Regulator of
Social Housing

Quarterly survey for Q2

July to September 2020

December 2020

OFFICIAL

Contents

Introduction 2

Summary 2

Operating environment 6

Private finance 8

Cashflows 10

Development 12

Housing market 13

Derivatives 18

Income collection 19

Introduction

1. This quarterly survey report is based on regulatory returns from 214 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 2020 to 30 September 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. Since the staged easing of lockdown measures which occurred between May and July, the Prime Minister announced in October a new three-tier lockdown system for England with different parts of the country split into three coronavirus alert categories. A second national lockdown came into force between 5 November and 2 December.

Summary

5. The position reported at the end of the quarter showed that the sector remains financially strong with access to sufficient finance:

   - Debt facilities of £111.3 billion were in place at the end of September, of which £28.0 billion was undrawn. At the end of June undrawn facilities were £24.8 billion.

   - Available cash balances increased by £0.3 billion during the quarter to reach £6.7 billion at the end of September.

   - New finance of £4.5 billion was agreed in the quarter, including £3.7 billion from capital markets and £0.8 billion from banks.

   - Mark-to-market (MTM) exposure has decreased slightly since June, reflecting an increase in swap rates. In aggregate, providers with free-standing derivatives continue to have headroom available.

6. Performance in the quarter continues to reflect some of the challenges arising from the coronavirus pandemic. However, this has not destabilised the sector's overall strong financial position:

- Cash interest cover, excluding current asset sales, was 183% in the quarter to September 2020 compared to a forecast of 123%.

- The improvement in interest cover was largely a result of capitalised repairs and maintenance expenditure being £190 million (39%) below forecast.

- Expenditure on capitalised repairs and maintenance in the quarter amounted to £299 million (June 2020: £243 million, September 2019: £458 million).

- Investment in housing supply was £2.4 billion in the quarter to September 2020, an increase of 30% from the previous quarter, but 18% lower than in the same quarter of the previous year. Expenditure on development was below both the total forecast for the quarter of £3.3 billion, and also the £2.6 billion forecast for contractually committed schemes.

- Including both current and fixed asset sales, total sale receipts were £1.4 billion in the quarter, generating surpluses of £0.3 billion. In aggregate, asset sale receipts were 24% above the forecast made in June, reflecting the uncertainty felt by providers when producing forecasts.

- During the quarter 3,652 affordable home ownership (AHO) units were developed, and 3,823 were sold. This compares to the 1,663 units developed and 1,963 sales in the previous quarter. The total number of unsold units reduced by 3%, to reach 7,676 at the end of September.

- AHO units unsold for more than six months increased by 15% during the quarter, reaching 3,973 at the end of September. This is the highest number recorded since the data was first collected in 2009.

- Margins on AHO sales averaged 19.3% in the quarter, slightly higher than the margin of 18.3% achieved in the quarter to June, but below the three-year average of 24.5%.

- During the quarter 1,005 market sale units were developed, and 1,461 were sold. The number of units completed was almost three times higher than in the previous quarter, but still below the levels seen immediately before the coronavirus pandemic.

- The high volume of market sales achieved during the quarter has resulted in the number of unsold units decreasing by 17% to 2,344, and the number of units unsold for over six months decreasing by 4% to 1,460.

- Of the unsold market sale stock at the end of the quarter, 62% had been unsold for over six months; the highest proportion recorded since the data was first collected in 2014.

- Mean arrears, void rent loss and rent collection rates improved slightly in the quarter. All three income collection indicators remain at levels not previously seen since data was first collected in 2013.

7. Forecasts for the next 12 months indicate that performance and plans are beginning to return towards levels seen before the coronavirus pandemic.

- Over the 12-month forecast period, expected investment in new housing supply is forecast to be £16.6 billion, of which £10.9 billion is contractually committed.

    - This is an increase of 7% on the £15.5 billion investment included in 12 month forecasts in the June QS.

    - It is just 2% less than the £16.9 billion included in 12 month forecasts in the December 19 QS (pre-COVID-19).

    - Current 12 month forecast committed expenditure is greater than the £10.6 billion invested in new supply in the 12 months to September 2020.

- For the 12 months to September 2021, the sector was forecasting £4.6 billion of current asset sales and £1.7 billion of fixed asset sales.

    - This is an increase of 10% on the £4.2 billion of current asset sales included in 12 month forecasts made in the June QS.

    - 12 month forecast current asset sales are some way below the £5.4 billion forecast in the December 2019 QS (pre-COVID-19).

    - 12 month forecast current asset sale receipts are greater than the £3.4 billion reported in the 12 months to September 2020.

- In the next 18 months, including committed and uncommitted development, providers are forecasting the completion of 35,221 AHO units (June: 33,230) and 11,406 market sale properties (June: 10,390).

- Pipeline AHO units are at their highest level ever reported, having now exceeded the numbers being forecast before the coronavirus pandemic.

- For the 12 months to September 2021 the sector was forecasting capitalised repairs and maintenance expenditure of £2.5 billion.

    - This is an increase of 7% on the £2.3 billion included in 12 month forecasts made in June QS.

    - 12 month forecast capitalised major repair spend is in line with the £2.4 billion included in the December 2019 QS (pre-COVID-19).

    - In the 12 months to September 2020, capitalised expenditure on repairs and maintenance was £1.6 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 affected from May, with further easing in June and July. From September onwards infections began to rise again, introducing local lockdowns in high risk areas. In October the Prime Minister announced a new three-tier lockdown system for England with different parts of the country split into three coronavirus alert categories. A second national lockdown came into force on 5 November which will last for four weeks[1]. However, these announcements were made subsequent to providers submitting returns at the end of September, therefore the implications will not be reflected in the forecast.

9. Gross domestic product (GDP) rose by 1.1% during September 2020 but was still 8.2% below February 2020 levels. Although September saw the fifth consecutive month of growth, the rate of recovery has slowed each month since the largest rise of 9.1% in June 2020[2]. The International Monetary Fund 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 4.4% in October[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. Following a record monthly growth in construction output of 21.8% in June, output has gradually slowed over the quarter, growing by just 2.9% in September, where it remained 7.3% below the February 2020 level[5]. The continued restrictions and social distancing measures has meant the capacity and level of work of construction sites remains below pre-coronavirus levels.

12. In a bid to boost the housing market the Chancellor announced a temporary rise in the Stamp Duty threshold, effective from 8 July. This led to an increase in UK average house prices of 4.7% over the year to September, up from 3.0% in August6.

---

[1] https://www.gov.uk/guidance/new-national-restrictions-from-5-november

[2] https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/september2020

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

[4] https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

[5] https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/september2020newordersandconstructionoutputpriceindicesjulytoseptember2020

[6] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/september2020

13. Overall inflation, as measured by the Consumer Prices Index (CPI), increased by 0.5% in the 12 months to September 2020, down from 0.6% recorded in June last quarter[7]. This indicates that providers may apply rent increases up to 1.5% in 2021/22. CPI rose by 0.4% between August and September 2020 compared with a rise of 0.1% in the same period of 2019.

14. Estimates from the Office for National Statistics suggest that the number of pay rolled employees in the UK reduced by around 673,000 in the period between March and September 2020, with the claimant count increasing by nearly 121% in the same period. From July to September, around 1.62 million people were unemployed, 318,000 more than a year earlier. Redundancies reached a record high of 314,000, an increase of 73% from previous quarter [8].

15. The Coronavirus Job Retention Scheme, which allows employers to claim grant to cover the salary costs of furloughed workers, was expected to end on 31 October 2020, however this has now been extended until 31 March 2021 with claimants receiving 80% of their usual salary for hours not worked. The government will review the policy in January 2021 to decide whether economic circumstances have improved enough for employers to contribute more[9]. Latest forecasts from the Bank of England suggest that unemployment will peak at around 7.75% in quarter two of 2021[10].

16. There continues to be material uncertainty over the future course of the coronavirus pandemic and the economic conditions that will follow. The second wave of the virus is currently evolving, prompting the second national lockdown, with potential to be extended beyond the four weeks. Providers will need to constantly monitor performance and forecasts and be ready to react as necessary to the rapidly changing environment.

[7] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2020

[8] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2020

[9] https://www.gov.uk/government/publications/extension-to-the-coronavirus-job-retention-scheme/extension-of-the-coronavirus-job-retention-scheme

[10] https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/november/monetary-policy-report-nov-2020.pdf

Private finance

17. The sector's total agreed borrowing facilities reached £111.3 billion at the end of the quarter, £61.7 billion (55%) of which were bank loans.

18. £83.3 billion was reported as being drawn, leaving undrawn facilities of £28 billion. Available facilities are currently at the highest level ever reported, with facilities on the increase since quarter one of 2019/20. Undrawn bank loans accounted for 80% (£22.3 billion) of available facilities.

19. Of the £111.3 billion agreed facilities, £98.2 billion had been secured and £8.5 billion of facilities did not require security. There were further agreed facilities of £4.6 billion where security was not yet in place.

20. 94% (June: 93%) of providers were forecasting that debt facilities available at the end of September would be sufficient for more than 12 months.

21. At a sector level, total cash and undrawn facilities totalled £34.7 billion. This included £4.8 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 (£3.1 billion), loan repayments (£2.9 billion) and net development for the next year (£14.8 billion), even if no new debt facilities were arranged and no sales income was received.

22. For the 12 months to September 2021 the sector was forecasting loan drawdowns of £8.8 billion (June 12-month forecast: £8.5 billion), of which £1.8 billion was from facilities not yet agreed (September: £1.6 billion). The drawdowns from facilities not yet agreed were reported by 27 providers that plan to refinance or extend their existing facilities over the next 12 months.

23. A total of 44 providers arranged new finance during the quarter. New facilities agreed, including refinancing, totalled £4.5 billion, with 16 providers each arranging facilities worth £100 million or more. Across all providers, a total of £0.8 billion worth of loans were repaid during the quarter, with £0.7 billion of this being repaid by providers that were also raising new finance.

24. Capital market funding, including private placements and aggregated bond finance, accounted for 82% (£3.7 billion) of new funding in the quarter. Bank lending contributed 18% (£0.8 billion), and other sources, including local authority lending were nil this quarter. Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.

25. Of the £3.7 billion worth of new capital market facilities agreed, £1.2 billion (June: £1.3 billion) relates to the COVID Corporate Financing Facility (CCFF) provided jointly by HM Treasury and the Bank of England, with six additional providers participating this quarter. By the end of September,14 providers had participated in the scheme with total CCFF related facilities year to date of £2.5 billion. CCFF is short-term funding which will require repayment or refinancing in 12 months.

Figure 1: Total facilities (£ billions)

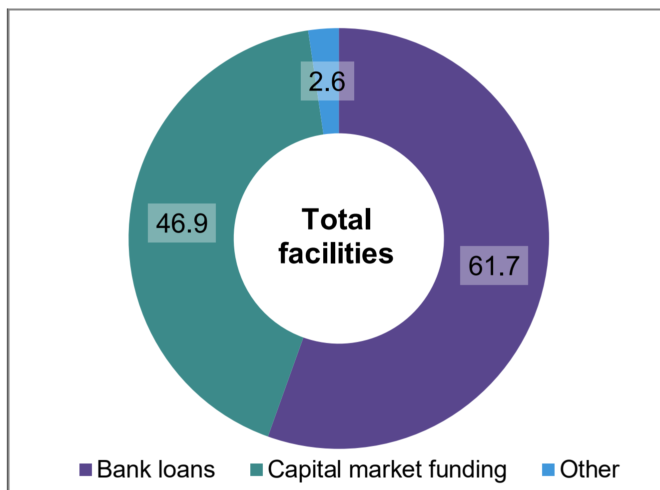
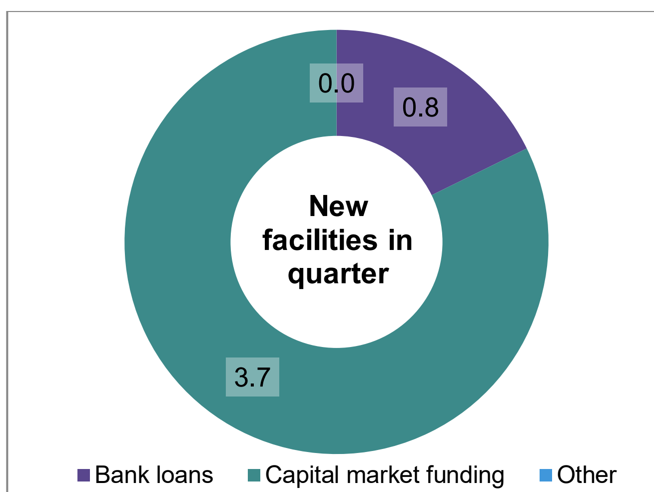


Figure 2: New facilities in quarter (£ billions)



Cashflows

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

27. Table 1 below includes the cashflow forecasts for the 12 months to September 2021, and actual performance for the quarter compared to the previous forecast.

Table 1: Summary cashflow forecast[11]

Figures in £ billions	3 months to 30 September 2020 (forecast)	3 months to 30 September 2020 (actual)	12 months to 30 September 2021 (forecast)
Operating cashflows excluding sales	1.0	1.5	3.8
Interest cashflows	(0.8)	(0.8)	(3.4)
Payments to acquire and develop housing	(3.3)	(2.4)	(16.6)
Current assets sales receipts	0.8	1.0	4.6
Disposals of housing fixed assets	0.2	0.3	1.7
Other cashflows	(0.2)	(0.1)	(0.1)
Cashflows before resources and funding	**(2.3)**	**(0.5)**	**(9.9)**
Financed by:			
Net grants received	0.3	0.3	1.8
Net increase in debt	1.3	0.6	5.9
Use of cash reserves	0.7	(0.4)	2.2
Total funding cashflows[12]	**2.3**	**0.5**	**9.9**

28. Interest cover, based on operating cashflows excluding sales, increased to 183% in the quarter to September 2020 (June: 143%). This compared to a forecast of 123% made in June. The improvement in interest cover was largely a result of capitalised repairs and maintenance expenditure being £190 million (39%) below forecast. Net cashflows from operating activities was £252 million (17%) more favourable, mainly due to outperformance on rent collection and lower spend on routine repairs and maintenance, while net interest payable was in line with forecast.

[11] 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.

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

29. The figures submitted by providers show interest cover reducing to 112% by the end of the 12-month forecast period. This is a reduction of five percentage points to the 12-month forecast made in the previous quarter, which is mainly due to an increase in forecast capitalised repairs and maintenance expenditure of £163 million.

30. Actual capitalised repair and maintenance expenditure in the quarter amounted to £299 million (June 2020: £243 million, September 2019: £458 million). This was an increase on previous quarter's expenditure, however, it is still one of the lowest levels of capital expenditure reported since cashflow data was first collected in 2015.

31. The expenditure was 39% less than the £488 million forecasted in June, with around 77% of providers reporting an underspend against previous forecast (June: 60%). From this group of providers, 40% reported that the underspend was specifically due to delays relating to the current pandemic, with providers reporting delays in contractor mobilisation and inability to access properties.

32. Generally, providers are reporting that they are expecting all delayed works to be re-scheduled for later in the year with most expecting to reach full spend within the current year. Only a small proportion have reported that they are not expecting to fully catch up in the remainder of the year and have reprofiled costs to the following year.

33. In the 12 months to September 2020, capitalised expenditure on repairs and maintenance was £1.6 billion. For the 12 months to September 2021 the sector has forecast capitalised repairs and maintenance expenditure of £2.5 billion. This is an increase on the £2.3 billion 12-month expenditure forecast in June, and an increase to the £2.4 billion expected in December 2019.

34. In the 12 months to September 2020 current asset sales of £3.4 billion were achieved. For the 12 months to September 2021, the sector was forecasting a further £4.6 billion worth of current asset sales, of which £4.3 billion related to properties for which development is contractually committed. The £4.6 billion current asset sales forecast is an increase from the £4.2 billion 12-month forecast made in June, but below the £5.4 billion forecast from December 2019.

35. Actual current asset sales receipts in the quarter were £1 billion, compared to the £0.8 billion forecast in June. In the 12 months to September 2020, fixed asset sales were £1.7 billion. For the 12 months to September 2021, the sector was forecasting £1.7 billion worth of fixed asset sales.

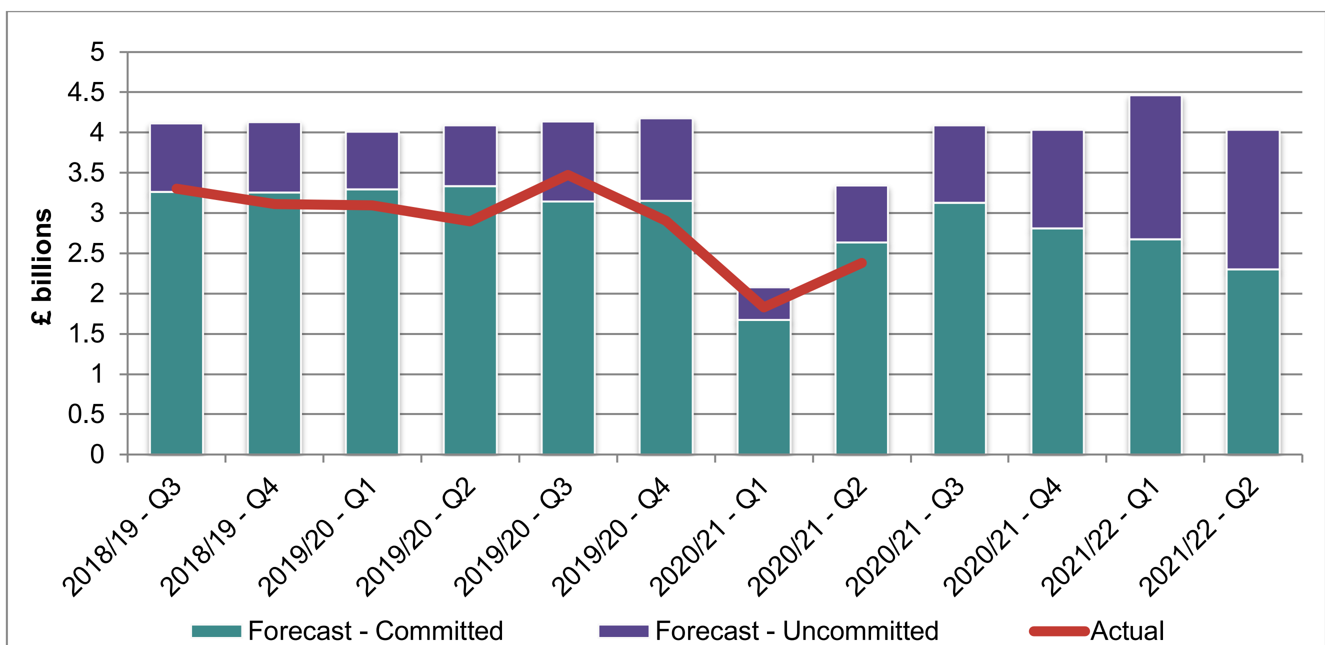
36. Available cash balances, excluding amounts held in secured accounts, increased by £0.4 billion during the quarter. This was also an increase of £0.8 billion from previous quarter forecast for the end of September. Cash available at September 2020 was £6.7 billion. Forecasts showed this reducing to £4.7 billion over the next 12 months as cash reserves are used to fund capital investment. In addition to the £6.7 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1.2 billion at September (June: £1.1 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and MTM cash collateral.

Development

37. In the 12 months to September 2020, £10.6 billion was invested in the acquisition and development of housing properties. For the next 12 months, a further £16.6 billion of investment has been forecast, of which £10.9 billion is contractually committed. Forecast 12-month investment is now back to a similar level as was expected before the coronavirus pandemic, being only 2% less than the £16.9 billion forecast that was made in December 2019, after having fallen by 22% in March 2020.

38. The forecasts submitted at the end of quarter two were made before the announcement of a second, month-long lockdown in England. However, as the government has stated that construction and manufacturing work should continue throughout the period, it is not expected that forecasts for development will be as significantly affected by the new restrictions as they were by the lockdown in spring.

Figure 3: Payments to acquire and develop housing



39. Actual expenditure in the quarter ending September 2020 was £2.4 billion, an increase of 30% from the previous quarter when the greatest restrictions on construction sites were in place, but still 18% lower than in the same quarter of the previous year. The £2.4 billion expenditure on development was below both the total forecast for the quarter of £3.3 billion, and also the £2.6 billion forecast for contractually committed schemes. Although the majority of construction sites re-opened during the quarter, providers reported a knock-on effect from earlier closures, and progress being slower than anticipated due to COVID secure working practices.

40. In response to construction delays caused by the coronavirus pandemic, the Affordable Homes Programme (AHP) 2016-2021 has been extended. This will allow providers that had already been allocated funding through the AHP an additional 12 months to begin building homes.

41. The new AHP for 2021-2026 was launched by Homes England[13] on 10 September. This will provide funding of £7.39 billion to deliver up to 130,000 affordable homes outside of London by March 2026. An additional funding package of around £4 billion will be made available for development within London, and will be administered by the Greater London Authority. Around half of the homes funded will be for Social or Affordable Rent, and the other half will be for routes into home ownership, including Shared Ownership. Shared Ownership will be based upon a new model[14], which sets the minimum share at initial purchase at 10% and places the responsibility for repairs and maintenance on the provider for the first ten years. The government is running a consultation[15] to obtain views on how the new model should be implemented, which will close on 17 December 2020.

Housing market

42. Total asset sales amounted to £1.4 billion in the quarter to September 2020, compared to £0.9 billion in the quarter to June. After the housing market was effectively put on hold during quarter one, sales returned to levels more consistent with those reported before the coronavirus pandemic, and were in line with those achieved in the same quarter of 2019/20 when receipts of £1.4 billion were also reported. Overall, surpluses from asset sales were £0.3 billion. This figure includes staircasing, RTB/RTA and voluntary sales, as well as AHO first tranche sales and market sales.

---

[13] https://www.gov.uk/guidance/apply-for-affordable-housing-funding

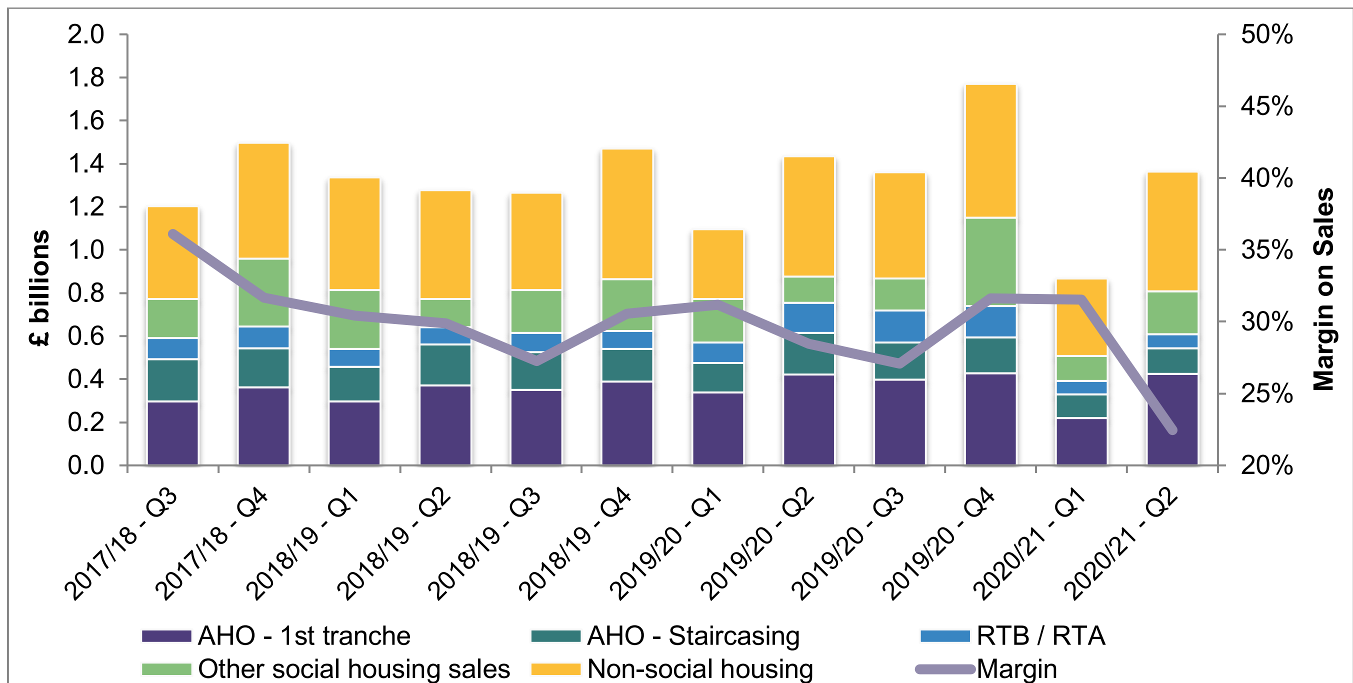
[14] https://www.gov.uk/government/consultations/new-national-model-for-shared-ownership

[15] https://www.gov.uk/government/consultations/new-model-for-shared-ownership-technical-consultation

OFFICIAL

43. The overall margin on fixed asset sales reduced to 22% during the quarter, the lowest achieved since 2012. The margin is affected by the volume of RTB/RTA, staircasing and voluntary sales that occur during a quarter, as these types of transactions typically result in much higher margins than either AHO 1st tranche sales or market sales. During the quarter to September, the proportion of lower-margin AHO 1st tranche sales and market sales was at its highest ever level, accounting for 72% of sales receipts compared to an average of 64% over the last three years.

Figure 4: Value of asset sales



44. Fixed asset sales for the quarter (including staircasing, RTB/RTA and voluntary sales) amounted to £0.3 billion (June: £0.3 billion); 26% higher than the amount forecast in June. Providers generally make prudent assumptions around fixed asset sales and have achieved, on average, 16% more than forecast each quarter over the last three years. Current asset sales in the quarter (market sales and first tranche AHO sales) totalled £1.0 billion; 23% higher than the forecast of £0.8 billion and reflecting the uncertainty felt by providers when producing forecasts. This is the first quarter over the last three years when current asset sales have exceeded forecasts.

45. AHO sales totalled 3,823 units (June: 1,963) compared to the 3,652 completions reported in the quarter (June: 1,663). The total number of unsold AHO units reduced by 3% to reach 7,676 at the end of September (June: 7,906). Following the substantial reduction in the number of units completed and sold in quarter one, numbers of both were back to a level more consistent with pre-coronavirus performance. Completions and sales were both slightly higher than in the same quarter of the previous year, and exceeded the average numbers recorded over the last three years.

46. The number of AHO units unsold for more than six months increased by 15% to 3,973 (June: 3,460); the highest number recorded since the data was first collected in 2009. This increases the proportion of stock that has been unsold for over six months from 44% in June to 52% at the end of September. The increase in units unsold for over six months follows the record number of units developed in the quarter ending March 2020, when 4,870 units were completed.

47. Providers have also reported experiencing ongoing delays in sale completions as a result of the pandemic, and a small number of providers have reported delays in mortgage applications being approved as building safety certificates are obtained.

48. Around half of the unsold AHO stock at the end of the quarter was held by 15 providers. These 15 providers all reported access to sufficient finance, with each holding between £0.4 billion and £1.6 billion worth of cash and undrawn facilities at the end of the quarter. Between them this amounted to £11.9 billion, or 34% of the total facilities available within the sector.

49. Of the units unsold for over six months, 29% were held by providers operating mainly in London and the South East[16]. This is consistent with the higher levels of development undertaken in these areas; 29% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas.

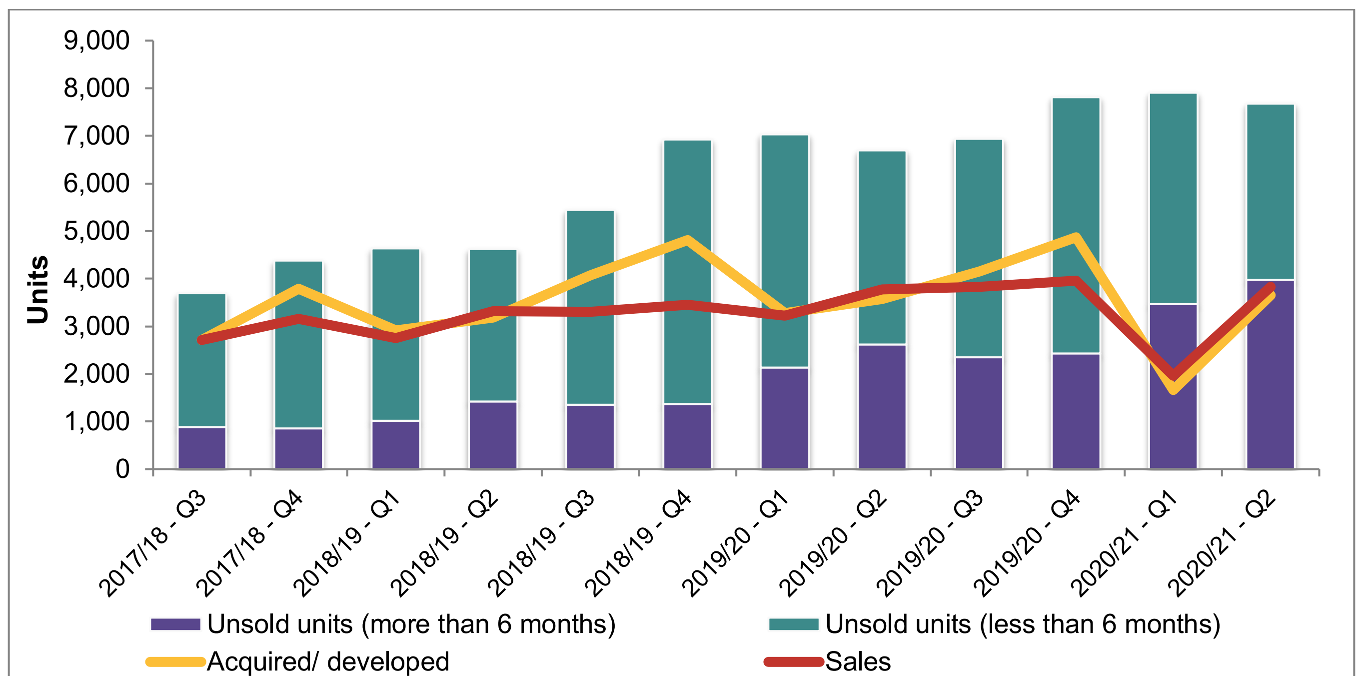
50. Nine providers were holding over 100 units of stock that had been unsold for more than six months, accounting for 40% of the total figure. Where sales income has been delayed, the regulator will monitor the provider's liquidity exposure and test business plans to ensure they are robust enough to cope with a range of adverse scenarios.

51. The overall surplus on AHO sales was £81.6 million in the quarter to September 2020, giving a margin on sales of 19.3%. This is slightly higher than the margin of 18.3% achieved in the quarter to June, but below the three-year average of 24.5%.

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

OFFICIAL

Figure 5: AHO/LCHO unsold units



52. There were 1,461 market sales in the quarter (June: 508) compared to the 1,005 units developed (June: 347). This was the second highest number of market sales achieved since the data was first collected in 2014. The number of units completed was almost three times higher than in the previous quarter, but still below the levels seen immediately before the coronavirus pandemic; during 2019/20, an average of 1,563 units were completed each quarter.

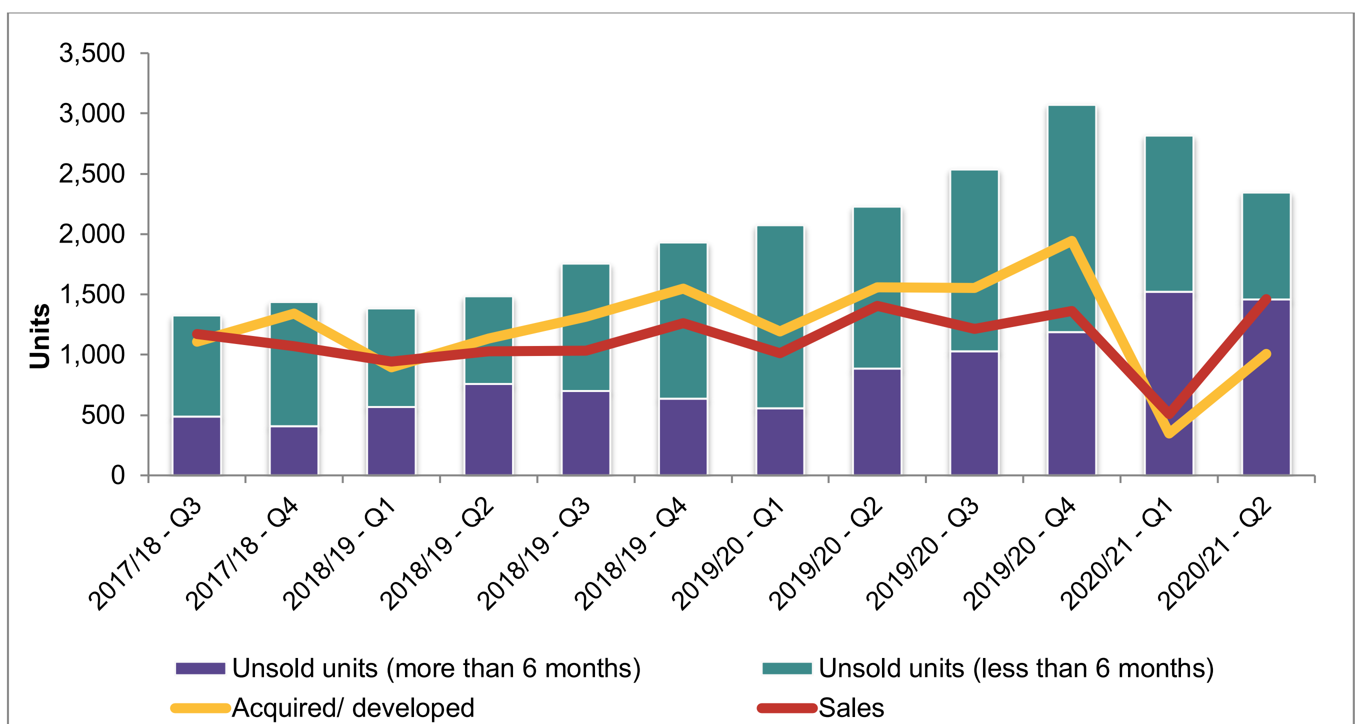
53. The high number of market sales in comparison to units being developed has resulted in a reduction in both the overall number of units unsold, and the number unsold for over six months. The overall number of unsold units decreased by 17% over the quarter to 2,344 (June: 2,816), and the number of units unsold for over six months decreased by 4% to 1,460 (June: 1,520).

54. Although the number of unsold market sale units has reduced, the proportion of stock that has been unsold for over six months has increased to 62% (June: 54%); the highest level recorded since the data was first collected in 2014. As with AHO sales, providers have reported ongoing delays in sale completions as a result of the coronavirus pandemic, and in a small number of cases, delays with mortgage applications being approved as building safety certificates are obtained.

55. Development for outright market sale continues to be concentrated in relatively few providers, with around half of the unsold market sale units reported at the end of the quarter being held by seven providers. These providers each had access to between £0.1 billion and £1.2 billion worth of cash and undrawn facilities. Between them this amounted to £5.1 billion, or 15% of the total facilities available within the sector.

56. Of the market sale units unsold for over six months, 26% were held by providers operating mainly in London where development is concentrated; 25% of market sale units developed over the last 12 months were reported by providers operating mainly in this area.

Figure 6: Market sales



57. The overall surplus on market sales was £80.8 million in the quarter to September 2020, giving a margin on sales of 14.5% (June: 23.7%). The average margin over the last three years has been 17.8%.

58. The pipeline of AHO completions expected in the next 18 months stood at 35,221 units (June pipeline: 33,230) of which 29,470 units were contractually committed. Pipeline AHO units are now at their highest level ever reported (data first collected in 2009), having exceeded the levels being forecast before the coronavirus pandemic. The pipeline figures represent a 66% increase in AHO development compared to actual performance in the 18 months to September 2020, when there were 21,186 completions.

59. For market sale, completions expected over the next 18 months stood at 11,406 units (June pipeline: 10,390), of which 10,381 were contractually committed. This is an increase on pipeline numbers from the previous two quarters, but 14% below the pipeline figures reported in the same quarter of the previous year. The pipeline figures represent a 50% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,604 units.

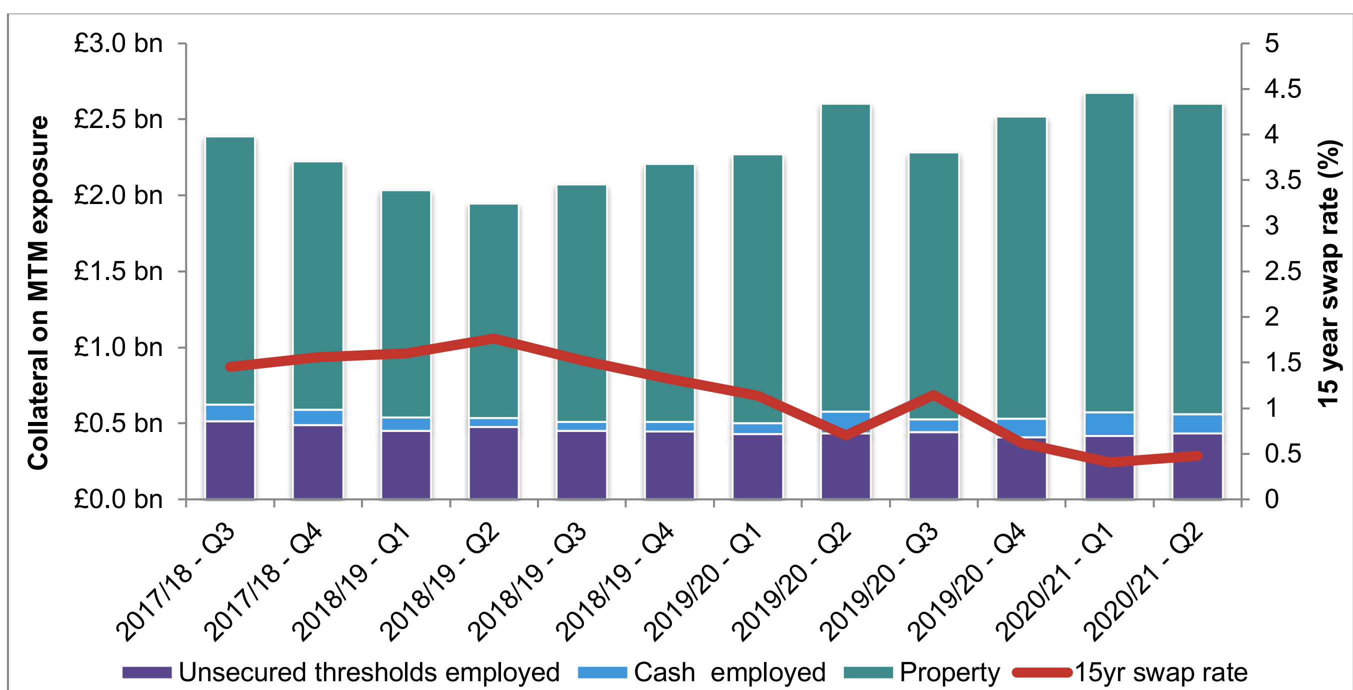
Derivatives

60. 42 providers (June: 42) reported making use of free-standing derivatives. At the end of September, the notional value of standalone derivatives was £9.0 billion (June: £9.3 billion). The reduction in notional value over the quarter was the result of a number of swaps reaching maturity.

61. Gross MTM exposure reduced by 3% over the quarter, from £2.7 billion in June to £2.6 billion at September end. This follows a slight increase in swap rates, with the 15-year swap rate rising from 0.41% at the end of June to 0.48% at the end of September.

62. Unsecured thresholds and available security pledged to swap counterparties was £3.6 billion. Of this total collateral, £2.2 billion (June: £2.3 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



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

64. 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.

65. Of the 42 providers that were making use of free-standing derivatives, 33 had collateral pledged that exceeded or equalled their level of exposure. Three of the nine providers that were under-collateralised at the end of the quarter posted additional collateral at the beginning of October, and six are not required to provide additional security to cover exposure.

66. 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

67. 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*[17]. For PRPs, this effectively put on hold all non-essential lettings, as well as pausing most void repair works. These regulations were amended with effect from 13 May 2020 to allow the housing market to resume[18].

68. Despite the sustained period of lockdown and local restrictions, together with the associated increase in unemployment, all three measures of income have remained steady this quarter. This follows a deterioration of all income measures last quarter with rent arrears and voids being at their highest levels in the past five years, however overall performance remains strong.

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

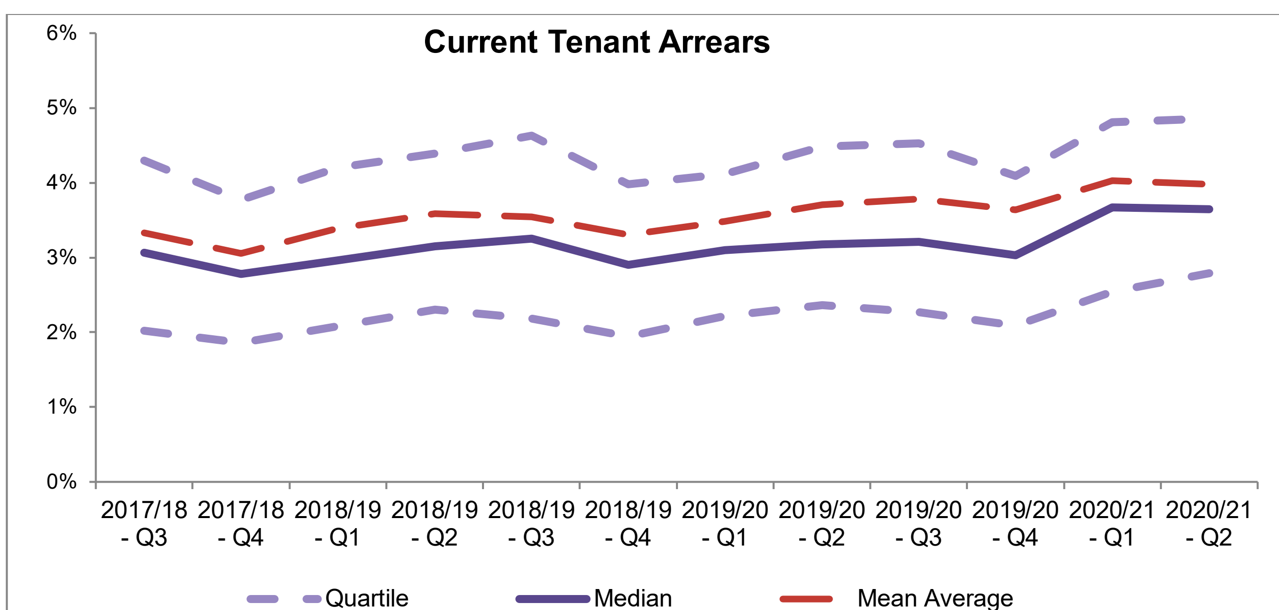
[18] https://commonslibrary.parliament.uk/coronavirus-advice-on-home-moves/

69. Rent collection improved on last quarter, and a reduced number of providers reported income collection figures outside of business plans. In September, 74% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, an improvement on June where only 65% of providers reported this. Around a quarter of providers reported levels outside of their assumptions, compared with 35% last quarter, of which 40 have stated the difference from business plan assumptions is due to the ongoing pandemic.

70. Throughout the first half of 2020, the Department for Work and Pensions 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 has enabled 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 now ended 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.

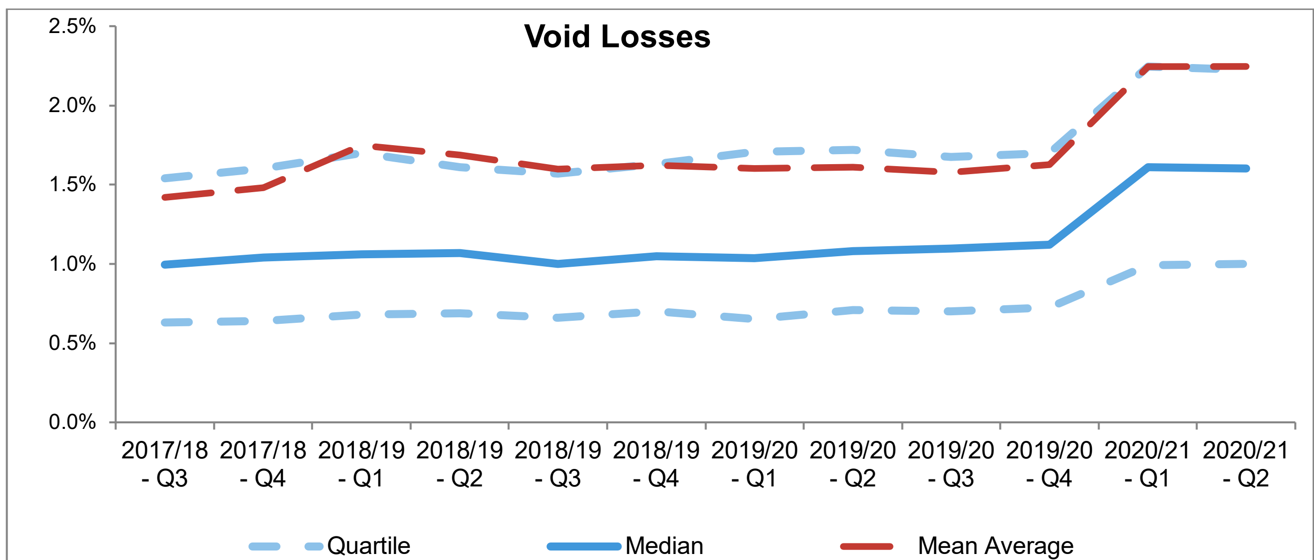
71. It is still unclear how the new UC payment system has impacted providers with some stating that the expected increase in UC claims in the coming months will affect income collection due to the associated delays in UC payments. The number of people claiming UC has increased by 2.7 million (88%) since March.

Figure 8: Current tenant arrears



72. Mean current tenant arrears improved slightly to 3.98% at the end of September (June: 4.03%), however is still one of the highest levels reported in over five years. This compares to a mean average of 3.71% in the same quarter of 2019/20. Median arrears reached 3.65% (June: 3.67%), compared to the 3.18% reported in September 2019. The highest arrears levels were reported by providers operating mainly in London[19], where the mean average was 5.5%.

Figure 9: Void losses



73. Median void losses during quarter one of 2020/21 stood at 1.60% (June: 1.61%), while mean void losses also remained stable at 2.25%. This remains 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. 15 providers reported void losses of 5% or more (June: 14).

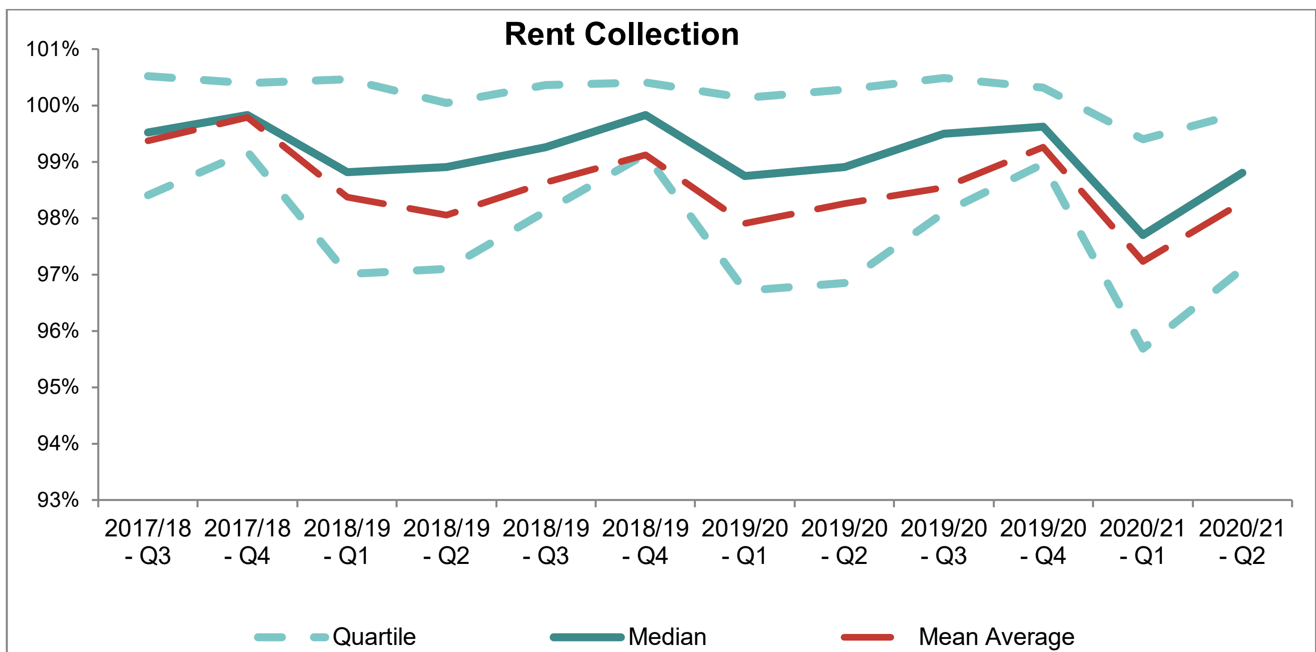
74. The highest levels of void rent losses were reported by providers predominantly in the East and West Midlands regions, with averages of 2.8% and 3.7% respectively, compared to a national average of 2.25%. A total of 33 providers have over 50% of their stock within these regions.

75. Providers reported they are actively managing the backlog of void repairs that built up during the period of national lockdown in April and May. Despite ongoing local restrictions and the potential of further lockdowns, providers are generally optimistic that void rent loss will return to a more normal level over the remainder of the financial year due to restrictions being less stringent than the initial lockdown period.

---

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

Figure 10: Rent collection



76. Mean average rent collection rates improved to 98.28% at the end of September, with the median at 98.81%. These levels are now in line with the rates recorded in quarter two of 2019/20, where the mean average stood at 98.25% and the median was 98.91%. The number of providers reporting rent collection rates of less than 95% reduced to 17 (June 2020: 47, September 2019: 18).

77. The regions with the lowest rent collection rates in the quarter were the North West with 97.8% and the West Midlands with 97.2%. This is consistent with the strict local restrictions imposed within those regions.

78. Rent collection rates show signs of improvement in the quarter, and almost back in line with pre-coronavirus levels, however 6% of providers have reported that an anticipated rise in UC claims in the coming months may see a decline in rent collection performance.

© RSH copyright 2020

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: 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

RSH regulates private 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.