Regulator of Social Housing

Quarterly survey for Q3

October to December 2021

February 2022

Contents

Introduction

1. This quarterly survey report is based on regulatory returns from 206 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 regards to their liquidity position. The quarterly survey returns summarised in this report cover the period from 1 October 2021 to 31 December 2021.

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. Figures have been rounded to the nearest £billion to one decimal place. This can result in rounding differences in totals and percentages as the individual returns are denominated in £000s.

Summary

Liquidity

Total facilities and available cash balances increased in the quarter - Reduction in outturn loan repayments, before a forecast increase in quarter four - Aggregate liquidity remains strong

- £117.0 billion total facilities in place at the end of December, up from £115.3 billion in September.
- New finance of £3.3 billion agreed in the quarter; 53% of this from capital markets.
- Loan repayments of £1.0 billion made during the quarter, compared to average of £1.6 billion in previous three quarters. Repayments forecast to increase to £1.9 billion in quarter four.
- Total cash and undrawn facilities total £35.2 billion; sufficient to cover forecast expenditure on interest costs (£3.6 billion), loan repayments (£3.1 billion) and net development (£16.1 billion) for the next year.
- Mark-to-market (MTM) exposure on derivatives reduced by 1% over the quarter to £1.8 billion, despite swap rates reducing.

Performance in the quarter

Interest cover and income collection indicators remain robust - Capitalised major repairs remain below forecast, although an increase on the previous quarter

- £561 million capitalised major repairs expenditure in the quarter; 25% below forecast, but a 17% increase on the previous quarter and over 20% higher than average quarterly spend over the previous three years.
- Cash interest cover (excluding current asset sales) of 126% in the quarter, compared to forecast of 100% and 12-month average of 128%.
- Increase in interest cover compared to forecast is almost entirely due to capitalised major repairs being £0.2bn below forecasts.
- Aggregate net cashflows from operating activities consistent with forecasts. Increased costs and high demand for repairs reported by some providers, offset by other providers experiencing delays to programmed works.
- Income collection indicators consistent with previous performance. Void losses remain above long-term averages, particularly in supported housing and care home settings.

Investment in new and existing stock

Development expenditure was in line with the committed amount included in forecasts and higher than Q2 outturn

12-month development and major repairs spend forecasts remain high as delayed works are reprofiled into future periods.

- £3.8 billion investment in housing properties in the quarter to December 2021, the highest level on record. This is 31% higher than in the previous quarter, and 23% below forecast.
- Capitalised repairs and maintenance expenditure forecast to reach £3.2 billion over the next 12 months, compared to £2.1 billion over the last 12 months.
- Development spend forecast to reach £18.0 billion over the next 12 months, compared to £12.5 billion over the last 12 months.
- Despite record spend on development, providers continue to report delays due to labour and material shortages along with S106 and planning delays.
- AHO units completed remain strong with an increase on previous quarter. Market sale completions decreased in the quarter to below 1,000 units for the first time since the beginning of the pandemic.
- 18-month pipeline for AHO units stands at 37,208 units and 11,198 units for market sales.

Sales

AHO unit sales have fallen marginally behind the number of completions for the first time since the start of the pandemic - However, market unit sales continue to exceed completions.

- AHO sales total 4,198 units (September: 4,543), and market sales total 997 units (September: 1,250). AHO unit sales remain above pre-pandemic levels, however market unit sales saw the largest reduction over the last 18 months.
- 5% increase in the number of AHO units unsold for more than six months, and 12% increase in market sale units unsold for more than six months.
- Total asset sales of £2.0 billion achieved. Current asset sales of £1.0 billion were 13% below forecast.
- Fixed asset sales total £1.0 billion; 18% above the forecast for the quarter.
- At £3.2 billion, 12-month forecast fixed asset sales are the highest ever reported, as transactions between Registered Providers increase.
- £4.9 billion current asset sales forecast for the 12 months to December 2022, £4.6 billion of which relates to properties where development is contractually committed.

Operating environment

5. The quarter to December 2021 saw the government announce the introduction of the Plan B measures, as set out in the Government autumn and winter plan[1], against the Omicron variant. This included compulsory face coverings in most public indoor venues, mandatory use of the NHS Covid Pass in certain settings, and the return to working from home guidelines[2].

6. On 16 December 2021 the Bank of England raised the base rate to 0.25% for the first time in three years, and a further increase was made on 3 February to 0.5%, due to growing concerns over inflation[3].

7. Overall inflation, as measured by the Consumer Prices Index (CPI), increased to 5.4% in the 12 months to December 2021, up from 5.1% in November[4]. This is the highest CPI 12-month inflation rate seen in the National Statistic data series, with inflation levels at a 30-year high[5]. However, with energy prices set to rise this spring, it is predicted inflation levels may reach this level again.

8. Gross domestic product fell by 0.2% in December 2021 to equal its pre-pandemic level recorded in February 2020[6]. This follows an increase in the previous month which saw levels rise above the pre-pandemic level for the first time by 0.7%[7].

9. Monthly construction output grew by 3.5% during November 2021; the largest monthly increase seen in construction output growth since March 2021[8]. December 2021 saw the monthly construction output also increase by 2.0%, which solely came from a rise in new work of 3.5%, whilst repair and maintenance saw a decrease of 0.7% in the month[9]. The level of construction output in December 2021 was 0.3% above February 2020 (pre-pandemic) levels, whilst repair and maintenance works were 4.5% above the pre-pandemic levels. Alongside the monthly increase in output, construction output also rose 1.0% in the quarter (October to December 2021). Similar increases were seen in both new work and repairs and maintenance works of 1.1% and 0.8% respectively.

---

[1] Guidance overview: COVID-19 Response: Autumn and Winter Plan 2021 - GOV.UK (www.gov.uk)
[2] Measures against Omicron variant come into effect: 30 November 2021 - GOV.UK (www.gov.uk)
[3] Bank Rate increased to 0.5% - February 2022 | Bank of England
[4] Consumer price inflation, UK - Office for National Statistics
[5] Surging food prices push inflation to 30-year high - BBC News. Note the highest inflation last recorded with reference to the historical modelled data series was in March 1992 at 7.1%
[6] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)
[7] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)
[8] Construction output in Great Britain - Office for National Statistics
[9] Construction output in Great Britain - Office for National Statistics

10. Construction output prices grew by 6.2% in the year to December 2021; the largest annual increase since records began in 2014. The strongest annual growth was experienced in the area of new housing works, with prices increasing by 9.9%[10]. Housing repairs and maintenance prices grew by 5.2% over the 12-month period.

11. On 1 October the Stamp Duty threshold reverted back to its previous level of £125,000[11], due to the cessation of the temporary increase to the Stamp Duty Land Tax nil rate band.

12. UK house prices increased by 10.8% in the year to December 2021, with the average house price reaching a record high of £275,000; £27,000 higher than the same period of 2020.[12] The largest annual increases were recorded in the South West (13.6%) and the South East (12.6%), whilst the smallest increase was in London (5.5%). In the three months to the end of November, house prices grew at the fastest pace in 15 years, reflecting the lack of homes, a strong job market and low borrowing costs in the quarter[13].

13. The number of payrolled employees increased during the quarter to reach 29.5 million in December, back in line with pre-pandemic levels[14], with all regions now above the February 2020 level. This followed the termination of the Coronavirus Job Retention Scheme on 30 September 2021[15].

14. Providers need to remain alert and ready to respond to further changes in the operating and economic environment. They will need to ensure that risks are monitored including the potential for increasing interest rates, the rising pressures on repairs and build costs, and changes to the market affecting the supply of labour and materials. Forecasts will need to be closely monitored and updated, and flexibility will need to be included to allow any growing risks to be effectively managed.

---

[10] Construction output price indices - Office for National Statistics

[11] Extension of the temporary increase to the Stamp Duty Land Tax nil rate band for residential properties - GOV.UK (www.gov.uk)

[12] UK House Price Index - Office for National Statistics (ons.gov.uk)

[13] UK house price growth hits 15-year high - Halifax | Reuters

[14] Labour market overview, UK - Office for National Statistics (ons.gov.uk)

[15] Coronavirus Job Retention Scheme statistics: 4 November 2021 - GOV.UK (www.gov.uk)

Private finance

15. The sector's total agreed borrowing facilities increased by £1.7 billion over the quarter, to reach £117.0 billion at the end of December (September: £115.3 billion).

16. Of the £117.0 billion total facilities, £59.8 billion (51%) related to bank loans and £53.4 billion (46%) related to capital market funding. The proportion of capital market funding held across the sector has increased over recent years, from 37% of total facilities three years ago to the current total of 46%.

Figure 1: Total facilities (£ billions)

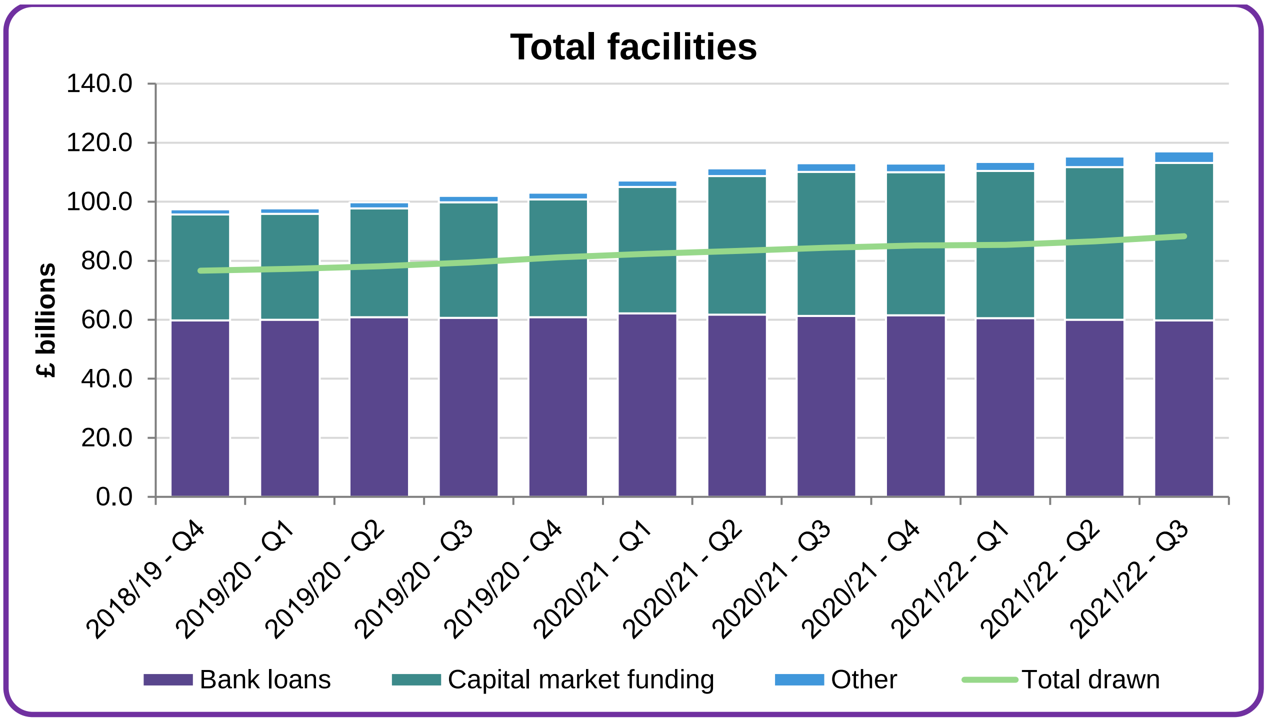


Table 1: Total facilities – drawn and secured

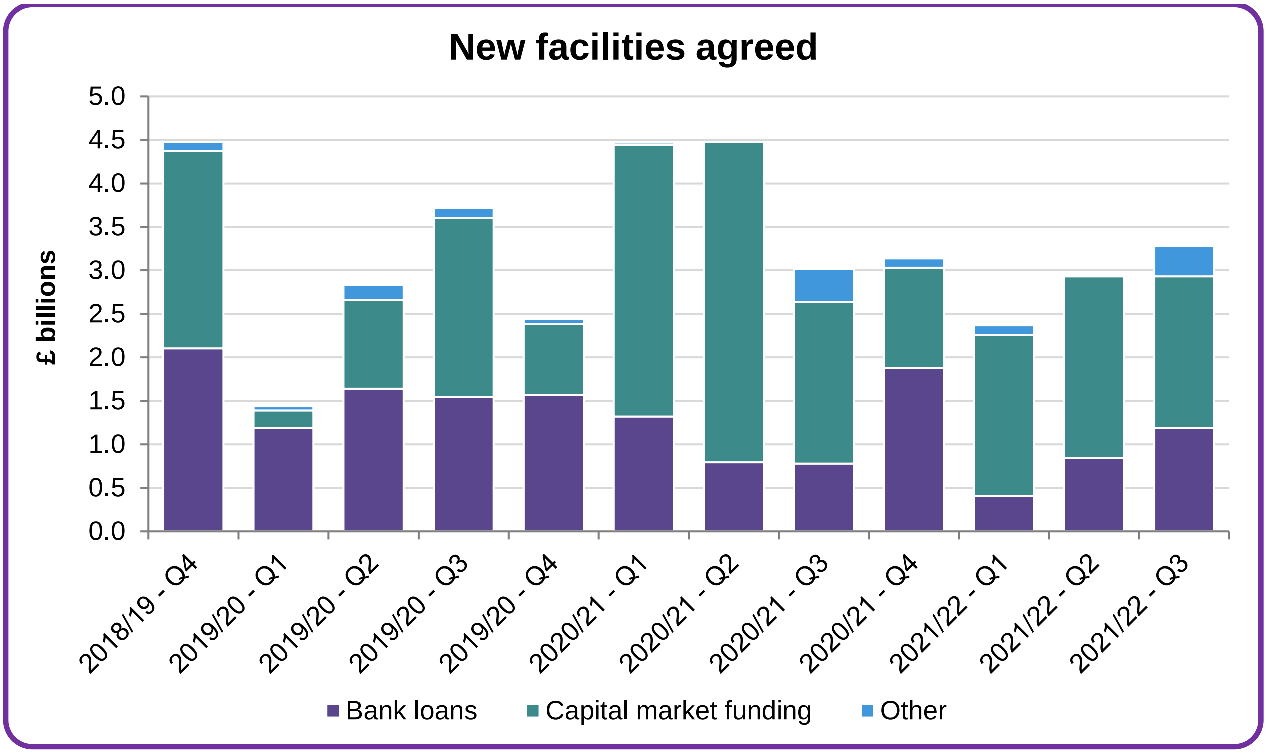
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	86.5	88.3	2.1%
Undrawn	28.7	28.7	(0.1%)
Secured	104.0	105.7	1.6%
Security required	3.6	3.9	8.8%
Security not required	7.7	7.5	(2.9%)

17. 94% (September: 95%) of providers were forecasting that debt facilities available at the end of December would be sufficient for more than 12 months.

18. A total of 40 providers arranged new finance during the quarter (September: 29). The total agreed, including refinancing, amounted to £3.3 billion, with 11 providers each arranging facilities worth £100 million or more.

19. Capital market funding, including private placements and aggregated bond finance, accounted for 53% (£1.7 billion) of new funding arranged in the quarter, with five bond issues making up almost half of this amount. Bank lending accounted for £1.2 billion of the total, and other finance sources amounted to £0.3 billion. The majority of the £0.3 billion received from 'other' finance sources related to on-lending from non-consolidated group companies.

Figure 2: New facilities agreed (£ billions)



20. Total cash and undrawn facilities available within the sector totalled £35.2 billion at the end of December (September: £35.2 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.6 billion), loan repayments (£3.1 billion) and net development for the next year (£16.1 billion), even if no new debt facilities were arranged and no sales income were to be received.

21. Loan repayments of £1.0 billion were made in the quarter to December 2021. This follows three quarters of particularly high refinancing activity, where repayments averaged £1.6 billion per quarter and were amongst the highest levels ever reported.

For the last quarter of 2021/22, loan repayments are expected to increase again to total £1.9 billion. This amount will include final repayments due under the terms of the Covid Corporate Financing Facility (CCFF)[16], which was set up to provide short-term cashflow support at the start of the coronavirus pandemic. A total of £0.5 billion outstanding CCFF was held by PRP groups at the end of December, and is due for repayment by March 2022 at the latest.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	7.1	7.1	0.8%
Drawdown from facilities not yet agreed	2.6	2.0	(23.8%)
Loan repayments	3.3	3.1	(5.9%)

22. Drawdowns from facilities not yet agreed have been forecast by 26 providers that are either increasing borrowing capacity, typically to fund uncommitted development programmes, or are refinancing existing facilities. This can be either to replace expiring facilities, or to secure more favourable terms.

[16] Covid Corporate Financing Facility (CCFF) | Bank of England

Cashflows

23. It is essential that providers maintain sufficient liquidity. The regulator engages with PRPs that have low liquidity indicators. Table 3 below shows actual performance for the quarter compared to the forecast, and the 12-month cashflow forecasts to December 2022.

Table 3: Summary cashflow forecast[17]

Figures in £ billions	3 months to 31 Dec 2021 (forecast)	3 months to 31 Dec 2021 (actual)	12 months to 31 Dec 2022 (forecast)
Operating cashflows excluding sales	0.8	1.1	3.7
Interest cashflows	(0.9)	(0.8)	(3.5)
Payments to acquire and develop housing	(4.9)	(3.8)	(18.0)
Current assets sales receipts	1.2	1.0	4.9
Disposals of housing fixed assets	0.8	1.0	3.2
Other cashflows	(0.1)	(0.2)	(0.5)
Cashflows before resources and funding	**(3.0)**	**(1.7)**	**(10.1)**
Financed by:			
Net grants received	0.4	0.3	1.9
Net increase in debt	1.6	1.7	6.1
Use of cash reserves	0.9	(0.3)	2.1
Total funding cashflows[18]	**3.0**	**1.7**	**10.1**

24. Interest cover, based on operating cashflows excluding sales, stood at 126% in the quarter to December 2021 (September: 158%); consistent with the average of 128% recorded over the last 12 months. This compares to a forecast of 100% made in September. The increase in interest cover compared to forecast is almost entirely attributable to capitalised repairs and maintenance costs being £191m (25%) below the amount previously budgeted.

25. Net cashflows from operating activities were in line with forecasts, with an almost equal number of providers reporting favourable variances as there were adverse variances. In addition to the usual working capital movements and fluctuations in the timing of rental receipts, a number of providers reported increased demand for responsive repairs and

[17] 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.

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

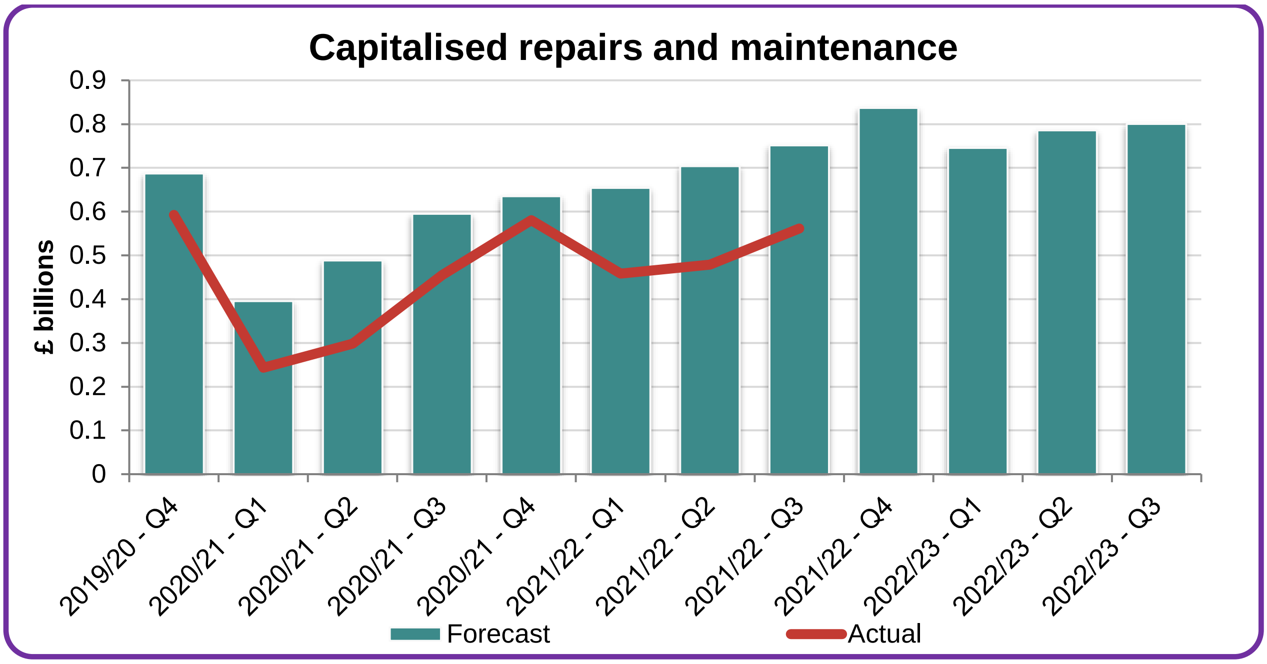
inflation leading to increased costs. However, other providers experienced reduced expenditure due to delays in revenue major works programmes.

26. The figures submitted by providers show interest cover averaging 107% over the 12-month forecast period (September 12-month forecast: 108%), compared to an average of 128% in the 12 months to December 2021. The anticipated decrease in interest cover from the current quarter results from capitalised repairs and maintenance costs being, on average, £231 million (41%) higher than in the quarter to December 2021. The additional expenditure is partially offset by an increase in net cashflows from operating activities, which are anticipated to increase by an average of £87 million per quarter over the forecast period.

27. Actual expenditure on capitalised repairs and maintenance amounted to £561 million during the quarter; 25% lower than the amount previously forecast. However, this represents an increase of 17% on the amount reported in the previous quarter, and is also over 20% higher than the average quarterly expenditure incurred in the previous three years. The majority of providers (75%) have reported an underspend against previous forecasts, with material and labour shortages continuing to cause delays. A small number of providers have also reported reprioritising responsive repairs over major works programmes to ensure that resources are available for urgent works and to catch-up on backlogs of repair works.

28. In the 12 months to December 2021 capitalised expenditure on repairs and maintenance was £2.1 billion, compared to the £2.6 billion forecast at the start of the period. For the 12 months to December 2022, the sector has forecast capitalised repairs and maintenance expenditure of £3.2 billion (September 12-month forecast: £3.1 billion). For many providers, forecasts include catch-up works from programmes that have been affected by delays in earlier quarters. However, supply-chain issues and labour shortages are likely to further affect providers' abilities to deliver programmes, and the regulator will continue to monitor the viability of these forecasts.

Figure 3: Capitalised repairs and maintenance expenditure (£ billions)



29. Current asset sales of £4.4 billion were achieved in the 12 months to December 2021, compared to the £4.5 billion forecast at the start of the period. For the 12 months to December 2022 the sector has forecast a further £4.9 billion worth of current asset sales, of which £4.6 billion relates to properties for which development is contractually committed.

30. In the 12 months to December 2021 fixed asset sales totalled £2.8 billion. For the 12 months to December 2022 the sector has forecast a further £3.2 billion worth of fixed asset sales. Forecast fixed asset sales have been increasing steadily over the last 12 months, with forecasts now at the highest level ever recorded. This follows the addition of new for-profit providers into the dataset, which has led to an increase in the level of sales recorded between associated group companies, and also between for-profit and not-for-profit Registered Providers. Around £0.8 billion of the total £3.2 billion forecast fixed asset sales relate to these types of transactions, where housing properties will effectively remain within the social housing sector.

31. Available cash balances, excluding amounts held in secured accounts, increased by £0.1 billion during the quarter. This compares to a forecast reduction in cash of £0.8 billion expected at the end of the previous quarter.

32. Cash available as at December 2021 totalled £6.5 billion (September: £6.4 billion). Forecasts show this reducing to £4.9 billion over the next 12 months as cash reserves are used to fund development programmes. In addition to the £6.5 billion available, cash held in secured accounts and therefore not accessible to providers totalled £1.5 billion (September: £1.3 billion). Typically, these accounts are used to hold mark-to-market (MTM) cash collateral, amounts in escrow and leaseholder sinking funds.

Development

33. In the 12 months to December 2021, £12.5 billion was invested in the acquisition and development of housing properties, compared to £10.5 billion in the previous year to December 2020.

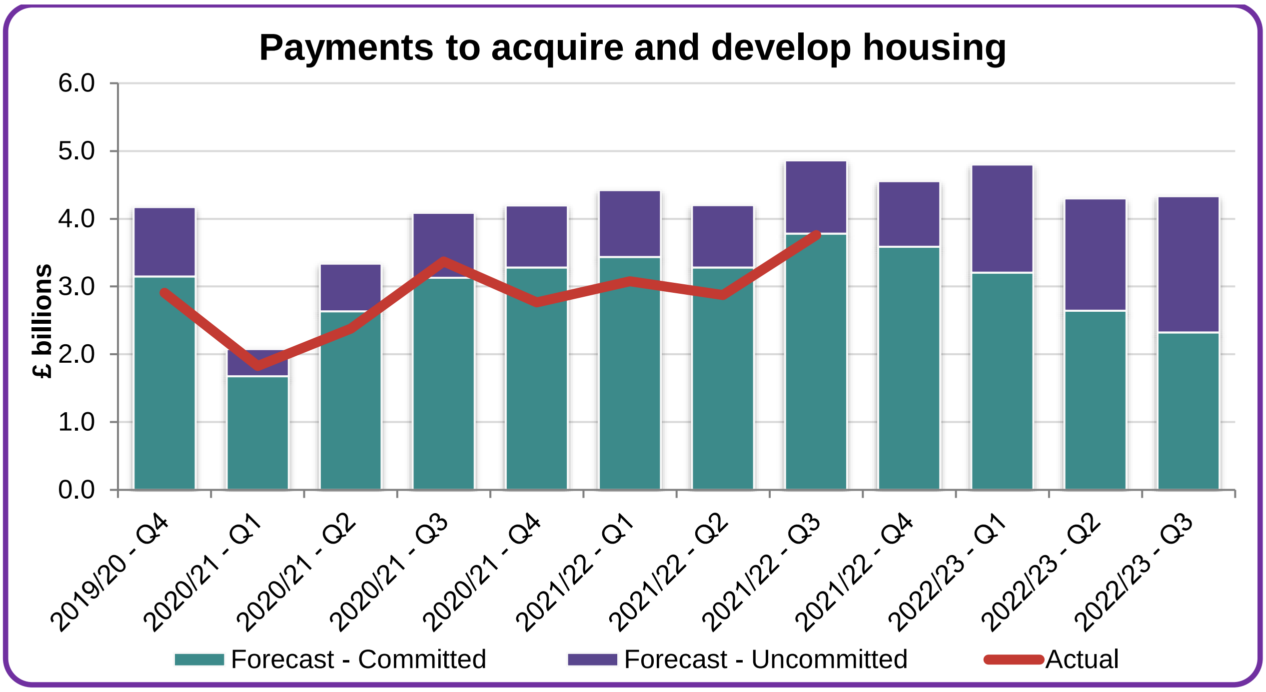
34. Actual expenditure in the quarter to December 2021 amounted to £3.8 billion; 31% more than in the previous quarter and the highest level ever reported[19]. This is mainly due to eight providers spending over £100.0 million in the quarter on development, with one for-profit provider participating in an intercompany purchase. In the two years prior to the coronavirus pandemic, development expenditure averaged £3.0 billion per quarter. Expenditure was 23% below the £4.9 billion forecast for the quarter, however in line with the £3.8 billion forecast for contractually committed schemes.

35. In addition to general scheme delays and slippage, providers have reported development works being affected by the continued supply chain issues and pressures in the contractor market across the construction sector, which in turn have led to price increases. Several providers have also reported planning approval delays, affecting scheme development start dates.

36. For the next 12 months a further £18.0 billion worth of investment has been forecast, of which £11.8 billion is contractually committed. This is a 2% decrease on the previous quarter's forecast of £18.3 billion and would represent a 44% increase in investment in comparison to the previous 12 months. Forecast expenditure includes an element of catch-up works from schemes that were delayed during lockdown periods, or for those currently impacted by material and labour shortages.

[19] Data first collected in 2011

Figure 4: Payments to acquire and develop housing



Housing market

37. Total asset sales, including staircasing, RTB/RTA and voluntary sales, as well as Affordable Home Ownership (AHO) first tranche sales and market sales, amounted to £2.0 billion in the quarter to December (September: £1.6 billion). Market sales totalled £561 million, higher than the 3-year average of £547 million, whilst AHO first tranche sales totalled £494 million, also higher than the 3-year average of £432 million.

38. Current asset sales for the quarter (market sales and first tranche AHO sales) were 13% below forecast, with a total of £1.0 billion sales achieved (September £1.0 billion). This is partly due to one provider contributing to over 40% of the variance from land completion delays and several handover dates being pushed back. A small number of providers have also reported sales failing to complete due to solicitor delays and the knock-on effect of development suspensions.

39. Fixed asset sales (including staircasing, RTB/RTA and voluntary sales) amounted to £1.0 billion (September: £0.6 billion); 18% higher than the amount forecast in September. This was driven by the timing of stock transfers, higher staircasing and RTB/RTA sales, and one provider in receipt of a first stage payment from the bulk sale of properties. The quarter to December 2021 saw a significant increase in fixed asset sales of 70% compared to previous quarter. This was mainly due to one provider accounting for over half of the overall increase, following an intercompany transaction.

40. Overall surpluses from asset sales stood at £0.5 billion for the quarter (September: £0.4 billion), and overall margins rose from 26% to 27%. Shared ownership first tranche sales margin increased to 19%, following the lowest level recorded since 2012 last quarter (September: 17%), however is still below the three-year average of 21%. Margins on outright sale also increased to 19%, the highest level since quarter one of 2020/21.

Figure 5: Value of asset sales

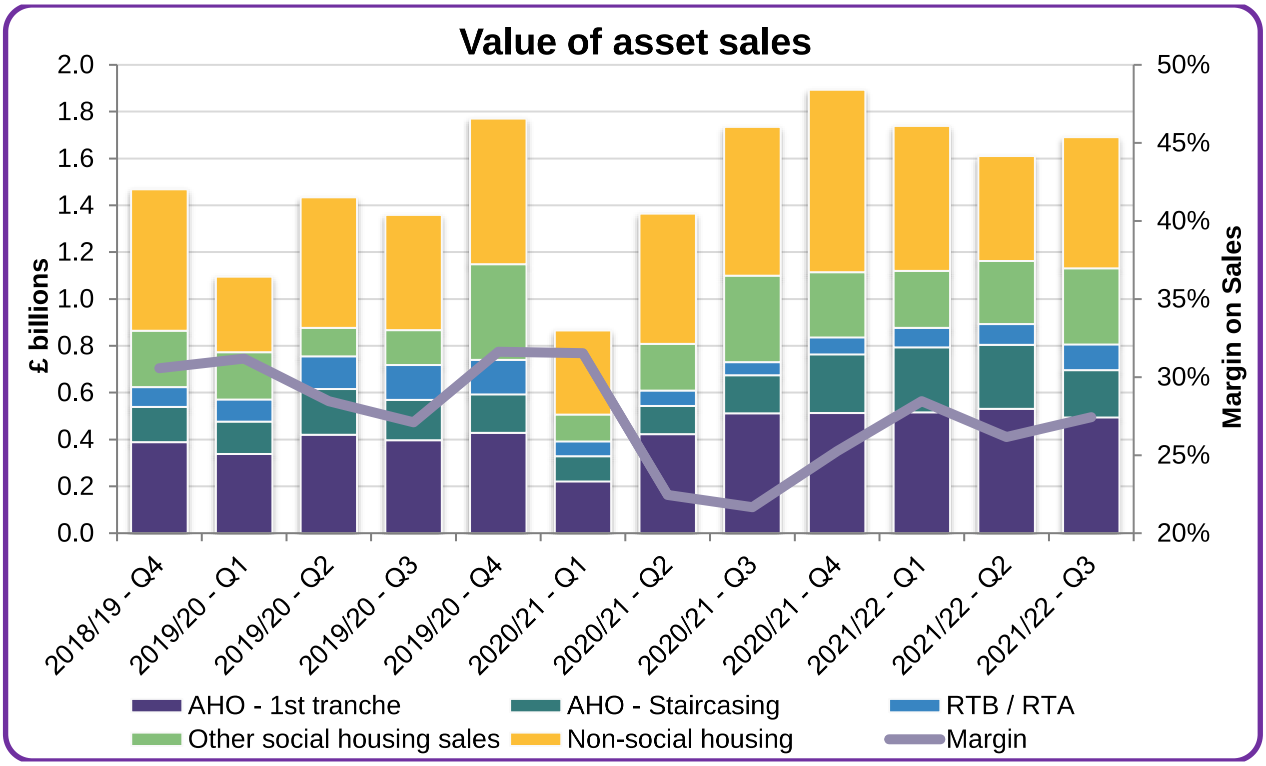


Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	3,940	4,452	13.0%
Sold	4,543	4,198	(7.6%)
Margin	17.1%	19.0%	11.1%
Unsold	6,157	6,234	1.3%
Unsold for more than 6 months	2,166	2,264	4.5%
18-month pipeline	36,855	37,208	1.0%

41. Sales of AHO units have fallen behind the number of completions for the first time since the start of the pandemic, leading to a 1% increase in the overall number of unsold units and a 5% increase in the number of units unsold for over six months. This follows a rise in completions by 13% in the quarter, with one third of overall completions held by just five providers. However, unit sales remain above pre-pandemic levels.

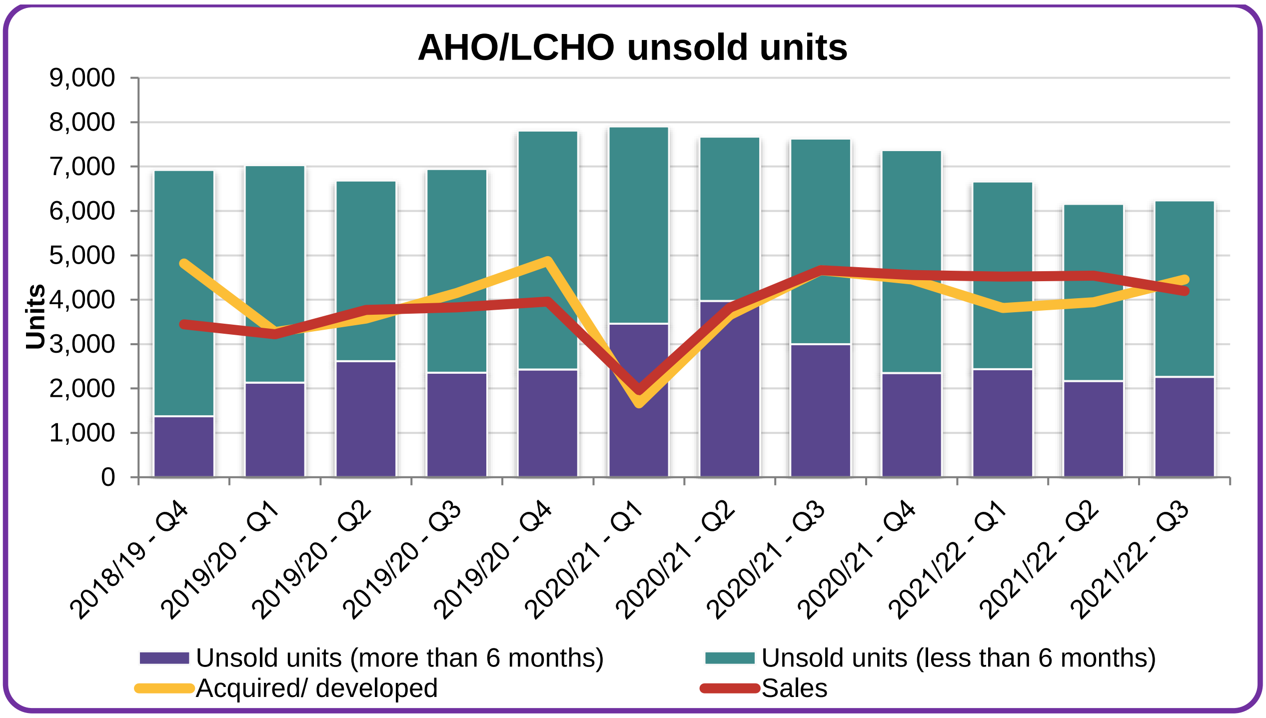
42. Sales of AHO units have remained consistently high over the last 15 months, averaging 4,496 units each quarter, whereas prior to this AHO sales had not exceeded 4,000 units in a reporting quarter[20]. This has been influenced by the temporary increase in the Stamp Duty threshold, which came into effect in July 2020 and returned to the previous level of £125,000 from 1 October 2021. The quarter to December 2021 saw the largest decline in unit sales since the start of the pandemic in quarter one of 2020/21.

43. Almost half of the unsold AHO stock at the end of the quarter was held by 10 providers. These 10 providers all reported access to sufficient liquidity. Between them this amounted to £6.6 billion undrawn facilities, 19% of the total facilities available within the sector. Of the units unsold for over six months, 26% were held by providers operating mainly in London.

44. Six providers held 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 and test business plans to ensure they are robust enough to cope with a range of adverse scenarios.

45. The overall surplus on AHO sales stood at £94.0 million in the quarter to December (September: £91.1 million). There has been an increase in margin to 19.0% (September: 17.1%). However, this is still below the three-year average of 26.5% pre-pandemic.

Figure 6: AHO/LCHO unsold units



[20] Data first collected in 2011.

46. The pipeline of AHO completions expected in the next 18 months stands at 37,208 units, of which 32,501 units are contractually committed. The pipeline figures represent a 49% increase in AHO development compared to actual performance in the 18 months to December 2021, when there were 24,976 completions. Five providers have over 1,000 units in the pipeline, attributing to a quarter of the overall pipeline figures, of which two are for-profit.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,130	952	(15.8%)
Sold	1,250	997	(20.2%)
Margin	16.4%	18.7%	14.1%
Unsold	1,331	1,280	(3.8%)
Unsold for more than 6 months	571	641	12.3%
18-month pipeline	10,691	11,198	4.7%

47. The number of both market sale unit completions and the number of sales achieved were lower than the previous quarter. The number of market sale completions was below 1,000 units for the first time since the start of the pandemic in quarter one 2020/21. Completions have averaged 1,202 units per quarter over the last two years, and 1,394 units per quarter in the two years prior to the pandemic.

48. The continued high number of market sales compared to unit completions has resulted in a reduction in the overall number of unsold units, however the number unsold for over six months has increased by 12%.

49. Development for outright market sale continues to be concentrated in relatively few providers, with over half of the unsold market sale units reported at the end of the quarter being held by five providers. These providers each had access to between £0.3 billion and £1.2 billion worth of cash and undrawn facilities. Between them this amounted to £3.8 billion, or 11% of the total facilities available within the sector.

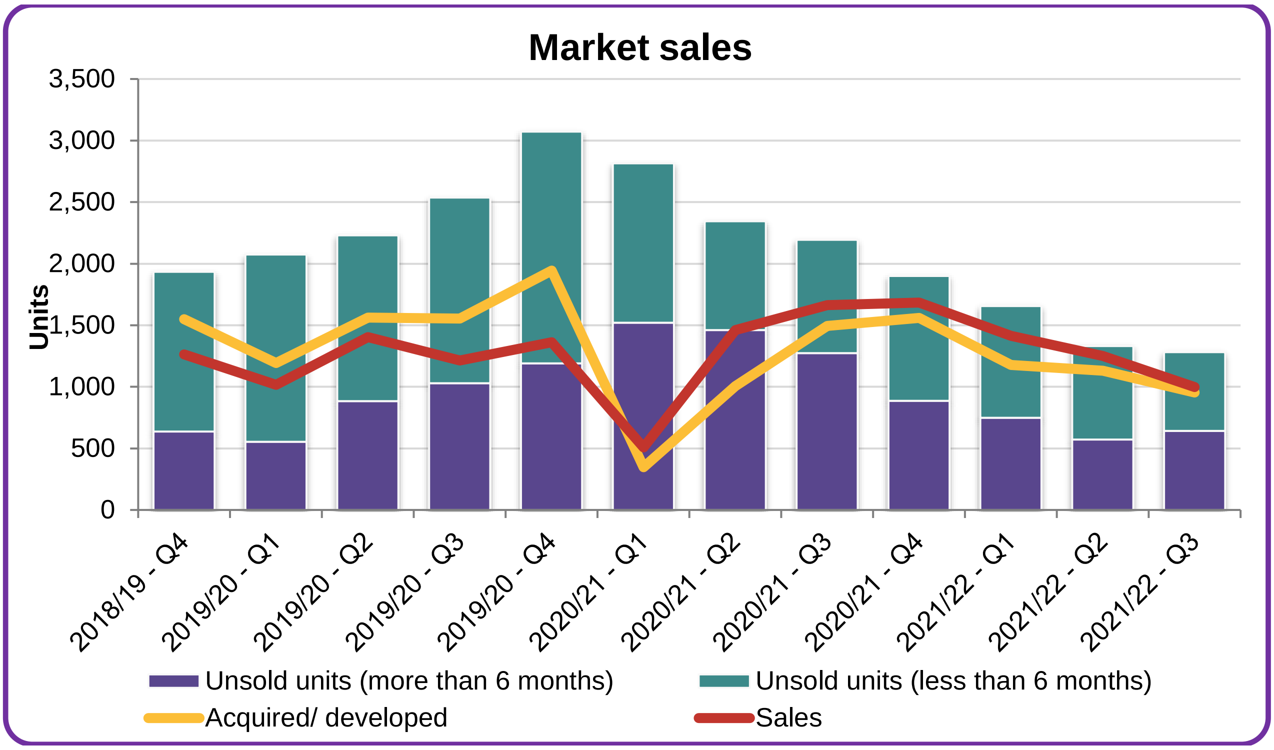
50. Of the market sale units unsold for over six months, 30% were held by providers operating mainly in London[21]. Between them, these providers were responsible for 33% of the total number of market sale units that were developed over the last 12 months.

51. The overall surplus on market sales stood at £105.1 million in the quarter to December (September: £73.6 million), which is above the three-year average of £93.9 million.

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

Despite the reduction in sales volume, the increase in value of sales gives a margin on sales of 18.7% (September: 16.4%); the first increase above the 16% region in the last three quarters.

Figure 7: Market sales



52. For market sale, completions expected over the next 18 months stand at 11,198 units, of which 10,246 are contractually committed. If achieved, this would equate to a 53% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,321 units. One provider has over 2,000 units in the pipeline, attributing to 20% of overall pipeline figures.

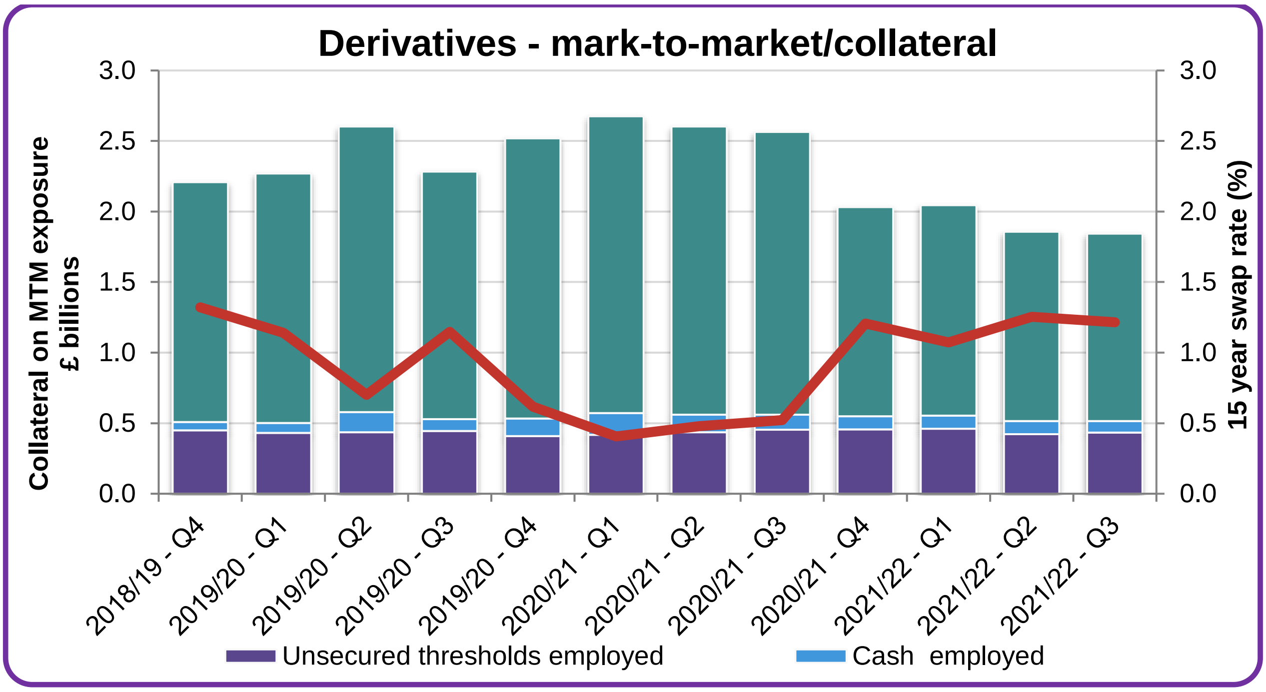
Derivatives

53. At the end of December, 42 providers (September: 43) reported making use of free-standing derivatives. The notional value of standalone derivatives increased by £0.2 billion over the quarter to £8.7 billion. This was mainly due to one provider increasing its standalone derivatives by almost £0.3 billion.

54. Gross MTM exposure reduced by 1% over the quarter, from £1.9 billion in September to £1.8 billion at the end of December. Swap rates decreased in the quarter, with the 15-year swap rate reducing from 1.255% at the end of September to 1.216% at the end of December.

55. Unsecured thresholds and available security pledged to swap counterparties totalled £3.4 billion. Of this total collateral, £1.5 billion (September: £1.5 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 8: Derivatives – Mark-to-market / Collateral



56. The above graph shows MTM exposure excluding excess collateral. Generally, for PRPs, MTM exposure increases as swap rates fall. Although swap rates fell in the quarter, exposure also slightly decreased by 1% partly due to one provider terminating a swap.

57. Collateral given in terms of security and cash continues to exceed the sector's exposure levels, providing some mitigation against the risk of future adverse movements in swap rates. At sector level, the headroom of collateral and unsecured thresholds available over current exposure was £1.6 billion (September: £1.7 billion).

58. Of the 42 providers that were making use of free-standing derivatives, 39 had collateral pledged that exceeded or equalled their level of exposure. The three providers that were under-collateralised at the end of the quarter were not required to provide additional security to cover exposure.

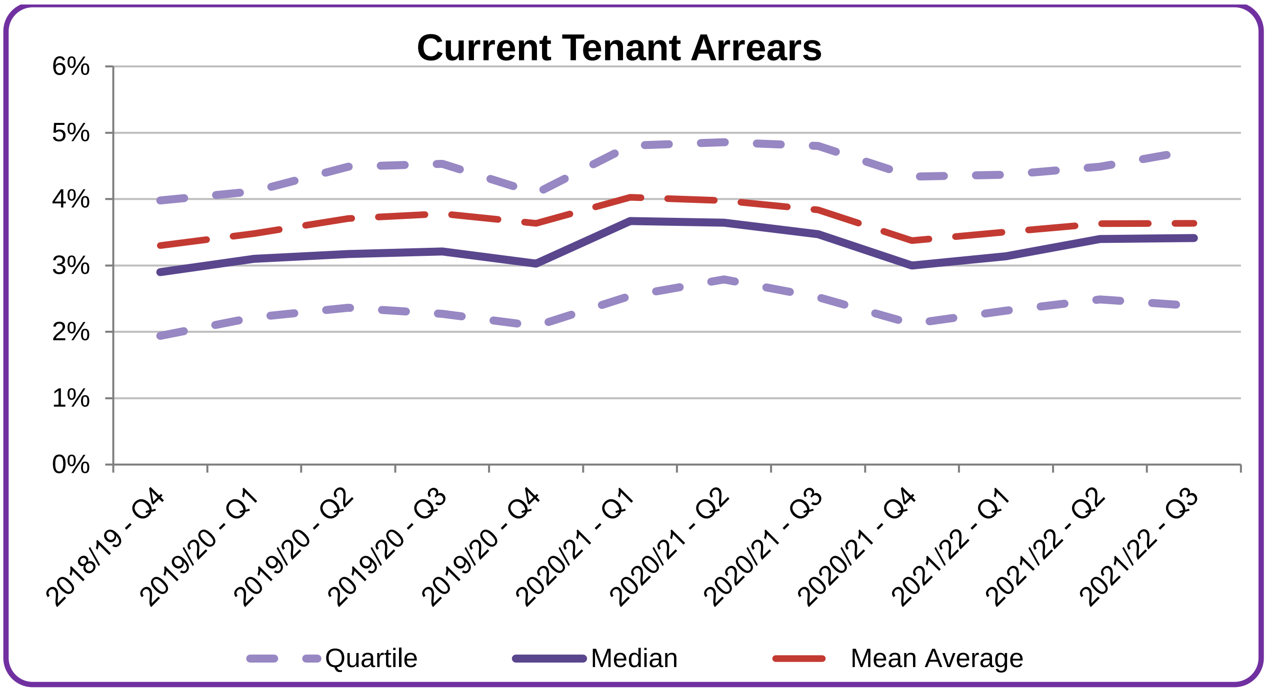
59. Interest rate volatility means that collateral requirements will remain a long-term exposure, and MTM positions need to be closely monitored. For the majority of providers, MTM exposure decreases as swap rates rise, however a small minority of providers would be adversely impacted by future increases in swap rates. Providers must ensure that they have sufficient security available to manage the effects of further volatility in swap rates. After 31 December 2021, all LIBOR settings will cease to be provided by any administrator, and representative LIBOR rates will no longer be available[22].

[22] Announcements on the end of LIBOR | Bank of England

Income collection

60. At the end of December, 70% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 72% at the end of September.

Figure 9: Current tenant arrears

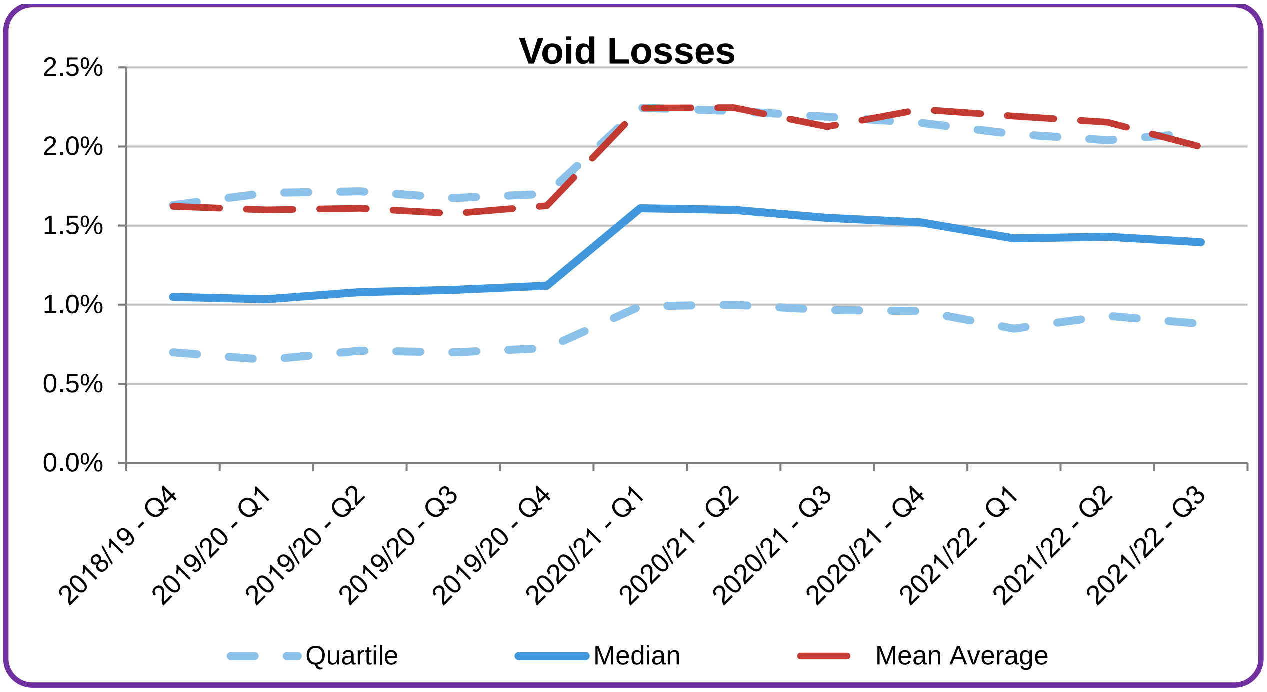


61. Mean current tenant arrears stood at 3.6% at the end of December (September: 3.6%); lower than the corresponding quarters of both 2020/21 and 2019/20 when the average stood at 3.8%.

62. At 3.4%, median arrears were also lower than in the same quarter of 2020/21 (3.5%), however they remain higher than pre-pandemic levels reported in Q3 of 2019/20, when the median stood at 3.2%.

63. The highest levels of arrears continue to be experienced by providers operating mainly in London, where the mean average stood at 5.5%. In comparison, the lowest arrears were reported by providers operating mainly in the southwest, where the average stood at 2.2%.

Figure 10: Void losses



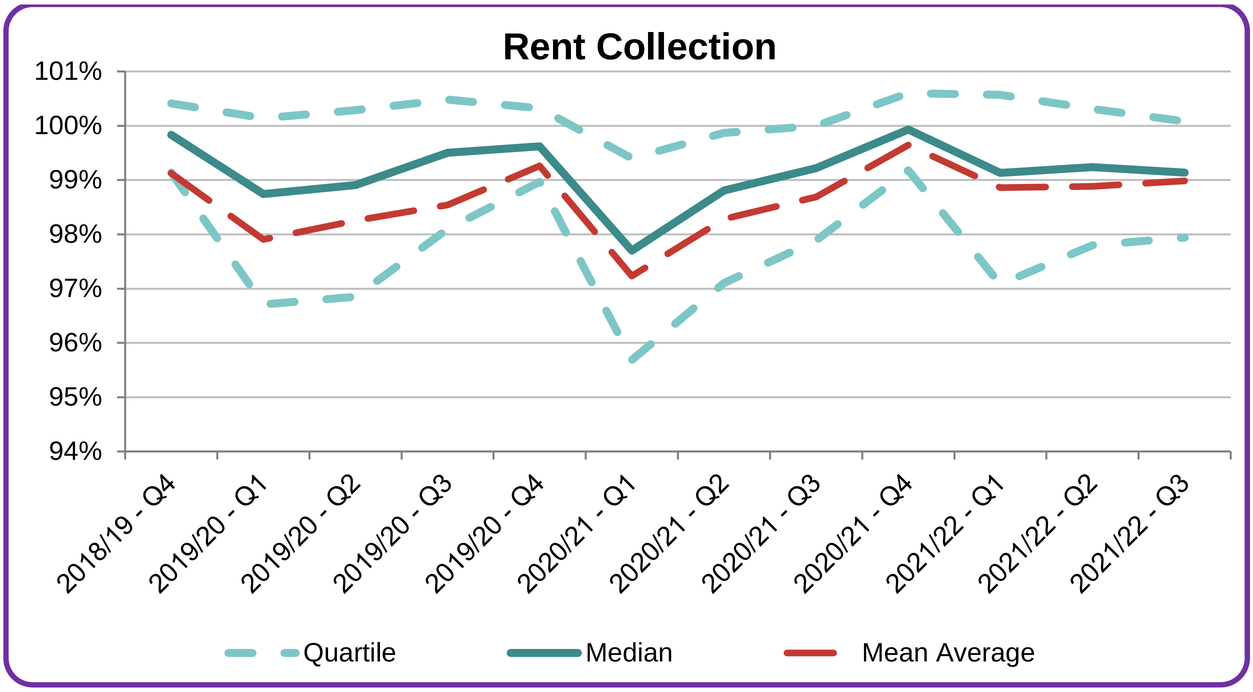
64. Median void losses remained at 1.4% during the quarter, consistent with the previous two quarters' results. This is lower than the median of 1.6% reported in the same quarter of 2020/21, but still significantly higher than the void levels experienced before the start of the coronavirus pandemic.

65. Mean void losses have reduced to 2.0% at the end of December (September: 2.2%), although the removal of two providers from the dataset this quarter has had an impact on this figure. If these two providers were still included with their September void levels, the mean average would have stood at 2.1%; consistent with the figure reported in Q3 of 2020/21.

66. The highest void rent losses are typically reported by providers with a large proportion of supported housing units, care home units or Housing for Older People, and providers continue to report that this is being exacerbated by the pandemic. Providers with over 50% of their stock within these categories reported mean void losses of 5.3%, compared to 1.7% reported by providers with less than 50%.

67. A total of 62 providers have stated that income collection indicators are outside of business plan assumptions. Across all providers, 12 have recorded void losses of 5% or more (September: 14). Providers have reported that material and labour shortages are continuing to affect void repair times, with additional pressures arising from covid-safe working practices.

Figure 11: Rent collection



68. Mean average rent collection rates stood at 99.0% at the end of December (September: 98.9%), with the median at 99.1% (September: 99.2%). The number of providers reporting rent collection rates of less than 95% stood at 9 (September: 13). Income collection rates generally increase over the course of a financial year as Housing Benefit receipts fall in line with rent charges, and for some providers, as rent-free weeks are applied.

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
Level 2
7-8 Wellington Place
Leeds LS1 4AP

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.