Regulator of
Social Housing

Quarterly survey for Q1

April to June 2020

August 2020

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Introduction

1. This quarterly survey report is based on regulatory returns from 215 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 April 2020 to 30 June 2020.

3. The regulator continues to review each PRP's quarterly survey. It considers a range of indicators and follows up with PRP staff in 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.

4. The coronavirus outbreak was declared a global pandemic on 11 March. The UK was put into lockdown on 23 March to limit its spread, which had an immediate impact upon the housing market. An initial easing of restrictions was effected from May, with further easing in June and July.

Summary

5. The position reported at the end of the quarter showed that, despite the challenges of lockdown, the sector remained financially strong with access to sufficient finance:

   - Debt facilities of £107.1 billion were in place at the end of June, of which £24.8 billion was undrawn. At the end of March undrawn facilities were £21.9 billion.

   - Available cash balances increased by £0.1 billion during the quarter to reach £6.4 billion at the end of June. This has been forecast to reduce over the next 12 months to £4.2 billion as cash is used to fund capital investment.

   - New finance of £4.5 billion was agreed in the quarter, including £3.1 billion from capital markets and £1.3 billion from banks. Capital market funding included £1.3 billion from the Covid Corporate Financing Facility, in which eight providers participated.

   - Providers making use of free-standing derivatives reported mark-to-market (MTM) exposure of £2.7 billion, a 6% increase since March, reflecting a decrease in swap rates at the quarter-end.

- In aggregate, providers continued to have headroom on available collateral on MTM exposures.

6. As anticipated, performance in the quarter reflected the challenges experienced from the lockdown which impacted on sales receipts and margins, and income collection. However, this did not destabilise the sector's overall strong financial position:

    - Cash interest cover, excluding current asset sales, was 143% in the quarter to June 2020 compared to a forecast of 118%. The improvement in interest cover was largely a result of capitalised repairs and maintenance expenditure being £153 million (39%) below forecast.

    - Including both current and fixed asset sales, total sale receipts were £0.9 billion in the quarter, generating surpluses of £0.3 billion. In aggregate, asset sale receipts were 10% below the forecast made in March, although some providers had not previously updated their forecast to include impacts of the lockdown. In comparison to the pre-coronavirus forecast in December for the same period, asset sale receipts were 56% lower than predicted.

    - Investment in housing supply was £1.8 billion in the quarter to June 2020. This was below the total forecast expenditure for the quarter of £2.1 billion, and down 47% from December, but above the £1.7 billion forecast on contractually committed schemes.

    - During the quarter 1,663 affordable home ownership (AHO) units were developed, and 1,963 were sold. The number of unsold units increased by 1%, to reach 7,906 at the end of June[1]. Around half of the unsold AHO units were held by 16 providers.

    - During the quarter there was a 13% increase in the number of AHO units unsold for more than six months, which reached 3,460 at the end of June.

    - Margins on AHO sales averaged 18.3% in the quarter, the lowest rate achieved since quarter three of 2013/14. First tranche sale data was first collected in 2011. AHO margins have reduced steadily from a peak of 31.2% in quarter three of 2017/18.

[1] The small increase in number of unsold units at the end of the quarter was partly due to an additional provider completing the Quarterly Survey for the first time, contributing an additional 429 unsold AHO units in the quarter.

- During the quarter 347 market sale units were developed, the lowest figure reported since sales data was first collected in 2011, and 508 were sold. The number of unsold properties decreased by 8% to 2,816. Over half of the total unsold market sale units were held by seven providers.

- The decrease in the number of unsold market sale units reflected the low number of units acquired or developed in the quarter. An average of 1,282 units were completed in each of the past three quarters, compared to 347 units completed in the latest quarter.

- Expenditure on capitalised repairs and maintenance in the quarter amounted to £243 million (March 2020: £592 million, June 2019: £430 million). This is the lowest level of capital expenditure reported since cashflow data was first collected in 2015, as lockdown restrictions and social distancing measures reduced the ability of providers to carry out planned programmes.

- Mean arrears increased to 4.0% during the quarter, and mean void rent loss increased to 2.2%. Rent collection rates reduced to 97.2%, compared to 97.9% in the same period of the previous year. Void rent losses are the highest and rent collection rates the lowest recorded since income data was first collected in 2013, however this has not undermined the sector's overall strong financial position.

7. Forecasts for the next 12 months indicated that the sector expects to increase its development and housing market exposure, and its investment in existing stock. Forecasts will continue to evolve over the coming months and will be heavily dependent upon any further coronavirus restrictions or localised lockdowns.

- Forecast capital expenditure over the next 12 months was reported to be funded by drawing additional debt of £5.9 billion, use of £2.3 billion of cash reserves, and grant funding of £1.5 billion.

- Over the 12-month forecast period, expected investment in new housing supply was forecast to be £15.5 billion, of which £10.6 billion was contractually committed.

  - This was an 18% increase from the previous quarter, when providers were forecasting investment expenditure of £13.1 billion.
  - It is still under the pre-coronavirus forecast from December of £16.9 billion, of which £11.0 billion was contractually committed.
  - In the 12 months to June 2020 actual investment in new supply was £11.1 billion.

- For the 12 months to June 2021, the sector was forecasting £4.2 billion of current asset sales and £1.3 billion of fixed asset sales.

  - This was a 14% increase from the previous quarter, when providers were forecasting 12-monthly current assets sales of £3.6 billion and fixed asset sales of £1.2 billion.
  - The pre-coronavirus 12-month forecast made in December included £5.4 billion of current asset sales and £1.6 billion of fixed asset sales.
  - In the 12 months to June 2020, actual current asset sales were £3.4 billion and fixed asset sales were £1.9 billion.

- In the next 18 months, including committed and uncommitted development, providers were forecasting the completion of 33,230 AHO units and 10,390 market sale properties.

  - In total, development estimates increased by 11% from the 18-month forecasts made in the previous quarter.
  - However, the June development pipeline is still a 2% drop in AHO units and a 16% drop in market sale units compared to pre-coronavirus December numbers.
  - In the 18 months to June 2020, 22,351 AHO units and 8,149 market sale properties were developed.

- For the 12 months to June 2021 the sector was forecasting capitalised repairs and maintenance expenditure of £2.3 billion.

  - This was an 8% increase on forecast expenditure made in the previous quarter.
  - The pre-coronavirus 12-month forecast made in December included capitalised major repairs expenditure of £2.4 billion. Generally, providers are reporting that they are planning to reschedule any capital expenditure that was delayed during the first quarter of the year to a later date.
  - In the 12 months to June 2020, capitalised expenditure on repairs and maintenance was £1.8 billion.

Operating environment

8. In response to the coronavirus pandemic, the UK was put into lockdown on 23 March. An initial easing of restrictions was effected from May, with further easing in June and July.

9. The UK is now in a technical recession, after Gross Domestic Product (GDP) fell by 2.2% in the quarter from January to March, followed by a record fall of 20.4% in the quarter from April to June[2]. The International Monetary Fund (IMF) has revised its forecast for global economic growth in 2020 from the increase of 3.3% that was expected in January 2020[3], to a contraction of 4.9%[4].

10. In light of the expected economic impact of coronavirus, the Bank of England reduced interest rates to 0.25% on 11 March. In a further emergency response this was reduced for a second time on 19 March to 0.10%, where it currently remains.

11. The coronavirus lockdown had an immediate impact upon the housing market. Construction sites were shut down while safety measures were put in place, and non-essential house moves were put on hold. An easing of restrictions in May meant that the housing market could begin to re-start. Construction workers were encouraged to return to work from 11 May, and non-essential house moves and viewings were allowed from 13 May. This led to a record level of growth in construction output between May and June of 23.5%, although output remained nearly 25% below the levels recorded in February 2020[5]. Post quarter-end, in a bid to boost the housing market the Chancellor announced a temporary rise in the Stamp Duty threshold, effective from 8 July.

12. Annual and monthly inflation rates for construction output prices were both 0.0% in June. This is the lowest annual inflation rate reported since records began in 2015[6]. Overall inflation, as measured by the Consumer Prices Index (CPI), increased by 0.6% in the 12 months to June 2020, and by 1.0% in the 12 months to July[7].

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[2] https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/june2020

[3] https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020

[4] https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

[5] https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/june2020newordersandconstructionoutputpriceindicesapriltojune2020

[6] https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/june2020newordersandconstructionoutputpriceindicesapriltojune2020#construction-output-price-indices-in-june-2020

[7] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2020

13. Estimates from the Office for National Statistics suggest that the number of payrolled employees in the UK reduced by around 730,000 in the period between March and July 2020, with the claimant count increasing by nearly 117% in the same period. In June, around 7.5 million people were estimated to be temporarily away from work or furloughed[8].

14. The Coronavirus Job Retention Scheme, which allows employers to claim grant to cover the salary costs of furloughed workers, will end on 31 October 2020, with the amount of grant available under the scheme reducing from the previous level of 80% of wages, to 70% during September and then to 60% during October. Additional financial measures have been announced by the Chancellor in an attempt to safeguard jobs[9], however it is widely anticipated that further increases in unemployment will occur once the furlough scheme comes to an end. Latest forecasts from the Bank of England suggest that unemployment will peak at around 7.5% in quarter four of 2020[10].

15. There continues to be material uncertainty over the future course of the coronavirus pandemic and the economic conditions that will follow. A second wave of the virus is possible, as are further restrictions on movements; either at a national or a localised level. Providers will need to constantly monitor performance and forecasts and be ready to react as necessary to the rapidly changing environment.

[8] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2020
[9] https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020
[10] https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/august/monetary-policy-report-august-2020.pdf

Regulatory expectations

16. The coronavirus lockdown began shortly before the end of quarter four 2019/20, bringing unprecedented challenges for providers and forcing them to make initial assumptions on the impact of the pandemic on their cashflows and business plans. The effects of this new operating environment remain highly uncertain and will not yet be fully reflected in the forecasts submitted at the end of June. However, the majority of providers have now adjusted their plans accordingly in contrast to the previous (March end) quarter. Providers expect to continue to adjust these forecasts over the coming months as the situation develops.

17. In response to the lockdown, the regulator wrote to providers[11] in March setting out that it had changed its overall approach to regulation to focus on understanding the short-term risks that PRPs are facing. Two formal sources of information will be used to do this, namely the existing quarterly survey which focuses on key financial risks, and also a new monthly Coronavirus Operational Response survey (CORS) of landlords to understand the impact of lockdown on the delivery of critical services.

18. A follow up letter was sent to providers[12] in July setting out regulatory updates as the pandemic situation eases. Financial forecasts returns (FFRs) supported by current business plans from providers will be required by 30 September 2020, and the deadline for FVA (annual electronic accounts return) and account submissions extended to 31 December 2020, though it is strongly encouraged that providers submit as soon as accounts and the FVA have been signed off. The regulator will continue to ask for the quarterly survey returns in line with normal timescales and will continue to run the CORS on a monthly basis for the time being.

19. It is recognised that until the easing of lockdown restrictions providers may have encountered difficulties in meeting some elements of the consumer standards and backlogs of work may have built up, however most providers are now reporting a return to normal service levels. The CORS will continue to provide information on how providers are managing. Providers should contact us separately if they believe tenant safety is threatened. In respect of the Governance and Financial Viability Standard, PRPs must continue to inform the regulator in a timely manner regarding any viability issues that arise.

[11] https://www.gov.uk/government/publications/letter-to-registered-providers-26-march-2020
[12]https://www.gov.uk/government/publications/letter-to-large-registered-providers-1-july-2020/letter-to-large-providers-1-july-2020

20. PRPs are still expected to manage their resources and risks effectively to ensure that their viability is maintained. In particular, liquidity must be ensured, and emerging risks must be carefully monitored and factored into cash flow planning. The regulator continues to follow up cases where financial indicators, such as liquidity and covenant headroom, are weak, to ensure that PRPs are managing their risks effectively. The regulator also continues to monitor developments in the housing market closely and will engage with providers with significant exposures to market and AHO sales. It is particularly important that providers have contingency plans in place for housing market sales falling short of forecasts.

21. As the coronavirus outbreak continues to affect the economic environment, the regulator has extended its assessment of liquidity to include the impact of cash or facilities being inaccessible, reductions in trading cashflows and sales receipts and any subsequent impacts on covenant compliance. We will engage with providers that show indications of a weak liquidity position over the next 12 months and may request that they share their own cashflow monitoring information.

Private finance

22. The sector's total agreed borrowing facilities reached £107.1 billion at the end of the quarter, £62.2 billion (58%) of which were bank loans.

23. £82.4 billion was reported as being drawn, leaving undrawn facilities of £24.8 billion. Available facilities have almost doubled over the last five years and are currently at the highest level ever reported. Undrawn bank loans accounted for 83% (£20.6 billion) of available facilities.

24. Of the £107.1 billion agreed facilities, £96.2 billion had been secured and £6.6 billion of facilities did not require security. There were further agreed facilities of £4.4 billion where security was not yet in place.

25. 93% (March: 93%) of providers were forecasting that debt facilities available at the end of June would be sufficient for more than 12 months.

26. At a sector level, total cash and undrawn facilities totalled £31.1 billion. This included £3.6 billion from capital markets, which typically takes longer to access than traditional bank finance. Available facilities were sufficient to cover the forecast expenditure on interest costs (£3.3 billion), loan repayments (£2.6 billion) and net development for the next year (£14.0 billion), even if no new debt facilities were arranged and no sales income was received.

27. For the 12 months to June 2021 the sector was forecasting loan drawdowns of £8.5 billion (March 12-month forecast: £7.4 billion), of which £1.6 billion was from facilities not yet agreed (March: £1.3 billion). The drawdowns from facilities not yet agreed were reported by 29 providers that plan to refinance or extend their existing facilities over the next 12 months.

28. A total of 37 providers arranged new finance during the quarter. New facilities agreed, including refinancing, totalled £4.5 billion, with 15 providers each arranging facilities worth £100 million or more. Across all providers, a total of £1.0 billion worth of loans were repaid during the quarter, with £0.9 billion of this being repaid by providers that were also raising new finance.

29. Capital market funding, including private placements and aggregated bond finance, accounted for 70% (£3.1 billion) of new funding in the quarter. Bank lending contributed 30% (£1.3 billion), and other sources, including local authority lending, contributed less than 1%. Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.

30. Of the £3.1 billion worth of new capital market facilities agreed, £1.3 billion relates to the Covid Corporate Financing Facility (CCFF) provided jointly by HM Treasury and the Bank of England, in which eight providers had participated by the end of June.

Figure 1: Total facilities
£ billions

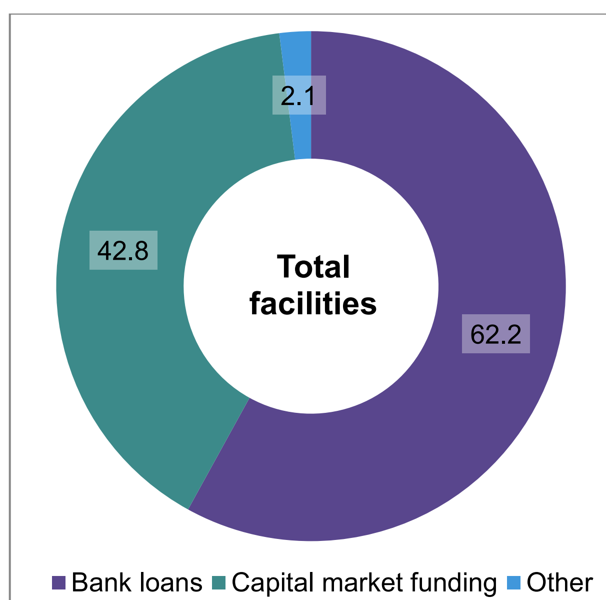
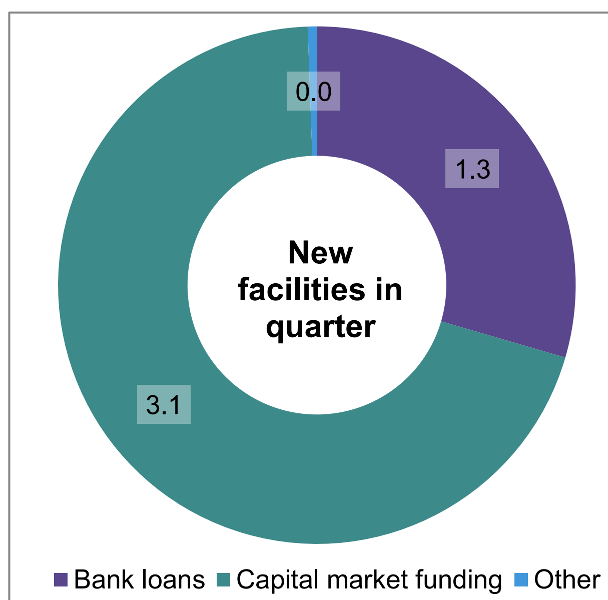


Figure 2: New facilities in quarter
£ billions



Cashflows

31. It is essential that providers have access to sufficient liquidity at all times. The regulator engages with PRPs that have low liquidity indicators.

32. Table 1 overleaf includes the cashflow forecasts for the 12 months to June 2021, and actual performance for the quarter compared to the previous forecast.

33. It should be noted that at the end of March, around 16% of providers had not reflected the anticipated effects of the coronavirus pandemic when producing cashflow forecasts for the current quarter. At the end of June, all but one provider had updated their cashflow forecasts for the implications of coronavirus. For all providers, it is expected that business plans and forecasts will continue to evolve further in the coming months.

Table 1: Summary cashflow forecast[13]

Figures in £ billions	3 months to 30 June 2020 (forecast)	3 months to 30 June 2020 (actual)	12 months to 30 June 2021 (forecast)
Operating cashflows excluding sales	1.0	1.2	4.0
Interest cashflows	(0.8)	(0.8)	(3.4)
Payments to acquire and develop housing	(2.1)	(1.8)	(15.5)
Current assets sales receipts	0.7	0.5	4.2
Disposals of housing fixed assets	0.2	0.3	1.3
Other cashflows	(0.1)	0.1	(0.4)
Cashflows before resources and funding	**(1.2)**	**(0.6)**	**(9.8)**
Financed by:			
Net grants received	0.3	0.3	1.5
Net increase in debt	0.8	0.5	5.9
Use of cash reserves	0.1	(0.1)	2.3
Total funding cashflows[14]	**1.2**	**0.6**	**9.8**

34. Interest cover, based on operating cashflows excluding sales, stood at 143% in the quarter to June 2020 (March: 132%). This compared to a forecast of 118% made in March. The improvement in interest cover was largely a result of capitalised repairs and maintenance expenditure being £153 million (39%) below forecast. Net cashflows from operating activities and net interest payable were both in line with forecasts.

35. The figures submitted by providers show interest cover reducing to 117% by the end of the 12-month forecast period. This is consistent with the 117% 12-month interest cover forecast made in the previous quarter, as an increase in forecast net cashflows from operating activities of £180 million has been materially offset by an increase in forecast capitalised repairs and maintenance expenditure of £164 million.

36. Actual capitalised repair and maintenance expenditure in the quarter amounted to £243 million (March 2020: £592 million, June 2019: £430 million). This is the lowest level of capital expenditure reported since cashflow data was first collected in 2015, as lockdown restrictions and social distancing measures reduced providers' abilities to

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

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

carry out planned programmes. In the 12 months to June 2020, capitalised expenditure on repairs and maintenance was £1.8 billion. For the 12 months to June 2021 the sector has forecast capitalised repairs and maintenance expenditure of £2.3 billion. This is an increase on the £2.2 billion 12-month expenditure forecast in March, although still below the £2.4 billion expected in December 2019.

37. Generally, providers are reporting that they are expecting all delayed works to be re-scheduled for the current or following year, with only a small proportion planning to reduce the overall level of investment and re-direct cash to other areas.

38. Actual expenditure on capitalised repairs and maintenance of £243 million was 39% less than the £396 million forecast in March, with over 60% of providers reporting an underspend against their previous forecast.

- 43% of the total underspend can be attributed to providers that had not previously updated their forecasts for the anticipated impact of Covid-19.

- The remaining 57% was reported by providers that had previously revised forecasts in March. It is usual for capital expenditure to be below forecast, as delays in carrying out works are often experienced and prudent assumptions are employed.

39. The particularly large underspend in the latest quarter reflects the high level of uncertainty felt by providers when producing the forecasts and suggests that providers were adopting a cautious approach to ensure that available cash was not overstated.

40. In the 12 months to June 2020 current asset sales of £3.4 billion were achieved. For the 12 months to June 2021, the sector was forecasting a further £4.2 billion worth of current asset sales, of which £3.9 billion related to properties for which development is contractually committed. The £4.2 billion current asset sales forecast is an increase from the £3.6 billion 12-month forecast made in March, but below the £5.4 billion forecast from December.

41. Actual current asset sales receipts in the quarter were £0.5 billion, compared to the £0.7 billion forecast in March. The difference in actual sales compared to forecast is almost entirely attributable to providers that had not reflected the expected impacts of the coronavirus pandemic in the forecasts submitted at the end of the previous quarter. In the 12 months to June 2020, fixed asset sales were £1.9 billion. For the 12 months to June 2021, the sector was forecasting £1.3 billion worth of fixed asset sales.

42. Available cash balances, excluding amounts held in secured accounts, increased by £0.1 billion during the quarter. The forecast from the previous quarter anticipated a reduction in cash of £0.1 billion by the end of June.

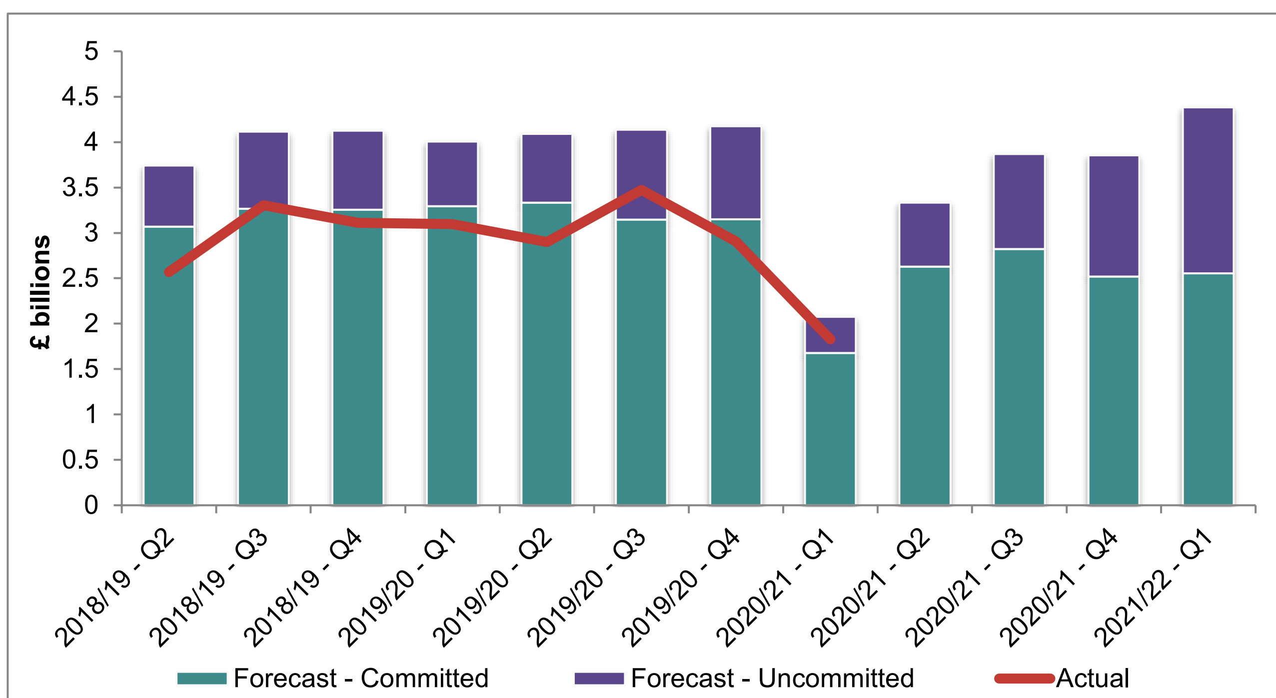
43. Cash available at June 2020 was £6.4 billion. Forecasts showed this reducing to £4.2 billion over the next 12 months as cash reserves are used to fund capital investment. In addition to the £6.4 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1.1 billion at June 2020 (March: £1.0 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and MTM cash collateral.

Development

44. In the 12 months to June 2020, £11.1 billion was invested in the acquisition and development of housing properties. For the next 12 months, an additional £15.5 billion was forecast to be invested, of which £10.6 billion was contractually committed. This is an 18% increase from the previous quarter, when providers were forecasting 12-monthly investment, including both committed and uncommitted expenditure, of £13.1 billion.

45. This is due to the gradual easing of lockdown restrictions and construction workers being encouraged to return to work in May, resulting in an increase of forecast development over the next 12 months. Nevertheless, it is still under the pre-coronavirus forecast development in December of £16.9 billion, of which £11.0 billion was contractually committed.

Figure 3: Payments to acquire and develop housing



46. Actual expenditure in the quarter ending June 2020 was £1.8 billion, a drop of £1.1 billion from the previous quarter, and down 47% from December 2019.

47. The significant drop in the quarter was due to a large spend on development in quarter four to meet year end delivery targets for the Affordable Homes Programme (AHP), followed by a usual dip in quarter one. However, this has been exacerbated by the lockdown restrictions.

48. Expenditure was also below the total forecast expenditure of £2.1 billion, but above the £1.7 billion forecast on contractually committed schemes. This was reflected by 76% of providers who had decreased their development spend from March, and only 18% of providers increased their spending, with the remainder left unchanged from previous quarter.

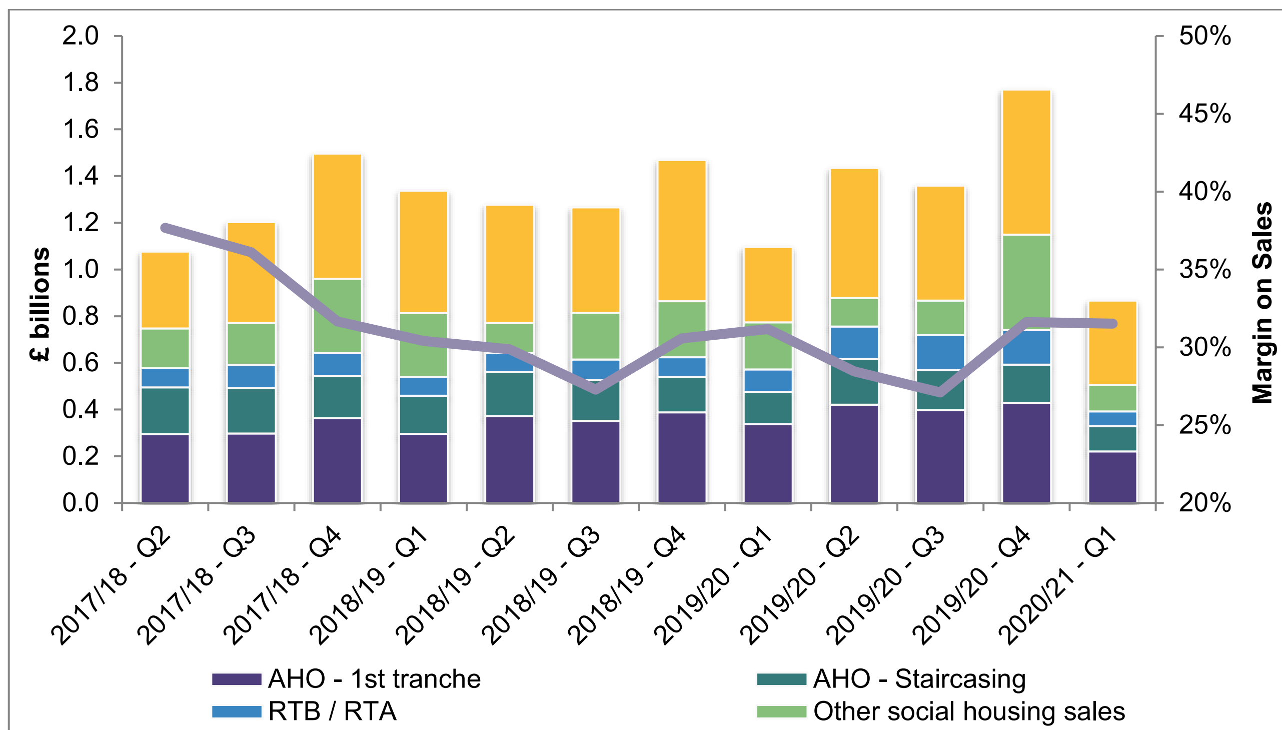
49. Development programmes are subject to change due to coronavirus restrictions and uncertainty. Providers will need to continue to assess and reforecast planned expenditure on developments and to account for the effects of projects being delayed or postponed due to further coronavirus restrictions or localised ‘lockdowns’.

50. The AHP which started on 1 April 2016 was scheduled to end at the end of this financial year, however due to construction delays caused by coronavirus the dates by which homes can be started and need to complete by, has been extended by 12 months. This will allow providers who already had allocated funding through the AHP to continue developing homes under the programme within the new extended deadlines.

Housing market

51. Total asset sales amounted to £0.9 billion in the quarter to June 2020, a decrease of 21% on the corresponding quarter of 2019/20. Overall, surpluses from asset sales were £0.3 billion, giving a margin on sales of 31.5%. This figure includes staircasing, RTB/RTA and voluntary sales, as well as AHO first tranche sales and market sales.

Figure 4: Value of asset sales



52. Fixed asset sales for the quarter (including staircasing, RTB/RTA and voluntary sales) amounted to £0.3 billion; 33% higher than the amount forecast in March 2020. This was mainly due to providers being prudent with their forecasts last quarter. Current asset sales in the quarter (market sales and first tranche AHO sales) were £0.5 billion; 23% less than the forecast of £0.7 billion. Providers reported this was mainly due to delays in completion which have been re-profiled.

53. AHO sales were 1,963 units (March: 3,959) compared to the 1,663 completions reported in the quarter (March: 4,870). The number of units acquired or developed significantly reduced by 66%, to the lowest figure it has been over the last five years, with the previous lowest figure reported in quarter one of 2016/17. The total number of unsold AHO units increased marginally by 1% to reach 7,906 at the end of June (March: 7,808), however this was driven by a low number of units being acquired or developed during the quarter rather than a high level of sales.

54. The number of units unsold for more than six months increased by 43% to 3,460 (March: 2,428). Around one-third of providers have reported that many of these properties have either been reserved or sold subject to contract and it is anticipated that more units will be completed by next quarter.

55. The small increase in the number of unsold AHO units at the end of the quarter was partly driven by an additional provider completing the Quarterly Survey for the first time, contributing an additional 429 unsold AHO units in the quarter. This is also partially offset by a significant reduction in the number of units acquired or developed in the quarter by 66%.

56. The 1,963 sales achieved in the quarter to June 2020 was the lowest number reported over the last five years. This was a reduction of around 50% compared to previous quarter and coincides with the significant reduction in units completed within the quarter.

57. Around half of the unsold AHO stock at the end of the quarter was held by 16 providers. These 16 providers all reported access to sufficient finance, with each holding between £0.1 billion and £1.4 billion worth of cash and undrawn facilities at the end of the quarter. Between them this amounted to £11 billion, or 35% of the total facilities available within the sector.

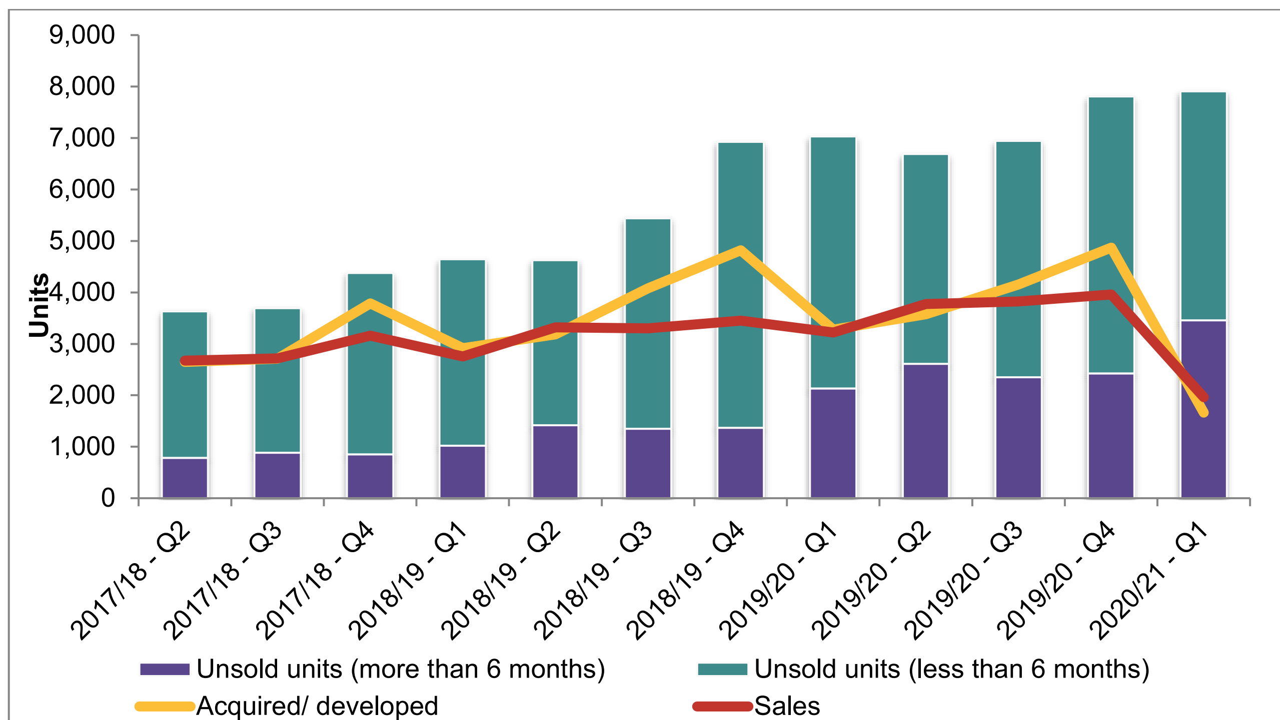
58. Of the unsold AHO stock at the end of the quarter, 44% had been unsold for over six months (March: 31%), compared to an average of 27% over the last three years. This is the highest number reported over the last five years and half of this stock was held by 12 providers. 30% of the units unsold for over six months were held by providers operating mainly in London and the South East[15], where development is concentrated; 30% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas.

59. There were 10 providers holding over 100 units of stock that had been unsold for more than six months, accounting for 45% of the total figure. Where sales income has been delayed, the regulator will monitor the provider's liquidity exposure. 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.

60. The overall surplus on AHO sales was £40.3 million in the quarter to June 2020, giving a margin on sales of 18.3% (March: 22.4%). This was the lowest margin to have been achieved since quarter three of 2013/14. AHO margins have reduced steadily from a peak of 31.2% in quarter three of 2017/18.

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

Figure 5: AHO/LCHO unsold units



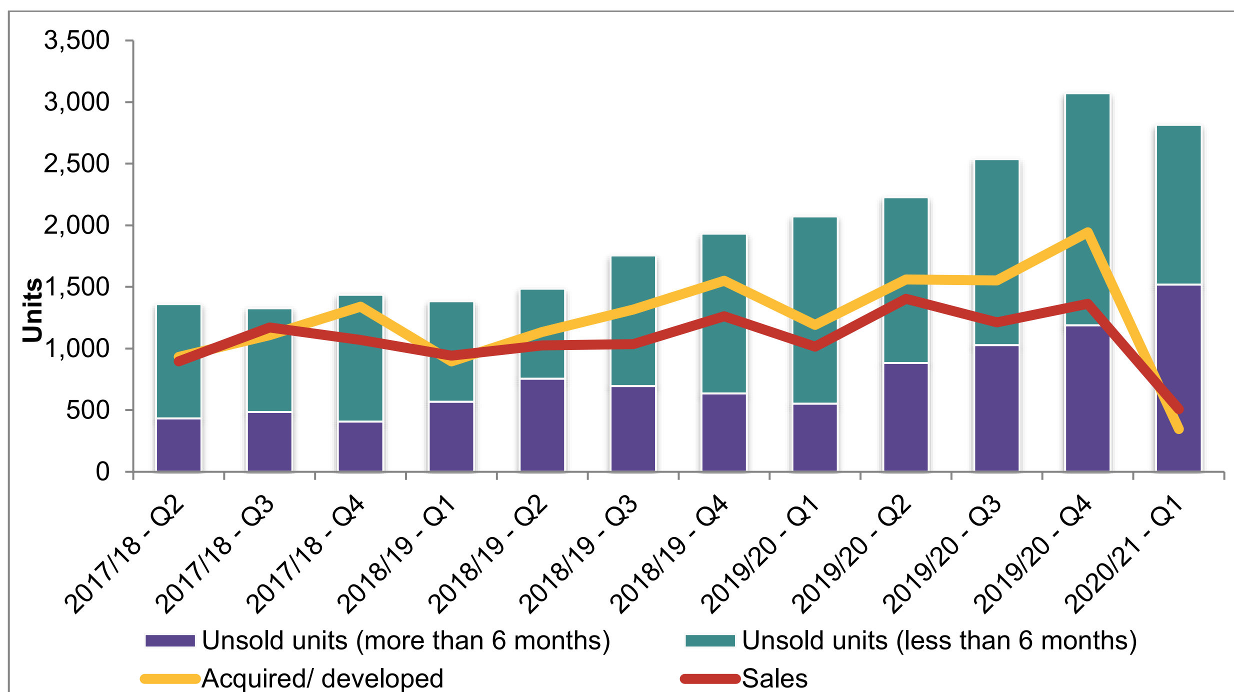
61. Development for outright market sale continues to be concentrated in relatively few providers. There were 508 sales in the quarter (March: 1,363) compared to the 347 units developed for market sale (March: 1,944). The last time sales figures were this low was in quarter one of 2015/16. The total number of unsold market sale units decreased by 8% to 2,816 at the end of June (March: 3,073). This was due to a number of unsold properties in the previous quarter being exchanged or reserved, with anticipated completion in quarter one. The number of units unsold for over six months increased by 28% to 1,520 (March: 1,190).

62. The decrease in the number of unsold market sale units also reflected the low number of units acquired or developed in the quarter. The 347 completions in the quarter to June 2020 was the lowest number reported since the data was first collected, and a decrease of 82% from the previous quarter, which was the highest number of market sale unit completions reported to date. An average of 1,282 units were completed in each of the past three quarters, compared to an average of 1,240 per quarter over the last three years.

63. Over half of the unsold market sale units reported at the end of the quarter were held by seven providers. These seven providers each had access to between £0.1 billion and £0.9 billion worth of cash and undrawn facilities. Between them this amounted to £3.7 billion, or 12% of the total facilities available within the sector.

64. Of the unsold market sale stock at the end of the quarter, 54% (1,520 units) had been unsold for over six months (March: 39%), compared to an average of 38% over the last three years. This is the highest number reported over the last five years and half of this stock was held by five providers. 41% of the units unsold for over six months were held by providers operating mainly in London and the South East, where development continues to be concentrated; 41% of the market sale units completed over the last 12 months were reported by providers operating mainly in these areas.

Figure 6: Market sales



65. The overall surplus on market sales was £85.2 million in the quarter to June 2020, giving a margin on sales of 23.7% (March: 17.1%). The margin is higher this quarter due to one provider having a large surplus, which contributed to 64% of overall surplus in the sector, resulting in a higher overall margin. The average margin over the last three years has been 18.8%.

66. The pipeline of AHO completions expected in the next 18 months was reported to be 33,230 (March pipeline: 29,221) of which 28,684 units were contractually committed. This is a 2% drop relative to December pipeline numbers, where 33,953 units were forecasted, however it would be an increase of 49% compared to the actual performance in the 18 months to June 2020, when there were 22,351 AHO completions. This is due to a 14% increase in pipeline numbers compared to previous quarter, and a significant reduction in units delivered this quarter by 66%. It is anticipated that pipeline numbers will continue to change amid the uncertainty over the coming months as business plans are revised.

67. For market sale, completions expected over the next 18 months were reported to be 10,390 (March pipeline: 9,983), of which 9,706 were contractually committed. This is a 14% drop in December pipeline numbers, where 12,063 units were forecasted, however it would be 28% higher than the 8,149 market sale completions achieved in the 18 months to June 2020. In total, pipeline development estimates for both AHO and Market sales increased by 11% from the previous quarter, although these figures may further change as providers continue to review and re-phase development plans.

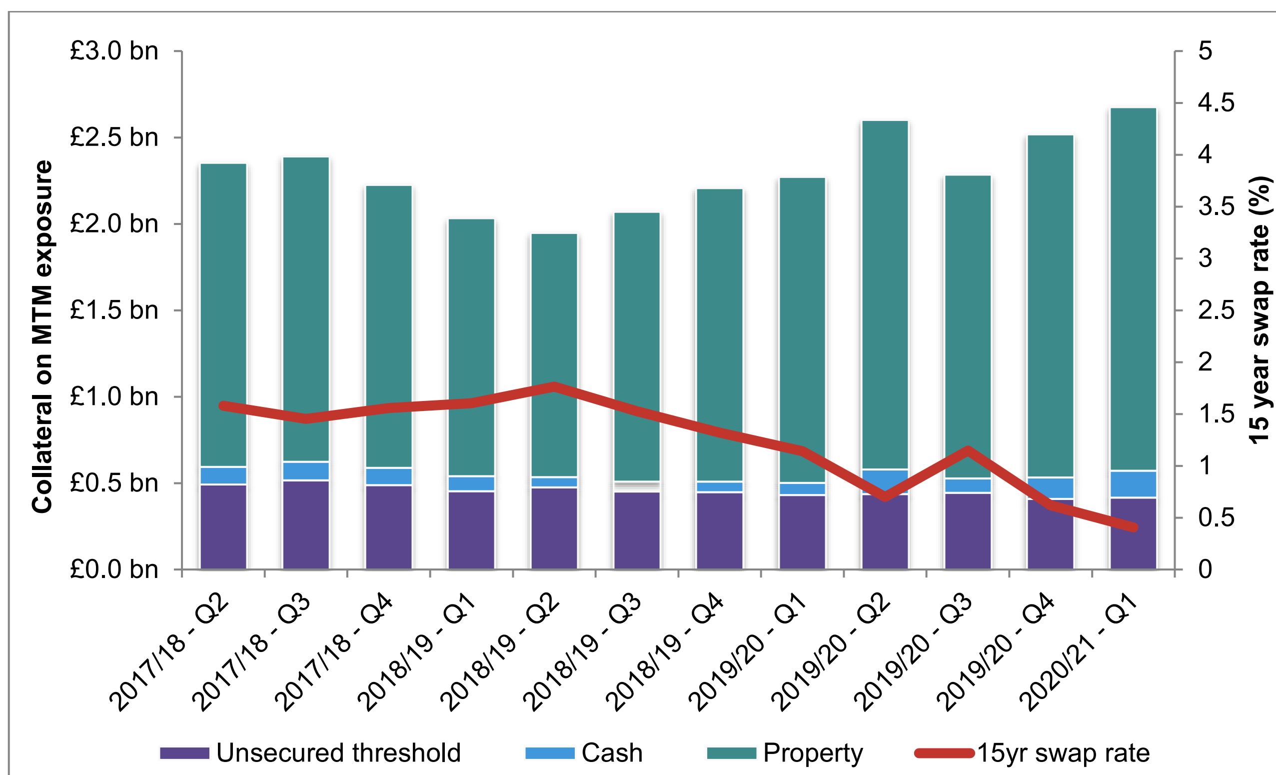
Derivatives

68. 42 providers (March: 40) reported making use of free-standing derivatives. At the end of March, the notional value of standalone derivatives was £9.3 billion (March: £8.9 billion).

69. The gross MTM exposure increased by 6% over the quarter, from £2.5 billion in March to £2.7 billion at the end of June. The 15-year swap rate ended the quarter at 0.41%, compared to 0.62% at the end of March 2020. March was a period of extreme volatility with big movements in swap rates, however June was more stable (with a low of 0.38% and high of 0.58% for a 30-year deal).

70. Unsecured thresholds and available security pledged to swap counterparties was £3.7 billion. Of this total collateral, £2.3 billion (March: £2.2 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.4 billion. The excess collateral available consisted primarily of property pledged but not employed.

Figure 7: Derivatives – Mark-to-market / Collateral



71. The above graph shows MTM exposures excluding excess collateral. Generally, for PRPs, MTM exposure increases as swap rates fall.

72. Collateral given in terms of security and cash continued to exceed the sector's 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.

73. Of the 42 providers that were making use of free-standing derivatives, 35 had collateral pledged that exceeded their level of exposure. The seven providers that were under-collateralised had sufficient liquidity to cover potential future margin calls.

74. Interest rate volatility means that collateral requirements will remain a long-term exposure. Due to the ongoing effects of coronavirus, MTM exposure will need to be closely monitored as swap rates are expected to be more volatile than usual. Individual providers must ensure that they have sufficient available security, as a fall in swap rates has the potential to increase MTM exposure further.

Income collection

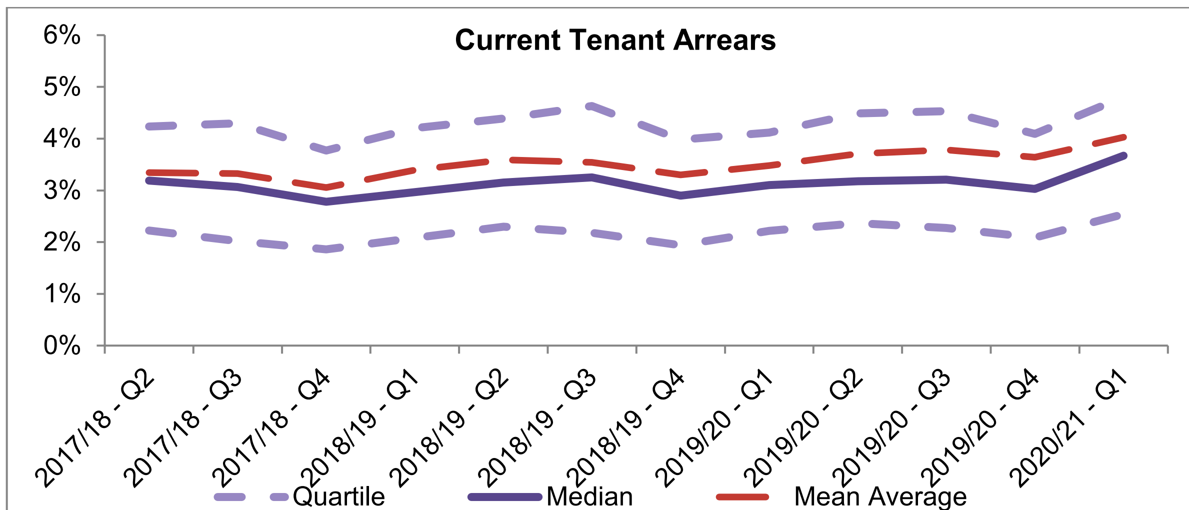
75. During the period between 26 March and 13 May 2020, all unnecessary housing moves were prohibited under *The Health Protection (Coronavirus, Restrictions) (England) Regulations 2020*[16]. For PRPs, this effectively put on hold all non-essential lettings, as well as pausing most void repair works.

76. The sustained period of lockdown and associated increase in unemployment has inevitably led to an increase in the arrears and void rent loss figures being reported by providers, and also in the number of providers reporting income collection figures that are outside of their business plan assumptions. In March, 80% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming, their business plan assumptions. By the end of June, this had reduced to 65% of providers, three-quarters of whom were outside their business plan assumptions on void rent loss. The business plans upon which providers have based their comparison of actual to forecast performance include a combination of 'pre-coronavirus' plans, and those that have been updated to take into account the expected implications of the pandemic.

77. Throughout the first half of 2020, the Department for Work and Pensions (DWP) has been running a pilot project to revise the process for paying landlords with 'Trusted Partner' status any amounts due under a Managed Payment to Landlord (MPTL) agreement. The new system will enable landlords to receive the housing cost element of Universal Credit (UC) at the same time that the tenant receives the corresponding balance of the UC payment. Previously the two payments have been made separately, resulting in a delay of sometimes several weeks before the landlord receives their allowance. The pilot project has been successful and full rollout of the new system began on 1 August. This will help to ease the administrative burden on providers with Trusted Partner status and give greater certainty and control over income collection.

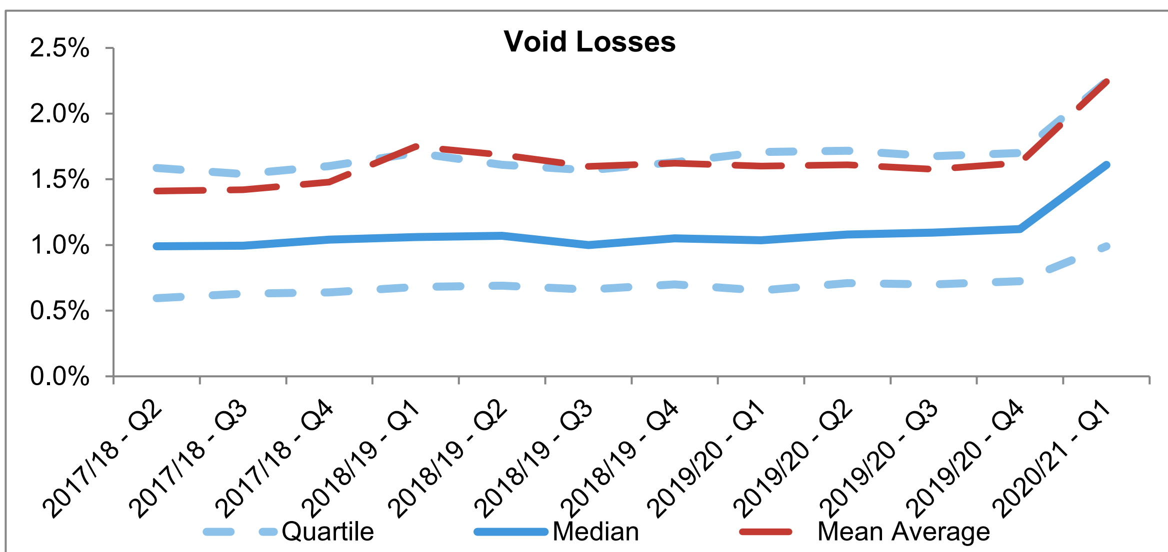
[16] https://www.legislation.gov.uk/uksi/2020/350/made

Figure 8: Current tenant arrears



78. Mean current tenant arrears stood at 4.0% at the end of June (March: 3.6%), the highest level reported in over five years. This compares to a mean average of 3.5% in the same quarter of 2019/20. Median arrears reached 3.7% (March: 3.0%), compared to the 3.1% reported in June 2019. The highest arrears levels were reported by providers operating mainly in London[17], where the mean average stood at 5.7%.

Figure 9: Void losses



79. Median void losses during quarter one of 2020/21 stood at 1.6% (March: 1.1%), while mean void losses increased to 2.2%[18]. This is the highest mean void level reported since the data was first collected in 2013, and substantially higher than the previous record high of 1.7% reported in June 2018. 14 providers reported void losses of 5% or more (March: 12).

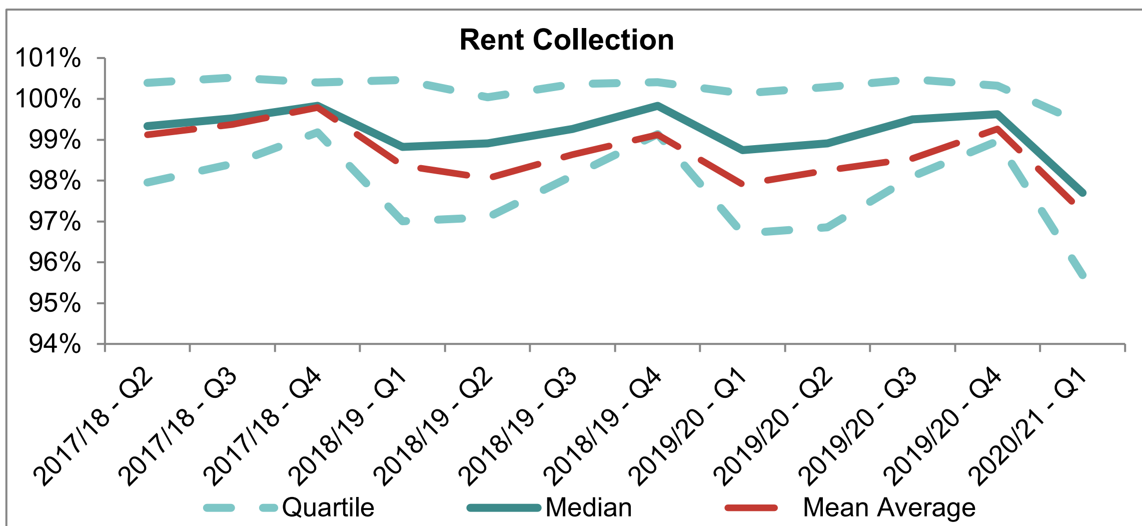
[17] Defined as providers holding 50% or more of their existing stock within the region.

[18] The addition of two providers to the dataset this quarter has contributed to the increase in mean arrears; without these two providers the average would have stood at 2.0%.

80. The highest levels of void rent loss were reported by providers with the greatest proportion of sheltered accommodation, housing for older people and care homes. A total of 23 providers have over 50% of their stock falling into these categories, and between them they reported an average void rent loss of 6.7% (June 2019: 5.2%). Providers with less than 50% of their stock in these categories reported average void rent loss of 1.7% (June 2019: 1.2%).

81. Providers reported they are actively managing the backlog of void repairs that built up during the period of national lockdown in April and May. Dependent upon any future restrictions or localised lockdowns, providers are generally optimistic that void rent loss will return to a more normal level over the remainder of the financial year.

Figure 10: Rent collection



82. Mean average rent collection rates stood at 97.2% at the end of June, with the median at 97.7%. This is a reduction from the collection rates recorded in quarter one of 2019/20, when the mean average stood at 97.9% and the median was 98.7%. The number of providers reporting rent collection rates of less than 95% increased to 47 (March 2020: 9, June 2019: 29).

83. Although lower than in previous quarters, rent collection rates remain strong and do not undermine the overall robust financial position of the sector.

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