposures.

- Forecasts for the next 12 months indicate that the sector is planning to increase its development and housing market exposure, supported by drawing additional debt. There is some flexibility in these plans:

- In the 12 months to September 2020, the sector is forecasting £5.5 billion worth of current asset sales and £1.7 billion of fixed asset sales. By comparison, in the 12 months to September 2019, current asset sales were £3.4 billion and fixed asset sales were £1.8 billion. Net debt is forecast to increase by £5.3 billion.

- Over the 12-month forecast period, expected investment in new housing supply is £16.8 billion, of which £11.0 billion is contractually committed. In the 12 months to September 2019, total investment in new supply was £12.4 billion.

- Development of for-sale properties (both AHO and market sale) is forecast to continue to increase. In the next 18 months, including committed and uncommitted development, plans include the completion of 34,827 AHO units and 13,256 market sale properties. This compares to 21,842 AHO units and 7,650 market sale properties developed in the last 18 months.

Regulatory expectations

5. PRPs are expected to manage their resources effectively to ensure that their viability is maintained. The regulator continues to follow up cases where financial indicators such as interest cover are weak, to ensure that PRPs are managing their risks effectively. The regulator also continues to monitor developments in the housing market closely and engage with providers with significant exposures to market and AHO sales. PRP boards should be aware of the flexibility in their plans, and deploy it as necessary.

6. Before contractually committing to development spending, the regulator expects PRP boards to: carefully consider market conditions; model cashflows and viability impacts and stress-test these using a range of economic assumptions; and ensure that access to any external finance required is in place. This is particularly important where housing market exposure is involved. The regulator expects providers to have contingency plans in place for market and AHO sales falling short of forecasts.

7. The regulator also expects PRP boards to ensure that its properties are in a good state of repair and meet all applicable statutory health and safety requirements.

8. Key risks faced by the sector are considered in the Sector Risk Profile[1] published annually by the regulator. Boards of PRPs are expected to be actively engaged in responding to emerging risks.

[1] https://www.gov.uk/government/collections/sector-risk-profiles

Private finance

9. The sector’s total agreed borrowing facilities reached £99.8 billion at the end of the quarter, £60.8 billion (61%) of which were bank loans.

10. £78.1 billion is currently drawn, leaving undrawn facilities of £21.6 billion. This is the highest amount of available facilities ever reported by the sector.

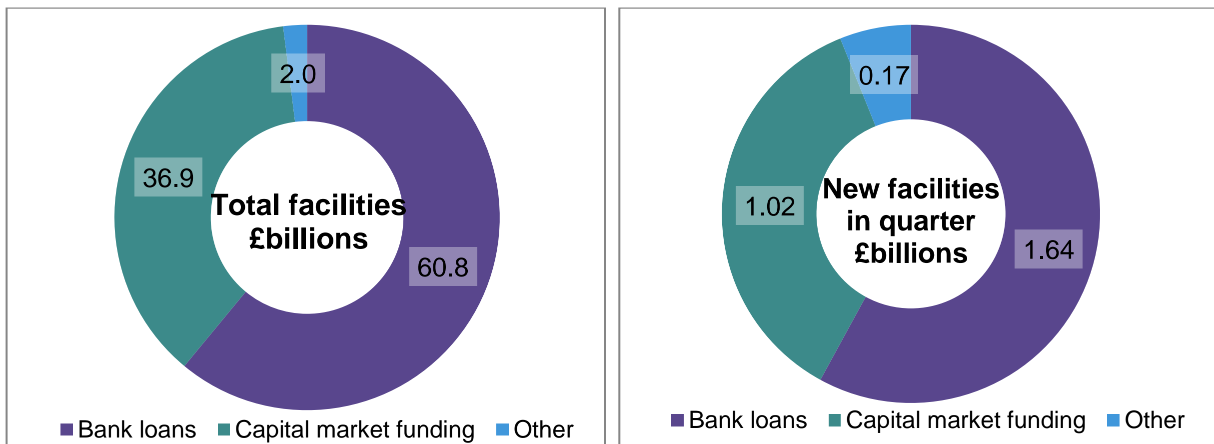
11. 96% (June: 97%) of providers forecast that current debt facilities are sufficient for more than 12 months.

12. At a sector level, current cash and undrawn facilities (£26.8 billion) are sufficient to cover forecast expenditure on interest costs, loan repayments and development for the next year (£20.9 billion), even if no new debt facilities are arranged and no sales income received.

13. In the 12 months to September 2020 the sector is forecasting loan drawdowns of £7.7 billion (June 12 month forecast: £7.0 billion), of which £1.0 billion is from facilities not yet agreed (June: £1.4 billion). The drawdowns from facilities not yet agreed are being made by a small number of providers that are refinancing or extending their existing facilities over the next 12 months.

14. During the quarter, 42 providers arranged new funding. New facilities agreed, including refinancing, totalled £2.8 billion, with 11 providers each arranging facilities worth £100 million or more. £0.6 billion worth of loans were repaid during the quarter.

15. Bank lending accounted for 58% (£1.6 billion) of new funding in the quarter. Capital market funding, including private placements and aggregated bond finance, contributed 36% (£1.0 billion) and other sources, including local authority lending, contributed 6%. Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.



16. Of the £99.8 billion agreed facilities, £90.4 billion has been secured and £4.7 billion of facilities do not require security. There are further agreed facilities of £4.6 billion where security is not yet in place.

Cashflows

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

Summary cashflow forecast[2]

Figures in £ billions	3 months to 30 September 2019 (forecast)	3 months to 30 September 2019 (actual)	12 months to 30 September 2020 (forecast)
Operating cashflows excluding sales	1.1	1.2	4.3
Interest cashflows	(0.8)	(0.8)	(3.4)
Payments to acquire and develop housing	(4.1)	(2.9)	(16.8)
Current assets sales receipts	1.2	1.0	5.5
Disposals of housing fixed assets	0.4	0.5	1.7
Other cashflows	(0.2)	(0.1)	(0.5)
Cashflows before resources and funding	**(2.3)**	**(1.2)**	**(9.1)**
Financed by:			
Net grants received	0.5	0.4	1.7
Net increase in debt	1.1	0.9	5.3
Use of cash reserves	0.8	0.0	2.0
Total funding cashflows[3]	**2.3**	**1.2**	**9.1**

18. Interest cover, based on operating cashflows excluding sales, increased to 149% in the quarter to September 2019 (June 2019: 107%). This compares to a forecast of 136% made in June 2019. Interest cover over the next 12 months is expected to reduce to an average of 128%, due to an increase in anticipated expenditure on capitalised repairs and maintenance. Expenditure in these areas is forecast to be on average £137 million higher per quarter than in the quarter to September 2019.

19. Actual capitalised repair and maintenance expenditure in the quarter amounted to £458 million, 19% less than the £565 million forecast in June. Variances have been attributed to delays in repair programmes and re-profiling of planned works.

20. In the 12 months to September 2019, capitalised expenditure on repairs and maintenance was £2.0 billion. In the 12 months to September 2020 the sector is forecasting capitalised repairs and maintenance expenditure of £2.4 billion.

21. In the 12 months to September 2020 the sector is forecasting £5.5 billion worth of current asset sales, of which £5.1 billion relates to properties for which development is contractually committed. Current asset sales receipts in the quarter were £1.0 billion, compared to the £1.2 billion forecast in June. In the 12 months to September 2019 current asset sales of £3.4 billion were achieved.

[2] Operating cashflow excludes current asset sales receipts and costs of sales. ‘Payments to acquire and develop housing properties’ include payments in respect of both current and fixed assets.

[3] There are rounding differences in the calculated totals; figures are reported by providers in £000.

22. In the 12 months to September 2020, the sector is forecasting £1.7 billion worth of fixed asset sales. In the 12 months to September 2019, fixed asset sales were £1.8 billion.

23. Expenditure on new supply in the quarter totalled £2.9 billion. This was below the forecast of £4.1 billion, and the £3.3 billion forecast expenditure on contractually committed schemes. This demonstrates some flexibility both on non-committed expenditure and over the timing of committed payments.

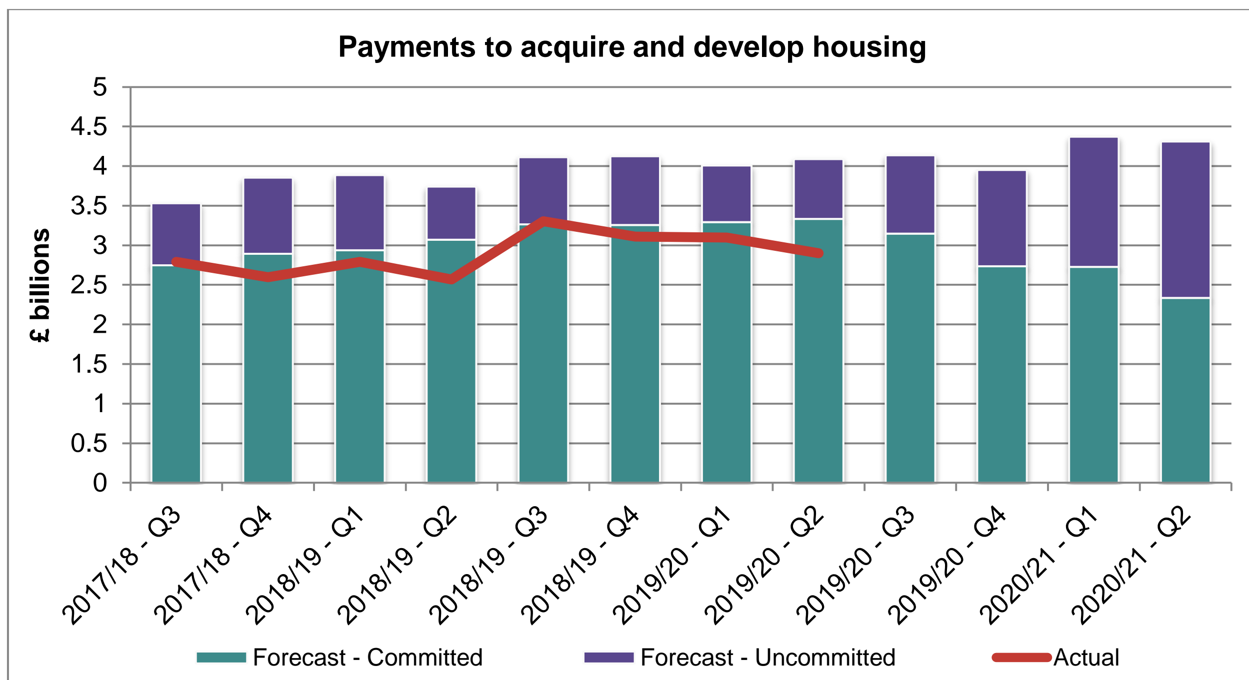
24. Available cash balances, excluding amounts held in secured accounts, reduced by £0.1 billion during the quarter as reserves were used to fund capital expenditure. This was below the forecast reduction in cash from June of £0.8 billion.

25. Cash available at September 2019 was £5.2 billion, the lowest available balance in over four years. This is forecast to reduce further to £3.4 billion over the next 12 months as cash reserves are used to fund capital investment.

26. In addition to the £5.2 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1.0 billion at September 2019 (June 2019: £0.8 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and mark-to-market cash collateral.

Development

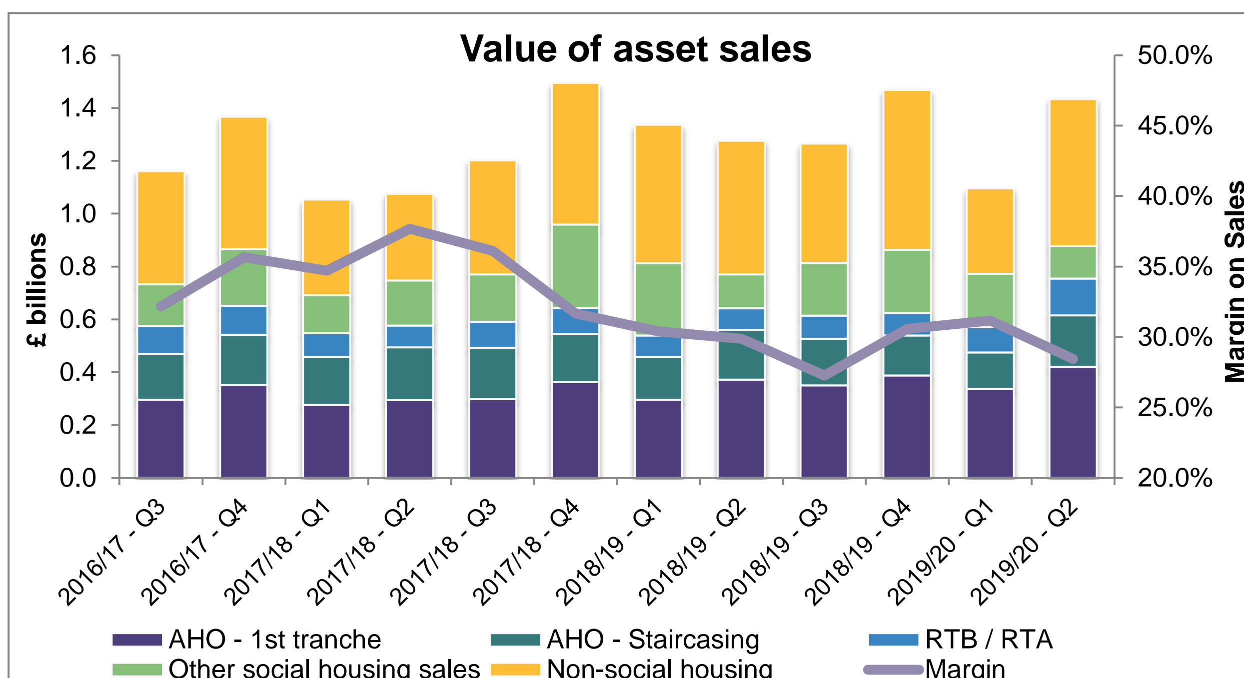
27. In the 12 months to September 2019, £12.4 billion was invested in the acquisition and development of housing properties. In the next 12 months, £11.0 billion expenditure is committed to acquire and develop housing properties, and a further £5.8 billion of uncommitted expenditure has been forecast.



28. Actual expenditure in the quarter ending September 2019 was £2.9 billion, slightly below the £3.1 billion reported in the previous quarter. This was below the total forecast expenditure of £4.1 billion, and the £3.3 billion forecast on contractually committed schemes. Development programmes are subject to change and the variances are largely a result of timing differences and slippage. Providers consistently exercise prudence in their forecasts by over estimating expenditure on development.

Housing market

29. Total asset sales amounted to £1.4 billion in the quarter to September 2019, a 12% increase on the corresponding quarter of 2018/19. Surpluses from asset sales were £0.4 billion, giving a margin on sales of 28%. This is the second lowest margin recorded over the last three years.



30. Fixed asset sales for the quarter amounted to £0.5 billion; 25% higher than the amount forecast in June 2019. Current asset sales in the quarter (market sales and first tranche AHO sales) were £1.0 billion; 23% less than the forecast of £1.2 billion.

31. AHO sales were 3,773 units (June: 3,218) compared to the 3,576 completions reported in the quarter (June: 3,275). The total number of unsold AHO units reduced by 5% to reach 6,688 at the end of September (June: 7,031). The number of units unsold for more than six months increased by 23% to 2,614 (June: 2,133).

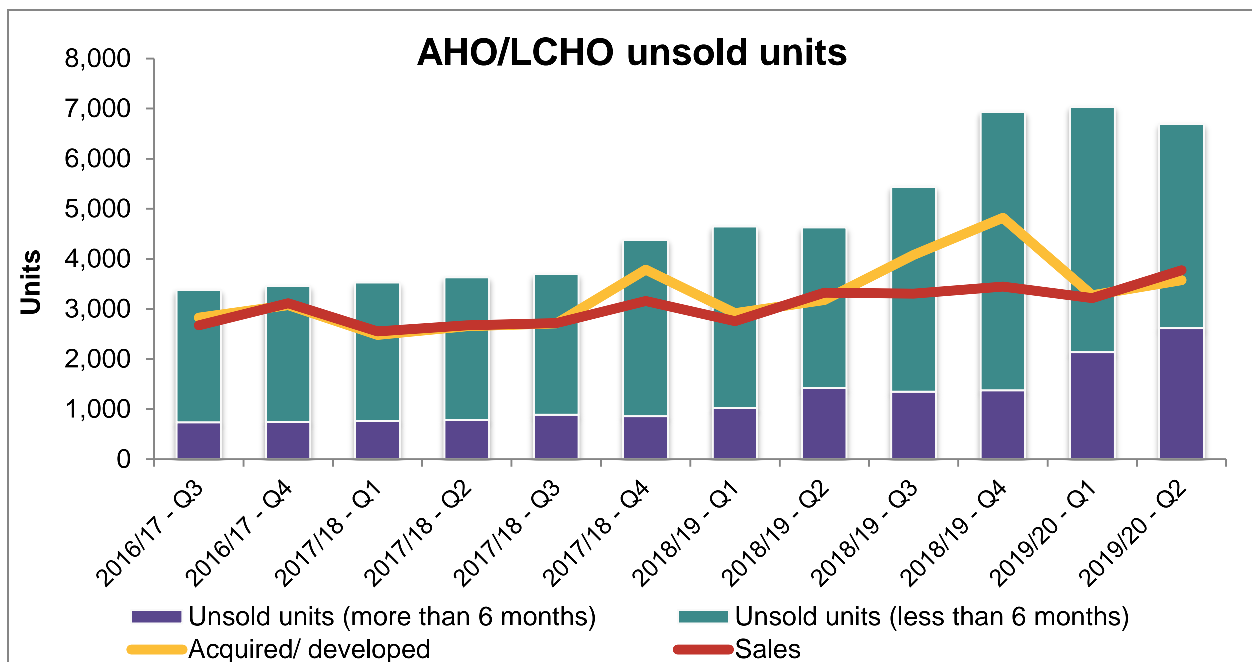
32. The increase in the number of units unsold for over six months reflects the high level of AHO unit completions that were reported in the quarter ending March 2019. A total of 4,817 units were acquired or developed in this quarter; the highest number recorded since the data was first collected in 2011. The 3,773 sales achieved in the quarter to September 2019 is also the highest number reported since the data was first collected.

33. Over half of the unsold AHO stock at the end of the quarter was held by 16 providers. These 16 providers all have access to sufficient finance, with each holding between £0.2 billion and £1.0 billion worth of cash and undrawn facilities. Between them this amounts to £7.7 billion, or 29% of the total facilities available within the sector.

34. Of the unsold AHO stock at the end of the quarter, 39% had been unsold for over six months (June: 30%), compared to an average of 25% over the last three years. 42% of the units unsold for over six months were held by providers operating mainly in London and the South East[4], where development is concentrated; 37% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas.

35. There were five providers holding over 100 units of stock that had been unsold for more than six months, accounting for 46% of the total figure. The providers are well funded at present and have sufficient operating cashflows to maintain liquidity if sales receipts are not realised. We continue to monitor this risk on an ongoing basis and to test business plans to ensure that they are robust enough to cope with a range of adverse scenarios.

36. The overall surplus on AHO sales was £98.0 million in the quarter to September 2019, giving a margin on sales of 23.3% (June: 23.5%). This is the lowest margin to have been achieved in the last three years. AHO margins have reduced steadily over this period, from a peak of 34.2% in quarter two of 2016/17.



37. Development for outright market sale is concentrated in relatively few providers. There were 1,404 sales in the quarter (June: 1,015) compared to the 1,561 units developed for market sale (June: 1,193). The total number of unsold market sale units increased by 8% to reach 2,229 at the end of September (June: 2,073), the highest level recorded since the data was first collected in June 2014. The number of units unsold for over six months increased by 59% to 883 (June: 554).

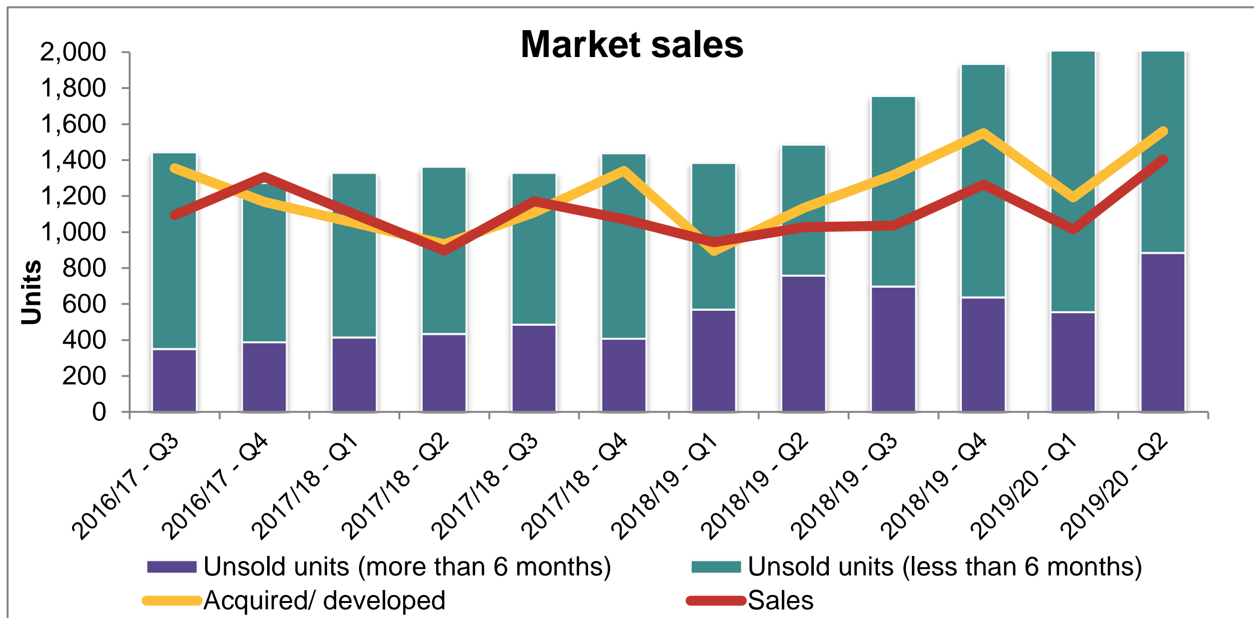
38. As with AHO units, the increase in the number of units unsold for over six months reflects the high level of market sale unit completions that were reported in the quarter ending March 2019. A total of 1,550 units were acquired or developed in this quarter; the highest number recorded since the data was first collected in June 2014. The 1,404 sales achieved in the quarter to September 2019 is the second highest number ever reported.

[4] Defined as providers holding 50% or more of their existing stock within the region

39. Over half of the unsold market sale units reported at the end of the quarter were held by just six providers. Between them, these six providers have access to £3.2 billion worth of cash and undrawn facilities.

40. Of the unsold market sale stock at the end of the quarter, 40% (883 units) had been unsold for over 6 months (June: 27%), compared to an average of 34% over the last three years. Nearly two-thirds of this stock was held by just five providers.

41. The overall surplus on market sales was £98.3 million in the quarter to September 2019, giving a margin on sales of 17.6% (June: 14.7%). The average margin over the last three years has been 20.2%.



42. The pipeline of AHO completions expected in the next 18 months is 34,827 (June: 32,936) of which 28,316 are contractually committed. This is an increase of 59% compared to the actual performance in the 18 months to September 2019, when there were 21,842 AHO completions. For market sale, 13,256 (June: 13,165) completions are expected in the next 18 months, of which 12,134 are contractually committed. This is 73% higher than the 7,650 market sale completions achieved in the 18 months to September 2019.

Derivatives

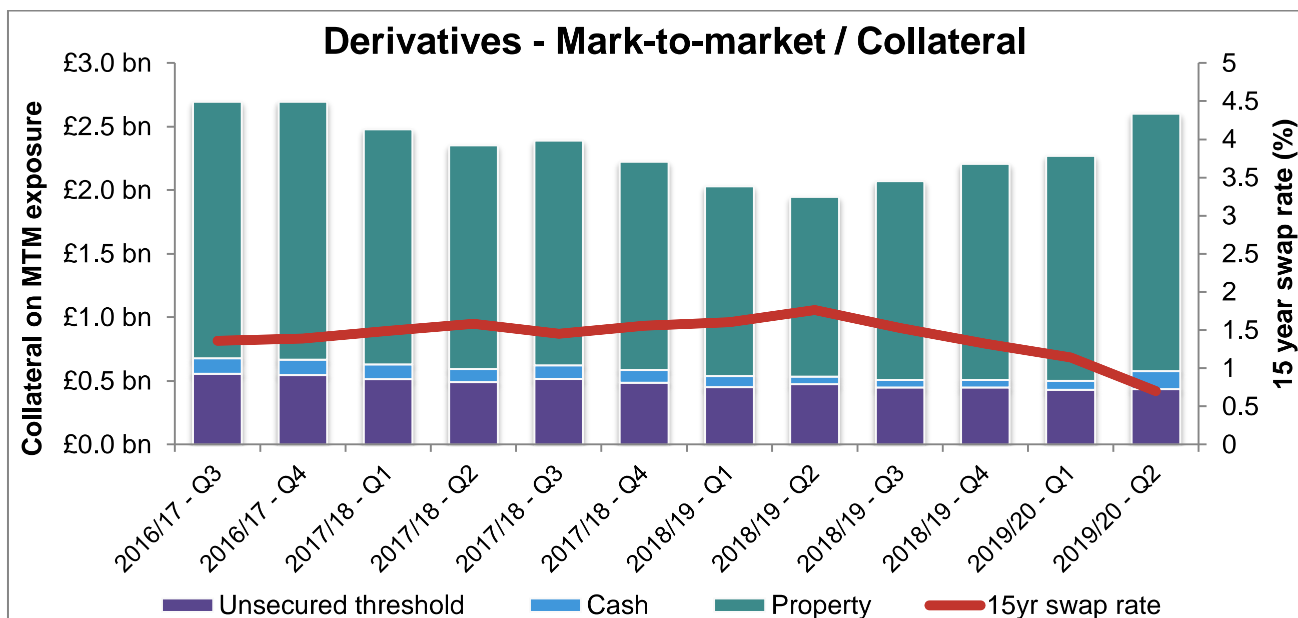
43. 40 providers (June: 40) currently make use of free-standing derivatives.

44. At the end of September, the notional value of standalone derivatives was £9.1 billion (June: £8.6 billion).

45. The current gross MTM exposure increased by 15% from June to £2.6 billion, the highest level in over two years.

46. Unsecured thresholds and available security pledged to swap counterparties was £3.6 billion. Of this total collateral, £2.3 billion (June: £1.9 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.4 billion.

47. The additional excess collateral available consists primarily of property pledged but not employed.



48. The above graph shows MTM exposures excluding excess collateral. The 15-year sterling swap rate reduced to 0.7% at the end of the quarter, resulting in an increase in MTM exposure. This is the lowest rate recorded at a quarter end in over five years.

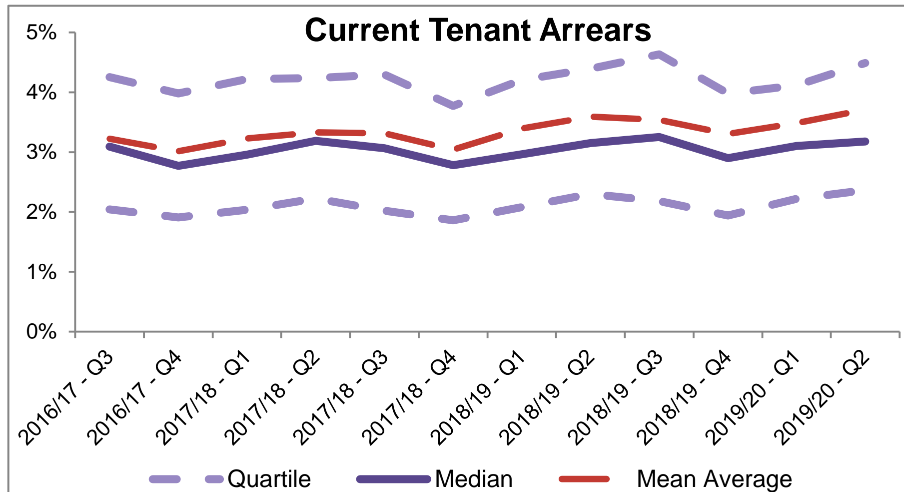
49. Collateral given in terms of security and cash continues to exceed the sector's current exposure levels; this provides some mitigation against the risk of further adverse movements in the swap rate. At sector level, the headroom of collateral available over current exposure was £1.0 billion.

50. Of the 40 providers making use of free-standing derivatives, 35 have collateral pledged that exceeds their current level of exposure. The five providers that were under-collateralised have sufficient liquidity to cover any potential future margin calls.

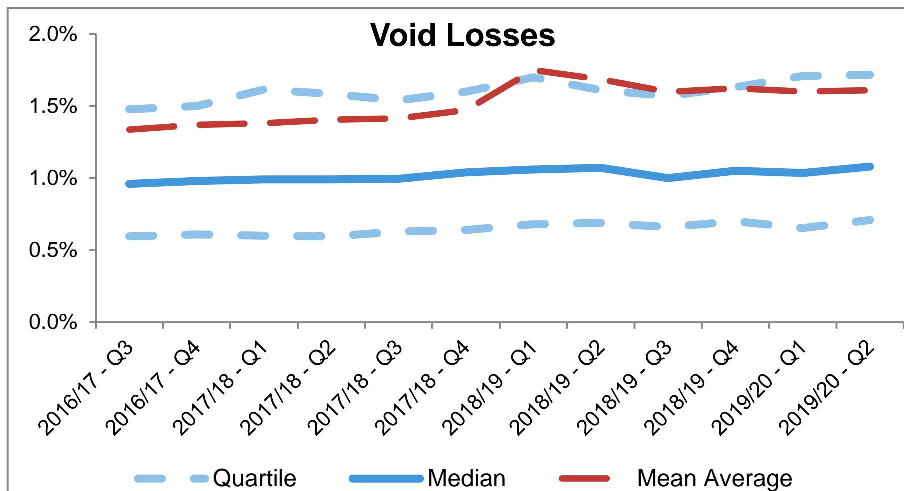
51. Interest rate volatility means that collateral requirements will remain a long-term exposure. Individual providers must ensure that they have sufficient available security as a fall in swap rates has the potential to increase MTM exposure. The regulator will continue to monitor ongoing movements in the swap rate and to engage with providers where there are significant levels of exposure.

Income collection

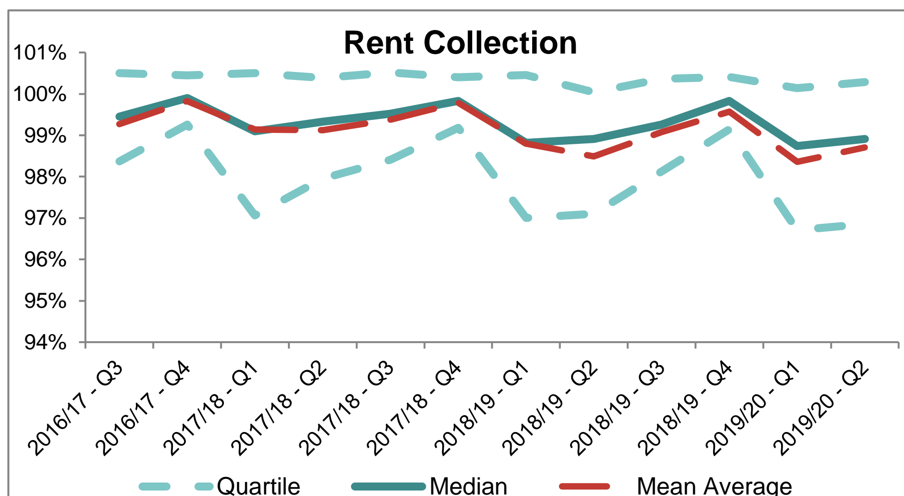
52. Most providers (83%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter remain reasonably stable, suggesting that providers are managing income collection risks and maintaining cashflows within business plan parameters. Fluctuations in income collection and arrears are broadly consistent with seasonal trends. Housing benefit cycles remain likely to have an impact on rent collection data.



Median and mean current tenant arrears both increased during the quarter, to 3.2% and 3.7% respectively (June: 3.1% and 3.5%). The median figure of 3.2% is the same as in the corresponding quarter of 2018. Mean arrears have increased by 0.1% over the same 12-month period.



Median void losses for the year-to-date increased slightly during the quarter to 1.1% (June: 1.0%), while mean void losses remained at 1.6% for the fourth consecutive quarter. The mean average is affected by 12 providers reporting void losses of 5% or more.



Mean average rent collection rates were 98.7% in the six months to September 2019, while the median was 98.9%. The median is unchanged from the corresponding quarter of 2018/19, whereas the mean has increased from 98.5%. 17 providers reported rent collection rates of less than 95% (June: 29).

© RSH copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at https://www.gov.uk/rsh

Any enquiries regarding this publication should be sent to us via enquiries@rsh.gov.uk

or call 0300 124 5225.

or write to:

Regulator of Social Housing
1st Floor - Lateral
8 City Walk
Leeds LS11 9AT

The Regulator of Social Housing regulates registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs.