Regulator of
Social Housing

Quarterly survey for Q3

October to December 2019

February 2020

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Introduction

1. This quarterly survey report is based on regulatory returns from 216 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 October 2019 to 31 December 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 summarised below.

5. The sector remains financially strong with access to sufficient finance:

   - £22.5 billion of undrawn facilities are in place. Debt facilities total nearly £102 billion.
   - Cash balances total £5.1 billion; this is forecast to reduce over the next 12 months to £3.3 billion as cash is used to fund planned capital expenditure.
   - New finance of £3.7 billion was agreed in the quarter, including £2.1 billion from capital markets and £1.5 billion from banks.
   - Loan repayments of £1.4 billion were made in the quarter.
   - Cash interest cover, excluding current asset sales, was 129% in the quarter to December 2019 against a forecast of 116%. Interest cover is forecast to average 128% over the next 12 months as expenditure on capitalised repairs and maintenance is expected to increase.

- Providers making use of free-standing derivatives reported mark-to-market (MTM) exposure of £2.3 billion, a 12% decrease since September, reflecting an increase in swap rates at the quarter end. In aggregate, providers continue to have headroom on available collateral on MTM exposures.

- Income collection data continues to show a stable performance consistent with seasonal trends.

6. 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. In aggregate, asset sale receipts were 12% below the forecast made in September.

- Investment in housing supply was £3.5 billion in the quarter to December 2019, the highest amount recorded since the data was first collected in 2015. This was below the total forecast expenditure for the quarter of £4.1 billion, but in excess of the £3.1 billion forecast on contractually committed schemes.

- During the quarter 4,150 affordable home ownership (AHO) units were developed, and 3,826 were sold. The number of unsold units increased by 4%, to reach 6,943 at the end of December. Half of the unsold AHO units were held by 17 providers.

- During the quarter there was a 10% decrease in the number of AHO units unsold for more than six months, which numbered 2,353 at the end of December. This reflects the high level of sales in the quarter ending December 2019.

- Margins on AHO sales averaged 21.3% in the quarter, the lowest rate achieved in the last three years.

- During the quarter 1,554 market sale units were developed and 1,213 were sold. The number of unsold properties increased by 14% to 2,537, the highest level recorded since the data was first collected in June 2014. 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 16% to 1,028. This reflects a drop in market sales in the quarter to December 2019 when compared to the previous quarter.

- The sector's spending on capitalised major repairs in the quarter was around £508m, 18% below forecast. The main reasons for variances relate to delays in repair programmes and the re-profiling of planned works.

7. Forecasts for the next 12 months indicate that the sector is planning to increase its development and housing market exposure, and its investment in existing stock. There is some flexibility in these plans:

- Forecast capital expenditure over the next 12 months will be supported by drawing additional debt of £5.3 billion, use of £2.0 billion of cash reserves, and grant funding of £1.9 billion.

- Over the 12-month forecast period, expected investment in new housing supply is £16.9 billion, of which £11.0 billion is contractually committed. In the 12 months to December 2019 total investment in new supply was £12.6 billion.

- In the 12 months to December 2020, the sector is forecasting £5.4 billion worth of current asset sales and £1.6 billion of fixed asset sales. By comparison, in the 12 months to December 2019, current asset sales were £3.5 billion and fixed asset sales were £1.8 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 33,953 AHO units and 12,063 market sale properties. This compares to 23,075 AHO units and 8,309 market sale properties developed in the last 18 months.

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

Regulatory expectations

8. 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.

9. 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.

10. 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.

11. 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.

Private finance

12. The sector's total agreed borrowing facilities reached £101.9 billion at the end of the quarter, £60.7 billion (60%) of which were bank loans.

13. £79.4 billion is currently drawn, leaving undrawn facilities of £22.5 billion. This is the highest amount of available facilities ever reported by the sector. Bank loans account for 82% (£18.6 billion) of available facilities.

14. 93% (September: 96%) of providers forecast that current debt facilities are sufficient for more than 12 months.

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

15. At a sector level, current cash and undrawn facilities (£27.6 billion) are sufficient to cover forecast expenditure on interest costs, loan repayments and development for the next year (£20.2 billion), even if no new debt facilities are arranged and no sales income is received.

16. In the 12 months to December 2020 the sector is forecasting loan drawdowns of £7.2 billion (September 12-month forecast: £7.7 billion), of which £1.2 billion is from facilities not yet agreed (September: £1.0 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.

17. The number of providers arranging new finance remained the same as in the previous quarter, with 42 providers reporting activity. New facilities agreed, including refinancing, totalled £3.7 billion, with 11 providers each arranging facilities worth £100 million or more. Across all providers, a total of £1.4 billion worth of loans were repaid during the quarter, with £1.2 billion of this being repaid by providers that were also raising new finance.

18. Capital market funding, including private placements and aggregated bond finance, accounted for 55% (£2.1 billion) of new funding in the quarter. Bank lending contributed 42% (£1.5 billion), and other sources, including local authority lending, contributed 3%. Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.

Figure 1: Total facilities £billions

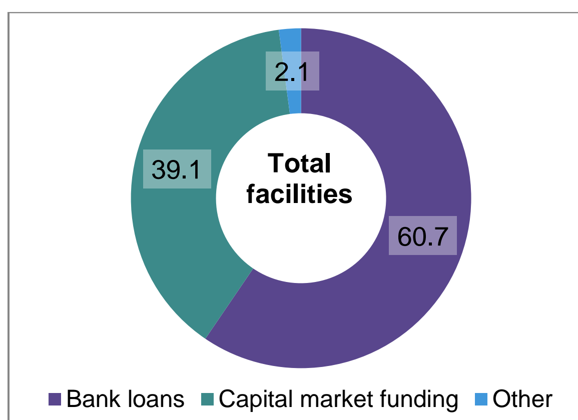
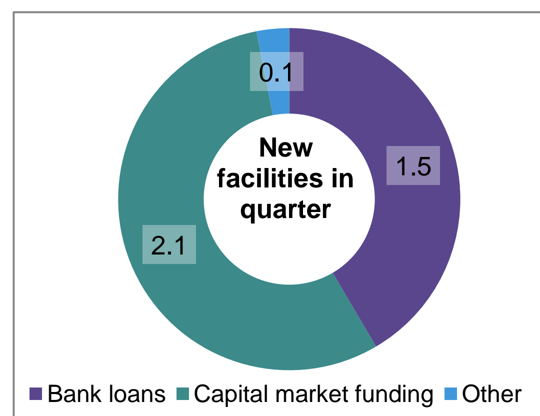


Figure 2: New facilities in quarter £billions



19. Of the £101.9 billion agreed facilities, £92.3 billion has been secured and £5.0 billion of facilities do not require security. There are further agreed facilities of £4.7 billion where security is not yet in place.

Cashflows

20. 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.

Table 1: Summary cashflow forecast[2]

Figures in £ billions	3 months to 31 December 2019 (forecast)	3 months to 31 December 2019 (actual)	12 months to 31 December 2020 (forecast)
Operating cashflows excluding sales	1.0	1.1	4.3
Interest cashflows	(0.8)	(0.8)	(3.4)
Payments to acquire and develop housing	(4.1)	(3.5)	(16.9)
Current assets sales receipts	1.2	0.9	5.4
Disposals of housing fixed assets	0.4	0.4	1.6
Other cashflows	(0.2)	(0.2)	(0.3)
Cashflows before resources and funding	**(2.7)**	**(2.1)**	**(9.2)**
Financed by:			
Net grants received	0.5	0.5	1.9
Net increase in debt	1.2	1.3	5.3
Use of cash reserves	1.0	0.2	2.0
Total funding cashflows[3]	**2.7**	**2.1**	**9.2**

21. Interest cover, based on operating cashflows excluding sales, stood at 129% in the quarter to December 2019 (September 2019: 149%). This compares to a forecast of 116% made in September 2019. The reduction in interest cover compared to quarter two is mainly due to an increase in expenditure on capitalised repairs and maintenance of 11%, coupled with a reduction in net cashflow from operating activities of 5%.

22. Interest cover over the next 12 months is expected to reduce to an average of 128%, due to a further increase in anticipated expenditure on capitalised repairs and maintenance. Expenditure in these areas is forecast to be on average £98 million higher per quarter than in the quarter to December 2019.

[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.

23. Actual capitalised repair and maintenance expenditure in the quarter amounted to £508 million (September 2019: £458 million), 18% less than the £617 million forecast in September. Variances have been attributed to delays in repair programmes and re-profiling of planned works.

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

25. In the 12 months to December 2019 current asset sales of £3.5 billion were achieved. In the 12 months to December 2020, the sector is forecasting £5.4 billion worth of current asset sales, of which £5.0 billion relates to properties for which development is contractually committed. Current asset sales receipts in the quarter were £0.9 billion, compared to the £1.2 billion forecast in September.

26. In the 12 months to December 2019, fixed asset sales were £1.8 billion. In the 12 months to December 2020, the sector is forecasting £1.6 billion worth of fixed asset sales.

27. Expenditure on new supply in the quarter totalled £3.5 billion. This was below the forecast of £4.1 billion, however above the £3.1 billion forecast expenditure on contractually committed schemes.

28. 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 September of £0.8 billion.

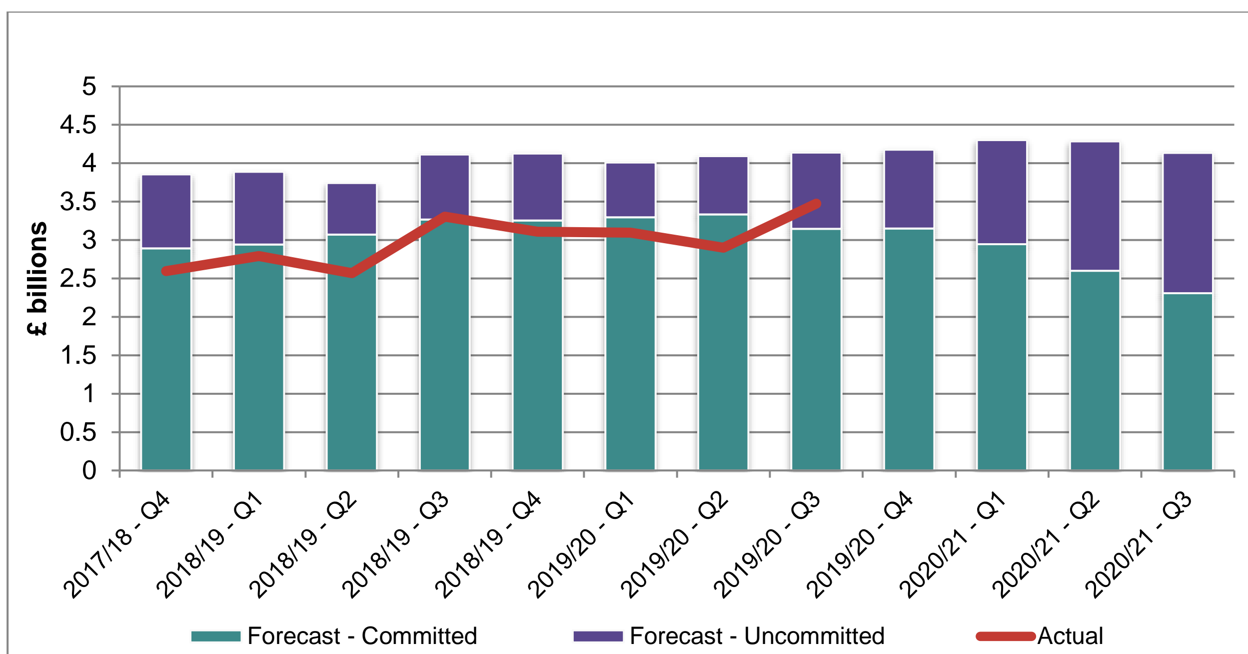
29. Cash available at December 2019 was £5.1 billion, the lowest available balance in over four years. This is forecast to reduce further to £3.3 billion over the next 12 months as cash reserves are used to fund capital investment.

30. In addition to the £5.1 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £0.9 billion at December 2019 (September 2019: £1.0 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and MTM cash collateral.

Development

31. In the 12 months to December 2019, £12.6 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 £5.9 billion of uncommitted expenditure has been forecast.

Figure 3: Payments to acquire and develop housing



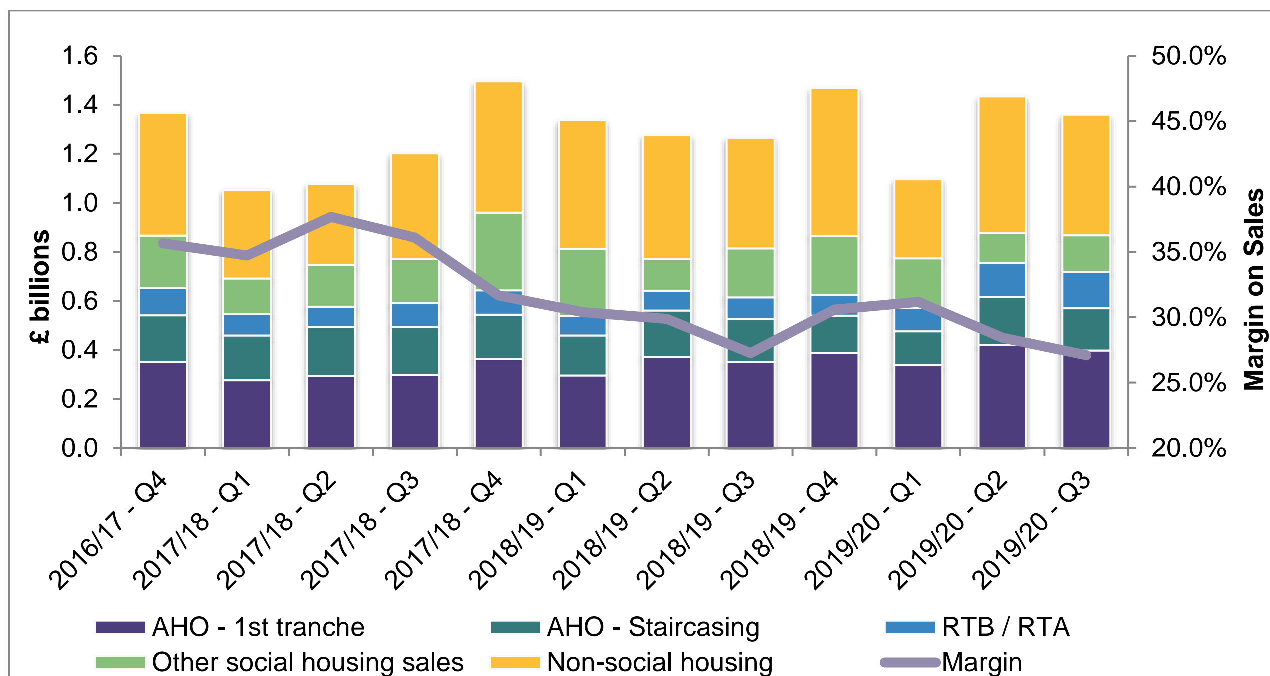
32. Actual expenditure in the quarter ending December 2019 was £3.5 billion, the highest amount recorded since the cashflow data was first collected in the quarterly survey in 2015. This was below the total forecast expenditure of £4.1 billion, but in excess of the £3.1 billion forecast on contractually committed schemes.

33. Development programmes are subject to change, and the variance in expenditure compared to the total forecast is largely a result of timing differences and slippage. Providers consistently exercise prudence in their forecasts by over estimating expenditure on development.

Housing market

34. Total asset sales amounted to £1.4 billion in the quarter to December 2019, a 7.5% increase on the corresponding quarter of 2018/19. Surpluses from asset sales were £0.4 billion, giving a margin on sales of 27%. This is the lowest margin recorded over the last three years.

Figure 4: Value of asset sales



35. Fixed asset sales for the quarter (including staircasing, RTB/RTA and voluntary sales) amounted to £0.4 billion; 22% higher than the amount forecast in September 2019. Current asset sales in the quarter (market sales and first tranche AHO sales) were £0.9 billion; 22% less than the forecast of £1.2 billion.

36. AHO sales were 3,826 units (September: 3,773) compared to the 4,150 completions reported in the quarter (September: 3,576). The total number of unsold AHO units increased by 4% to reach 6,943 at the end of December (September: 6,688). The number of units unsold for more than six months decreased by 10% to 2,353 (September: 2,614).

37. The decrease in the number of units unsold for over six months reflects the high level of AHO unit sales in the quarter. The 3,826 sales achieved in the quarter to December 2019 is the highest number reported since the data was first collected, and the sales figures have been on the increase since June 2019.

38. Over half of the unsold AHO stock at the end of the quarter was held by 17 providers. These 17 providers all have access to sufficient finance, with each holding between £0.2 billion and £1.3 billion worth of cash and undrawn facilities. Between them this amounts to £9.2 billion, or 33% of the total facilities available within the sector.

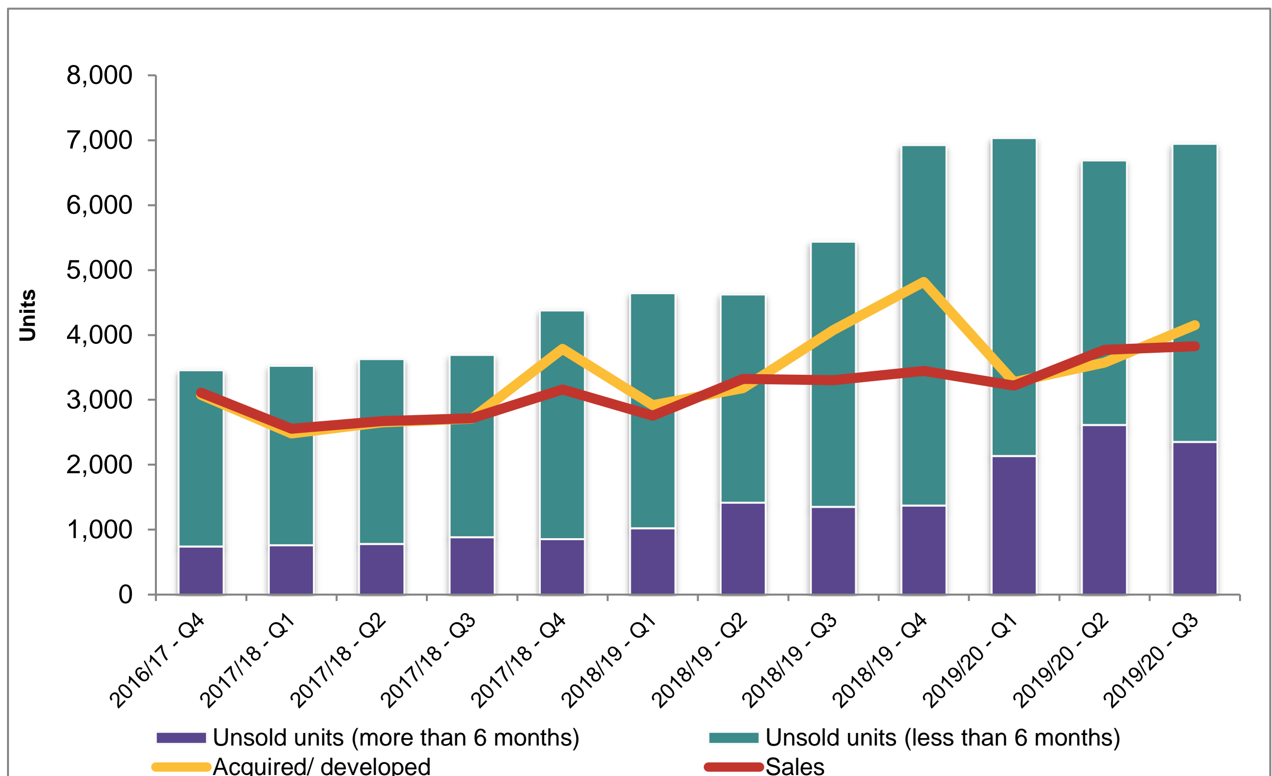
39. Of the unsold AHO stock at the end of the quarter, 34% had been unsold for over six months (September: 39%), compared to an average of 26% over the last three years. 41% of the units unsold for over six months were held by providers operating mainly in London and the South East[4], where development is concentrated; 34% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas.

40. There were six providers holding over 100 units of stock that had been unsold for more than six months, accounting for 43% 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.

41. The overall surplus on AHO sales was £84.6 million in the quarter to December 2019, giving a margin on sales of 21.3% (September: 23.3%). This is the lowest margin to have been achieved in over three years. AHO margins have reduced steadily over this period, from a peak of 34.2% in quarter two of 2016/17.

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

Figure 5: AHO/LCHO unsold units



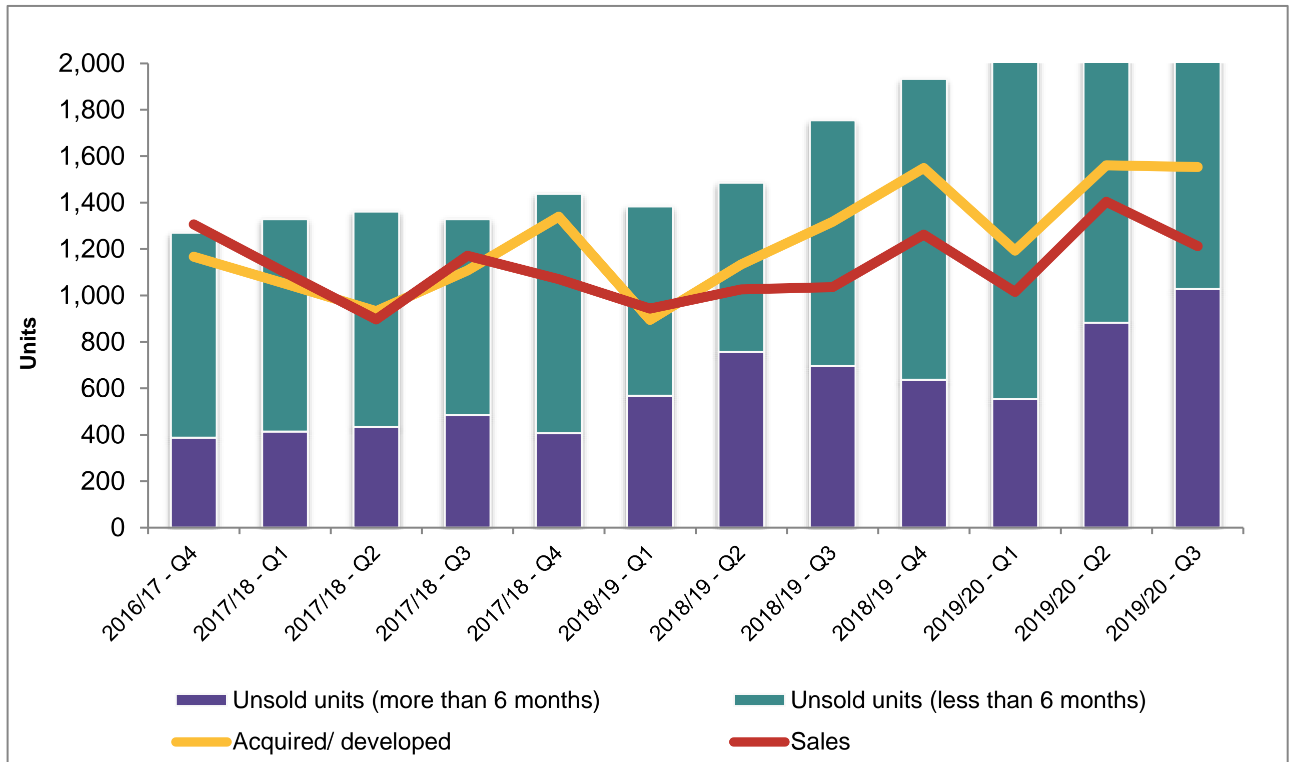
43. Development for outright market sale is concentrated in relatively few providers. There were 1,213 sales in the quarter (September: 1,404) compared to the 1,554 units developed for market sale (September: 1,561). The total number of unsold market sale units increased by 14% to reach 2,537 at the end of December (September: 2,229), the highest level recorded since the data was first collected in June 2014. The number of units unsold for over six months increased by 16% to 1,028 (September: 883).

44. The increase in the number of units unsold for over six months reflects the drop in market sales in the quarter. The 1,213 sales achieved in the quarter to December 2019 is a decrease of 14% from the previous quarter. This is also the sixth consecutive quarter in which the number of units acquired or developed has exceeded the number of sales.

45. Roughly half of the unsold market sale units reported at the end of the quarter were held by just six providers. These six providers each have access to between £0.2 billion and £0.9 billion worth of cash and undrawn facilities. Between them this amounts to £3.3 billion, or 12% of the total facilities available within the sector.

46. Of the unsold market sale stock at the end of the quarter, 41% (1,028 units) had been unsold for over six months (September: 40%), compared to an average of 36% over the last three years. 56% of this stock was held by five providers.

Figure 6: Market sales



47. The overall surplus on market sales was £75.2 million in the quarter to December 2019, giving a margin on sales of 15.3% (September: 17.6%). The average margin over the last three years has been 19.7%.

48. The pipeline of AHO completions expected in the next 18 months is 33,953 (September: 34,827) of which 28,087 are contractually committed. This is an increase of 47% compared to the actual performance in the 18 months to December 2019, when there were 23,075 AHO completions. For market sale, 12,063 (September: 13,256) completions are expected in the next 18 months, of which 11,292 are contractually committed. This is 45% higher than the 8,309 market sale completions achieved in the 18 months to December 2019.

Derivatives

49. 40 providers (September: 40) currently make use of free-standing derivatives.

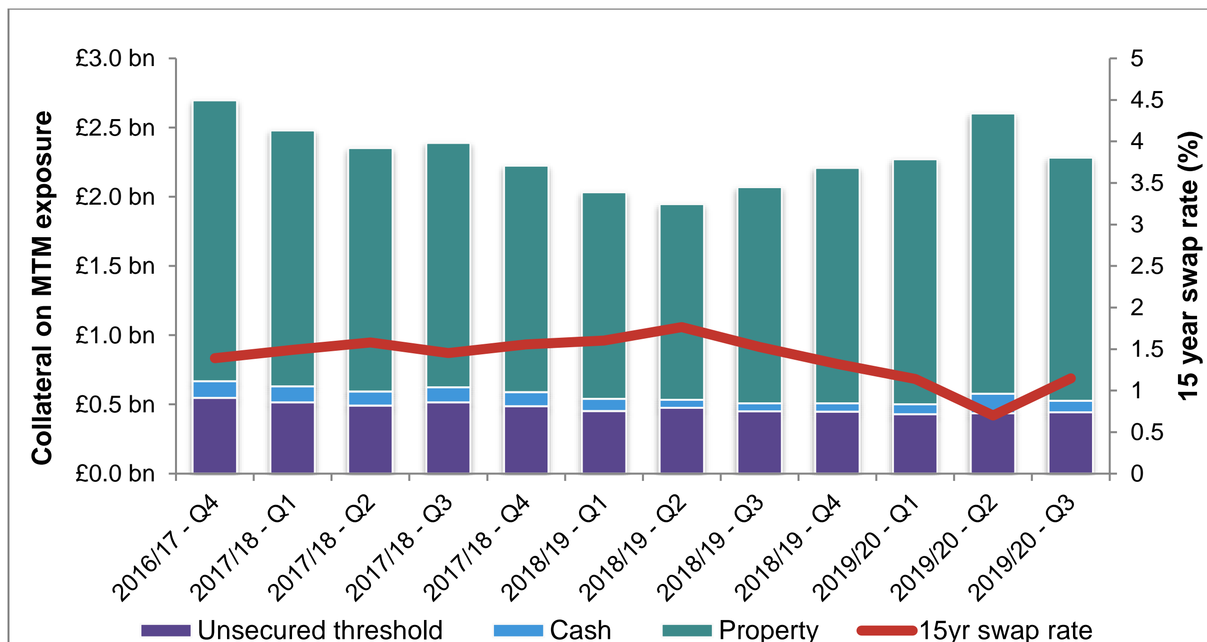
50. At the end of December, the notional value of standalone derivatives was £9.1 billion (September: £9.1 billion).

51. The gross MTM exposure reduced by 12% over the quarter, from £2.6 billion in September to £2.3 billion at the end of December.

52. Unsecured thresholds and available security pledged to swap counterparties was £3.6 billion. Of this total collateral, £2.0 billion (September: £2.3 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.4 billion.

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

Figure 7: Derivatives – Mark to market / Collateral



54. The above graph shows MTM exposures excluding excess collateral. The 15-year sterling swap rate increased from a low of 0.70% in September to 1.15% at the end of December, resulting in a decrease in MTM exposure.

55. 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 £1.3 billion.

56. Of the 40 providers making use of free-standing derivatives, 36 have collateral pledged that exceeds their current level of exposure. The four providers that were under-collateralised have sufficient liquidity to cover any potential future margin calls.

57. 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.

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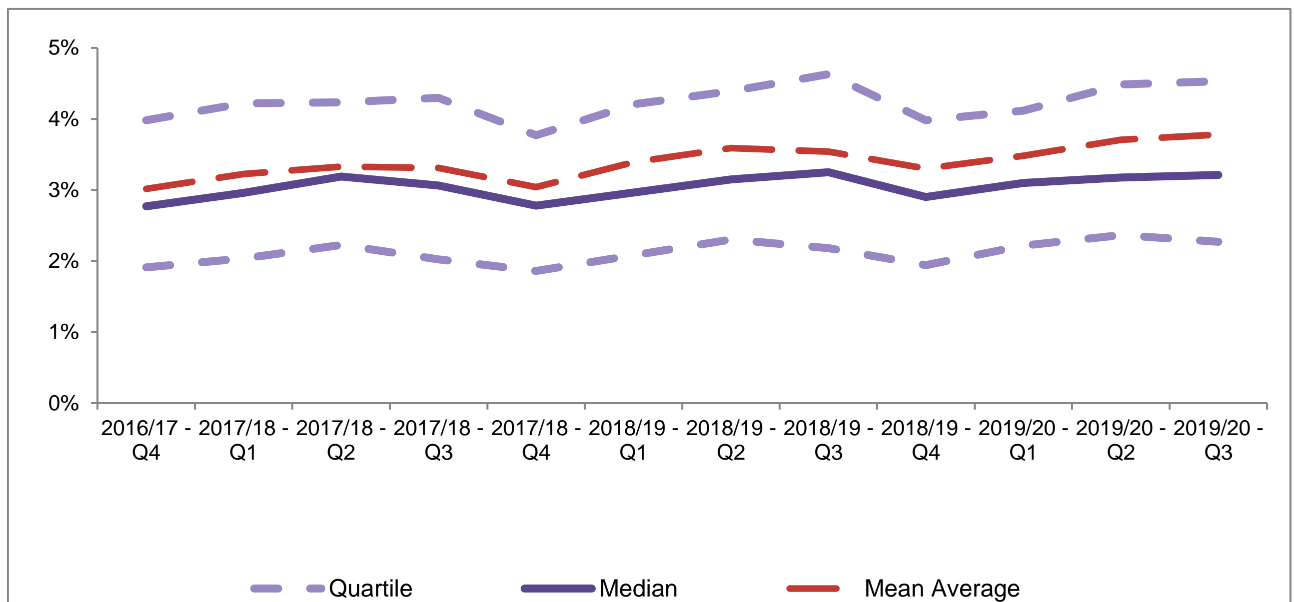
Income collection

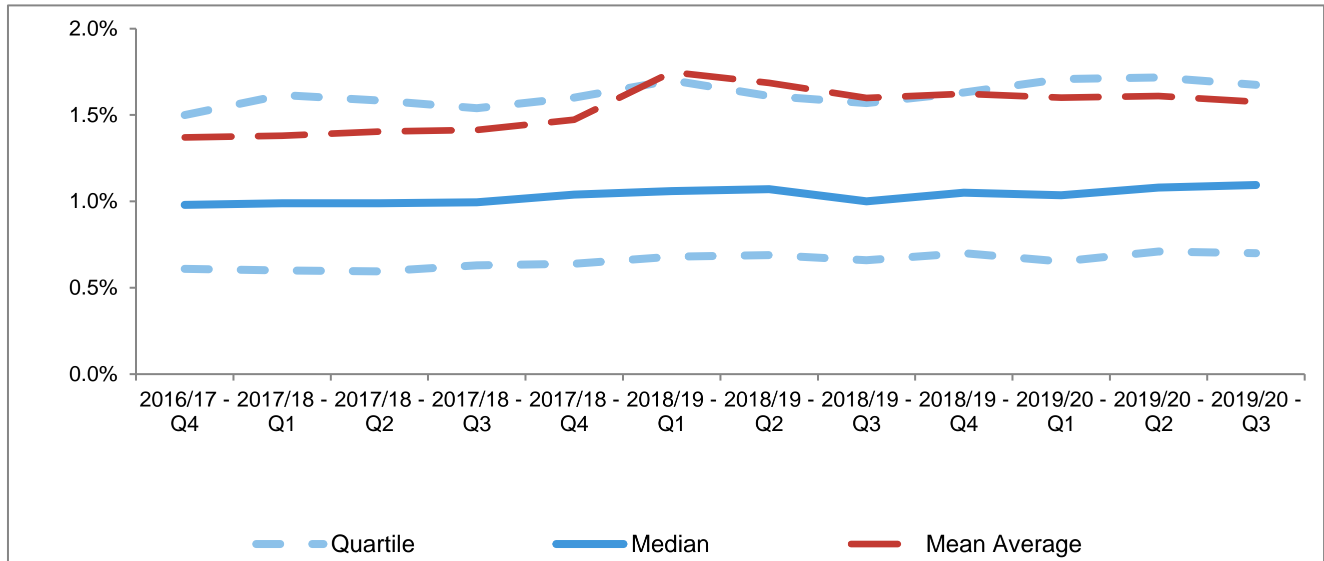
58. Most providers (82%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter remain reasonably stable, suggesting that providers are managing income collection risks and maintaining 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.

Figure 8: Current tenant arrears



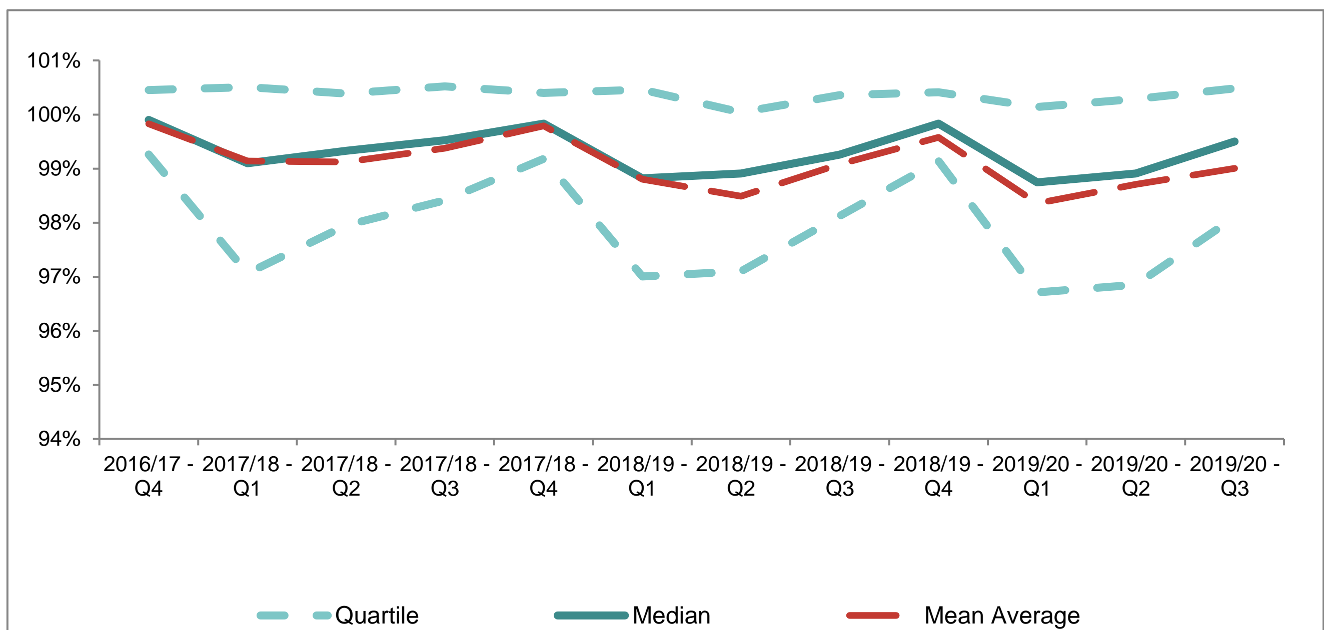
59. Mean current tenant arrears increased to 3.8% during the quarter (September: 3.7%), whereas median arrears remained at 3.2%. The median is lower than the 3.3% reported in the corresponding quarter of 2018/19, however mean arrears have increased from 3.5% over the 12-month period.

Figure 9: Void losses



60. Median void losses for the year-to-date remained at 1.1% at the end of the quarter (September: 1.1%), while mean void losses remained at 1.6% for the fifth consecutive quarter. The mean average is affected by 11 providers reporting void losses of 5% or more.

Figure 10: Rent collection



61. Mean average rent collection rates were 99.0% in the nine months to December 2019, while the median was 99.5%. The median is higher than the 99.3% recorded in the corresponding quarter of 2018/19, whereas the mean is slightly lower (December 2018: 99.1%). 13 providers reported rent collection rates of less than 95% (September: 17).

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