Regulator of Social Housing

Quarterly survey for Q4

January to March 2023

June 2023

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Introduction

1. This Quarterly survey report is based on regulatory returns from 202 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 January 2023 to 31 March 2023.

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, or there is an increasing exposure to risks from activities carried out within non-registered entities. Further assurance may also be required on covenant compliance. 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

Liquidity remains robust, however cash balances at lowest level in almost eight years

- £123.1 billion total facilities in place at the end of March, up from £121.8 billion in December.
- New finance of £3.3 billion agreed in the quarter and £9.9 billion agreed in the year – the lowest annual amount since 2016/17.
- Loan repayments of £1.3 billion made during the quarter. Repayments forecast to be £2.3 billion over next 12 months.
- Total cash and undrawn facilities total £35.3 billion; remains sufficient to cover forecast expenditure on interest costs (£4.6 billion), loan repayments (£2.3 billion) and net development (£14.7 billion) for the next year.
- Mark-to-market (MTM) exposure on derivatives remains low, with current gross exposure of £0.4 billion, up slightly from £0.3 billion in December.

Performance in the quarter

A further reduction in 12-month cash interest cover and lowest amount reported in eight years – Total outturn repairs and maintenance spend significantly up on levels recorded earlier in the year, with capitalised repairs at highest level since 2015

Income collection indicators stable however marginally worse than comparative Q4 2021/22 figures

- £2.1 billion total repairs and maintenance spend in the quarter; highest level recorded over the last 12 months - 21% higher than the previous quarter and 3% higher than forecast.
- Expenditure on capitalised repairs amounted to £894 million; 32% higher than the previous quarter.
- 55% of providers reported delays or changes to repairs and maintenance programmes during the quarter. Inflation continues to be a prime factor alongside material and labour shortages. Shifting priorities result in a focus on damp and mould works, deferral of non-essential works, as well as year-end catch up spend.
- Aggregate interest cover (excluding all sales) for the year to March 2023 was 87%, the lowest ever recorded. Interest cover for the year to March 2024 is forecast to reduce to 83%. Further details can be found in the cashflow section of the report.
- Forecast reduction in interest cover results from increases in projected spend on capitalised repairs and maintenance (£0.9 billion) and interest payable (£0.5 billion), offset by increased net cashflows from operating activities (£1.1 billion).
- Value of debt repayable over the next two years is £5.0 billion (2022: £4.8 billion), with long-term debt continuing to account for most of the sector’s borrowing with 79% of debt due for repayment in over five years.
- 54 providers are forecasting an impairment charge in their 2022/23 accounts, with a total estimated charge of £329 million, an increase on historic levels.

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Investment in new and existing stock

12-month major repairs spend forecasts remain high as delayed works are reprofiled and building safety and energy efficiency works are planned. An increase in forecast non-capital repairs and maintenance spend reflects the prioritisation of damp and mould works. 12-month development spend forecasts increased from previous quarter, driven by for-profit organisations

AHO completions are the highest ever recorded – Market sale pipeline falls to the lowest level in eight years

- Total repairs and maintenance spend in the 12 months to March 2023 amounted to £6.9 billion. Capitalised repairs and maintenance expenditure was £2.7 billion in the year. Expenditure forecast to reach £3.5 billion over the next 12 months.
- Forecasts for capital investment continue to increase due to inflationary pressures, building safety and energy efficiency works and increased focus on damp and mould works.
- £3.4 billion invested in new housing properties in the quarter; 6% below the forecast for contractually committed schemes.
- Development expenditure forecast to reach £16.8 billion (December: £16.6 billion) over the next 12 months, of which £11.4 billion (December: £11.0 billion) is committed.
- £0.2 billion net increase in development forecasts is driven by for-profit providers; without these, forecasts would have reduced by £0.2 billion.
- At 5,305 units, AHO completions in the quarter are the highest ever recorded. Market sale completions increased by 22% compared to the previous quarter.
- 18-month pipeline for AHO units stands at 36,979 units. Market sale pipeline falls to 7,809 units; the lowest in almost eight years.

Sales

AHO sales behind completions during the quarter leading to increased unsold stock – Increase in market sales activity. Margins have fallen on both AHO and market sales.

- AHO sales totalled 4,033 units (December: 4,445). Market sales totalled 1,496 units; 36% higher than the previous quarter.
- Total unsold AHO units increase by 19%, following record handovers in the final quarter.
- Margins on AHO sales are 18.4% in the quarter (December: 21.6%). Market sale achieved margins of 14.1% (December: 15.0%).
- Current asset sales totalled £1.1 billion; 3% above forecast. Non-social housing sales income of £670 million is the highest in two years.
- Fixed asset sales totalled £0.8 billion. Bulk disposals to other organisations amounted to £0.4 billion of this; 70% below forecast.
- Fixed asset sales forecast to reach £4.8 billion over the next 12 months, including £2.9 billion bulk sales.

Operating environment

5. The quarter to March 2023 continued to bring inflationary pressures and economic challenges to the housing sector. Although inflation is expected to fall over the year ahead[1], PRPs continue to face increasing pressure on resources and demand to invest in both new and existing stock. In recognition of the multiple priorities facing housing providers, on 28 March the Levelling Up, Housing and Communities Committee launched an inquiry into the finances and sustainability of the social housing sector in England[2], which seeks to understand the impact of these demands upon providers' financial viability and the resources that will be needed to fulfil them.

6. UK Gross domestic product (GDP) grew by 0.1% in the quarter to March 2023, following a monthly reduction of 0.3% between February and March. Monthly GDP is now estimated to be 0.1% above the pre-coronavirus levels recorded in February 2020[3]. Latest forecasts from the Office for Budget Responsibility estimate that GDP will contract by 0.2% in 2023[4], however a recent statement from the International Monetary Fund (IMF)[5] suggests that the economy will grow by 0.4% over the year, avoiding a recession.

7. Overall inflation, as measured by the Consumer Prices Index, rose by 10.1% in the 12 months to March 2023[6]. Annual inflation peaked at 11.1% in November 2022, and apart from an increase in February, has been decreasing since then. The Bank of England is forecasting inflation to fall to 5.1% by the end of 2023, and to reach the 2% UK target by the end of 2024[7].

8. During the quarter the Bank of England announced further increases in interest rates. Base rate rose to 4.00% on 2 February, and then to 4.25% on 23 March. Post quarter-end, a further increase to 4.50% was announced from 11 May, bringing the rate to its highest level in almost 15 years[8].

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[1] Monetary Policy Report - May 2023 | Bank of England

[2] Levelling Up Committee launches inquiry on social housing finances & sustainability - Committees - UK Parliament

[3] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)

[4] Economic and fiscal outlook - March 2023 - Office for Budget Responsibility (obr.uk)

[5] United Kingdom: Staff Concluding Statement of the 2023 Article IV Mission (imf.org)

[6] Consumer price inflation, UK - Office for National Statistics

[7] Monetary Policy Report - May 2023 | Bank of England

[8] Interest rates and Bank Rate | Bank of England

9. The average interest rate for a typical 5-year mortgage stood at 4.27% at the end of March. Rates peaked at 5.61% in October 2022 and have been reducing gradually since then[9]. Mortgage approvals for house purchases reached 52,000 in March, significantly higher than the 44,100 approvals recorded in February, but below the monthly average of 62,700 during 2022[10].

10. Overall construction output increased by 0.7% in the quarter to March 2023 when compared to the previous quarter. This was driven by a rise in repair and maintenance work of 4.9% (including both housing and non-housing works), offset by a reduction in new works (including new housing, infrastructure, and commercial works) of 1.9%. Private new housing works fell by 5.3%, and private housing repairs and maintenance works increased by 5.7%[11].

11. Prices in the construction industry are estimated to have increased by 8.5% in the year to March 2023. The overall increase includes annual growth in the price of new works of 10.6%, and in repairs and maintenance works of 4.6%[12].

12. House prices in England increased by 4.1% in the year to March 2023, reaching an average of £304,193[13]. The largest annual increase was recorded in the South West (5.4%), and the smallest was in London (1.5%).

13. The unemployment rate for the quarter to March increased by 0.1 percentage points to reach 3.9%[14], and the number of job vacancies fell by 47,000 to 1,105,000[15]. The total number of people claiming Universal Credit in England was around 5.1 million in March, compared to 5.0 million in December[16].

14. As providers move into the new financial year, they will need to balance the requirements to maintain stock decency and complete remediation works with the need to invest in decarbonisation measures and the construction of new homes. With increased costs and a 7% rent cap in place, providers will have reduced financial flexibility to respond to further challenges. Providers must be able to identify areas where covenant headroom or liquidity may be restricted and ensure that contingency plans and mitigations remain robust.

[9] Quoted household interest rates - a visual summary of our data | Bank of England
[10] Money and Credit - March 2023 | Bank of England
[11] Construction output in Great Britain - Office for National Statistics
[12] Construction output in Great Britain - Office for National Statistics
[13] UK House Price Index summary: March 2023 - GOV.UK (www.gov.uk)
[14] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[15] Vacancies and jobs in the UK - Office for National Statistics (ons.gov.uk)
[16] Total number of people on Universal Credit in England | LG Inform (local.gov.uk)

Private finance

15. The sector's total agreed borrowing facilities increased by £1.3 billion over the quarter, to reach £123.1 billion at the end of March (December: £121.8 billion).

16. Of the £123.1 billion total facilities, £60.5 billion (49%) relates to bank loans and £58.8 billion (48%) relates to capital market funding. £3.3 billion of the total (3%) is awaiting securitisation, either before the funding can be accessed or within a specified timeframe after being drawn.

Figure 1: Total facilities (£ billions)

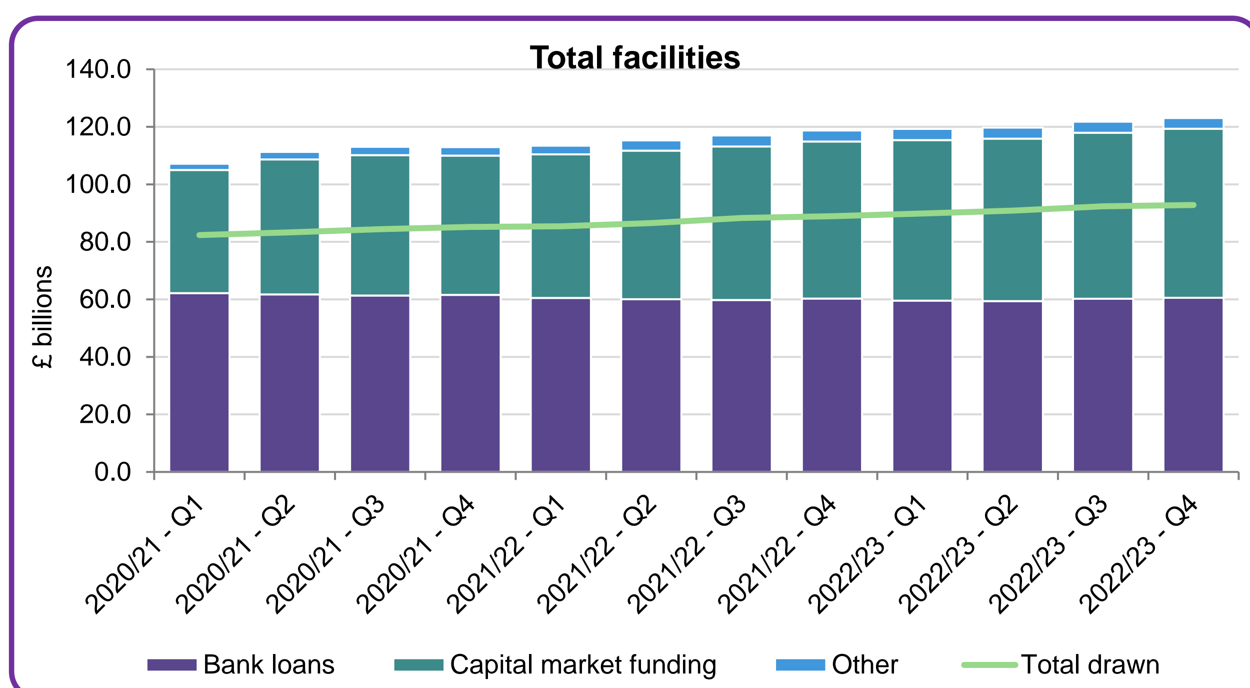


Table 1: Total facilities – drawn and secured

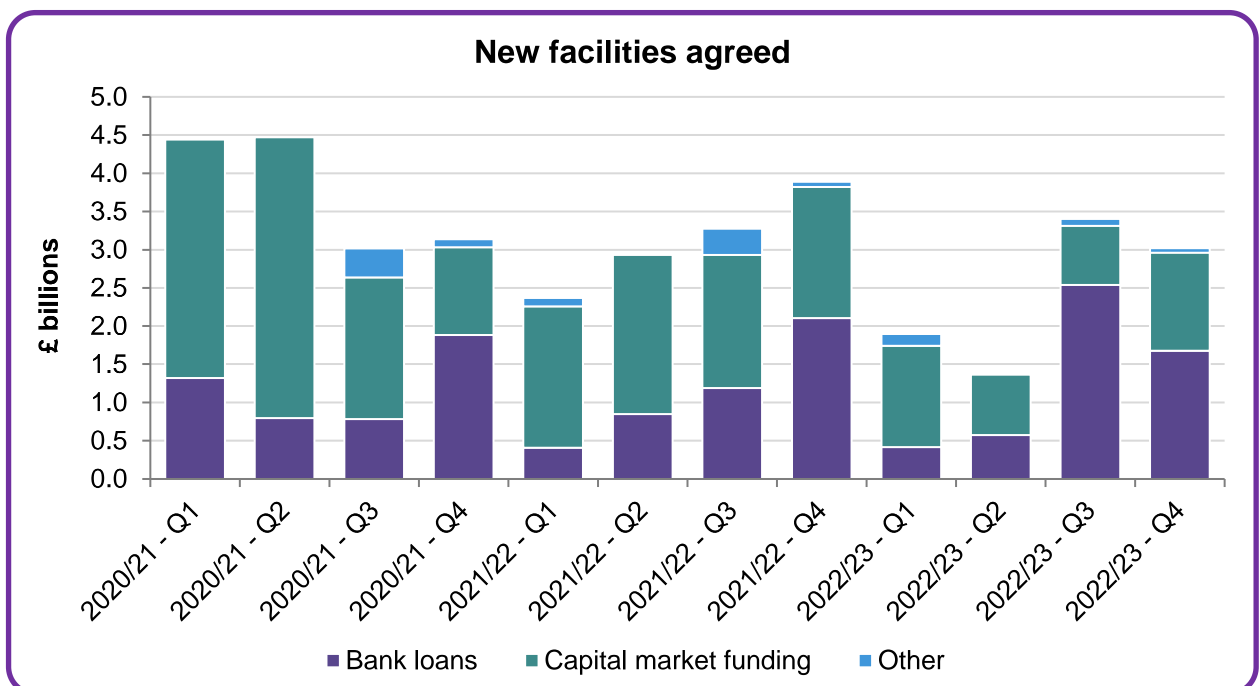
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	92.4	92.8	0.5%
Undrawn	29.4	30.3	2.9%
Secured	110.1	111.3	1.2%
Security required	3.6	3.3	(10.2%)
Security not required	8.1	8.5	4.8%

17. At the end of March, 95% of providers (December: 95%) were forecasting that debt facilities would be sufficient for more than 12 months.

18. A total of 40 providers arranged new finance during the quarter (December: 29). The total agreed, including refinancing, amounted to £3.3 billion; above the £3.1 billion average over the last three years. Eight providers each arranged facilities worth £100 million or more.

19. Bank lending accounted for 59% (£1.9 billion) of new funding arranged in the quarter, with four providers accounting for almost half of this amount. Capital market funding, including private placements and aggregated bond finance, accounted for 39% (£1.3 billion) of the total, and other finance sources amounted to £0.1 billion. Total new facilities agreed in the year came to £9.9 billion, below the five-year average of £11.9 billion, and the lowest level agreed in five years. This is also the first time in three years that bank loans in the year have exceeded capital markets in new facilities agreed.

Figure 2: New facilities agreed (£ billion)



20. Total cash and undrawn facilities available within the sector totalled £35.3 billion at the end of March (December: £35.2 billion). Cash balances have decreased for the fourth consecutive quarter and are at their lowest level in almost eight years at £5.1 billion. Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£4.6 billion), loan repayments (£2.3 billion) and net development for the next year (£14.7 billion), even if no new debt facilities were arranged and no sales income were to be received.

21. Loan repayments of £1.3 billion were made in the three months to March (December £0.6 billion). Almost a third of this related to two providers who were refinancing. Over the next 12 months, repayments are forecast to reach £2.3 billion, compared to a forecast of £3.1 billion made in December. The decrease in anticipated repayments since the previous quarter is mainly due to two providers repaying over £100m in the current quarter, reducing their repayments over the next 12 months.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	5.4	4.7	(13%)
Drawdown from facilities not yet agreed	2.2	3.2	42%
Loan repayments	3.1	2.3	(25%)

22. Drawdowns from facilities not yet agreed have been forecast by 19 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.

Debt repayment profile

23. The following two sections, debt repayment profile and interest rate profile, relate to the annual questions included in the Quarterly survey in quarter four.

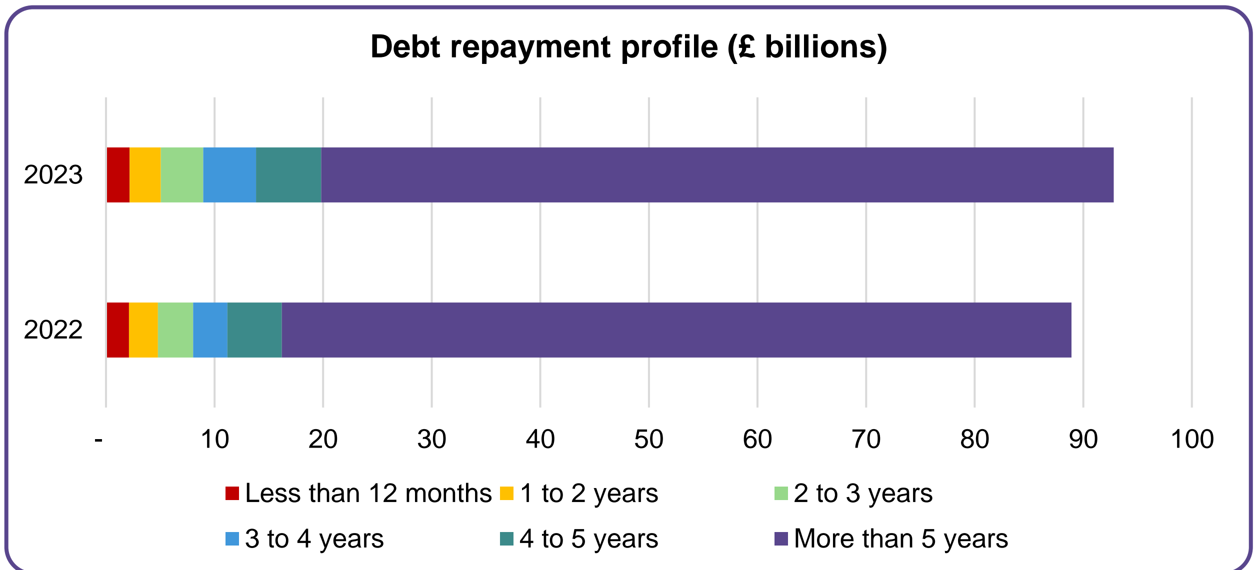
24. The value of debt repayable over the next two years is £5.0 billion, representing 5.4% of the sector debt (2022: £4.8 billion, 5.4%, 2021: £7.1 billion, 8.3%). The sector's immediate refinancing risk has remained in line with previous year, with 2.3% of loans due for repayment within 12 months (2022: 2.4%, 2021: 4.5%[17]). The sector is forecasting liquidity (with no new facilities included) of £25.7 billion[18] in the next 12 months (Q4 2022: £26.3 billion), which the regulator continues to closely monitor.

25. Long-term debt continues to account for the majority of the sector's borrowing with 79% of debt being due for repayment in over five years' time (2022: 82%, 2021: 80%). £19.8 billion (2022: £16.2 billion, 2021: £17.2 billion) will become repayable over the next five years as profiled in the chart below. This is an increase of over 20% compared to the previous year.

[17] The large increase in repayments during 2021 was due to the maturity of the CCFF loans, where £2.9 billion of facilities were arranged in the sector through this scheme.

[18] Undrawn debt facilities and cash minus cash flow for the next 12 months

Figure 3: Debt repayment profile (£ billions)



26. The exposure of individual providers to refinancing risk is covered by routine regulatory engagement. For 93% of providers, more than half of total debt is due for repayment in more than five years (2022: 92%, 2021: 87%). 9 providers have 10% or more of total debt due for repayment within 12 months (2022: 11, 2021: 23) with three providers requiring new finance within this period. It is the responsibility of providers' boards to ensure that arrangements are in place for the effective management of refinancing risk.

Interest rate profile

27. The charts below provide an analysis of the sector's £92.8 billion drawn debt by interest rate type and the period over which rates have been fixed.

Figure 4: Interest rate analysis (£ billions)

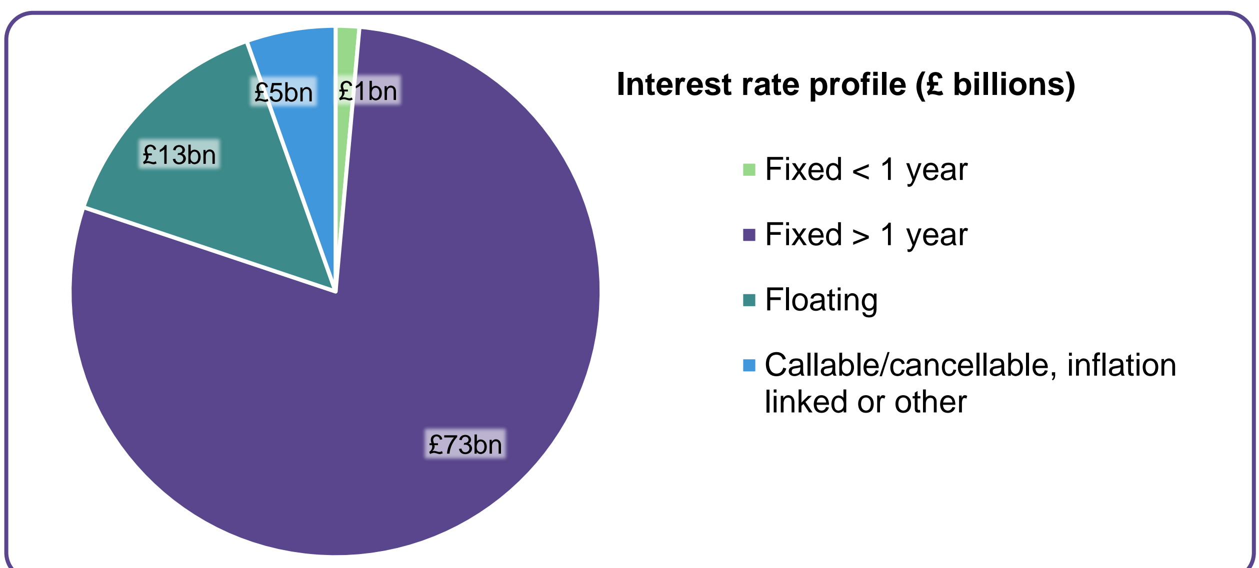
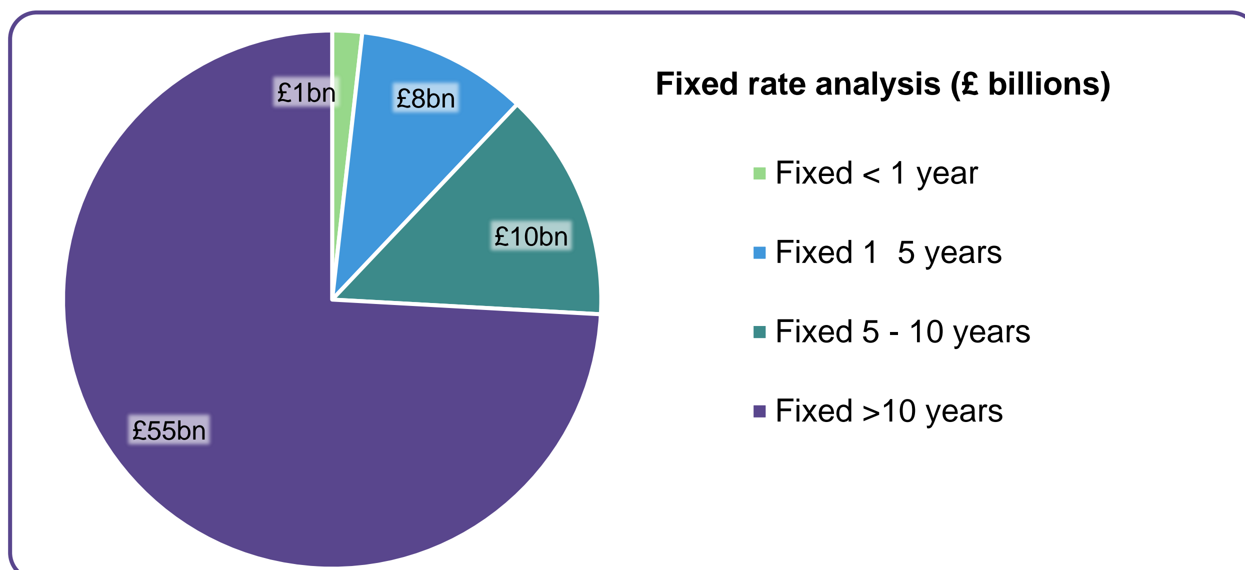


Figure 5: Fixed rate analysis (£ billions)



28. Fixed rate debt (greater than one year) comprises 79% of the sector's drawn borrowings (2022: 80%, 2021: 77%), 59% of total drawn debt is at rates fixed for over 10 years, providing the sector with a degree of certainty in forecasting the costs of borrowing.

29. The total amount of debt reported as floating, fixed for less than a year, or otherwise exposed to fluctuation through inflation linking or callable/cancellable options, amounts to £19.8 billion. This represents 21% of drawn debt (2022: £17.6 billion, 20%, 2021: £19.4 billion, 23%).

30. Drawn debt with variable interest rate amounted to £13.4 billion in the year (2022: £12.1 billion, 2021: £12.8 billion), contributing to 14% of total drawn debt. Over a third of this amount is attributable to five providers reporting over £0.5 billion of floating interest rate debt, with almost half of the sector reporting an increase in variable debt in the year.

31. The regulator continues to engage with providers to monitor treasury management arrangements and risk exposure to fluctuating interest rates, as part of the assessment of compliance with the governance and financial viability standard.

Cashflows

32. It is essential that providers maintain sufficient liquidity, particularly during periods of economic uncertainty. The regulator engages with PRPs that have low liquidity indicators.

33. Table 3 below shows the actual performance for the quarter compared to forecast, and the 12-month cashflow forecasts to December 2023.

Table 3: Summary cashflow forecast[19]

Figures in £ billions	3 months to 31 March 2023 (forecast)	3 months to 31 March 2023 (actual)	12 months to 31 March 2024 (forecast)
Operating cashflows excluding sales	0.7	0.6	3.3
Interest cashflows	(0.9)	(0.9)	(4.0)
Payments to acquire and develop housing	(4.7)	(3.4)	(16.8)
Current assets sales receipts	1.1	1.1	4.0
Disposals of housing fixed assets	1.8	0.8	4.8
Other cashflows	(0.2)	(0.1)	(0.8)
Cashflows before resources and funding	**(2.4)**	**(1.8)**	**(9.5)**
Financed by:			
Net grants received	0.5	0.6	2.1
Net increase in debt	0.0	0.4	5.6
Use of cash reserves	1.9	0.8	1.8
Total funding cashflows[20]	**2.4**	**1.8**	**9.5**

34. Interest cover, based on operating cashflows excluding sales, stood at 66% in the quarter to March 2023 (December: 91%). This is the lowest level recorded in the last eight years.

35. The performance in the quarter is illustrative of recent trends. Interest cover excluding sales was 87% in the 12 months to March 2023; the lowest rolling 12-month interest cover reported since the data was first collected in 2015. This is the first-time levels have dipped below the 100% threshold, with half of the sector reporting aggregate interest cover for the year below this level, and the ninth consecutive quarter it has decreased. Average 12-month interest cover over the last three years has been 128%. 12-month forecast figures submitted by providers show projected interest cover on the same basis of 83% (December 12-month forecast: 93%).

[19] 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.

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

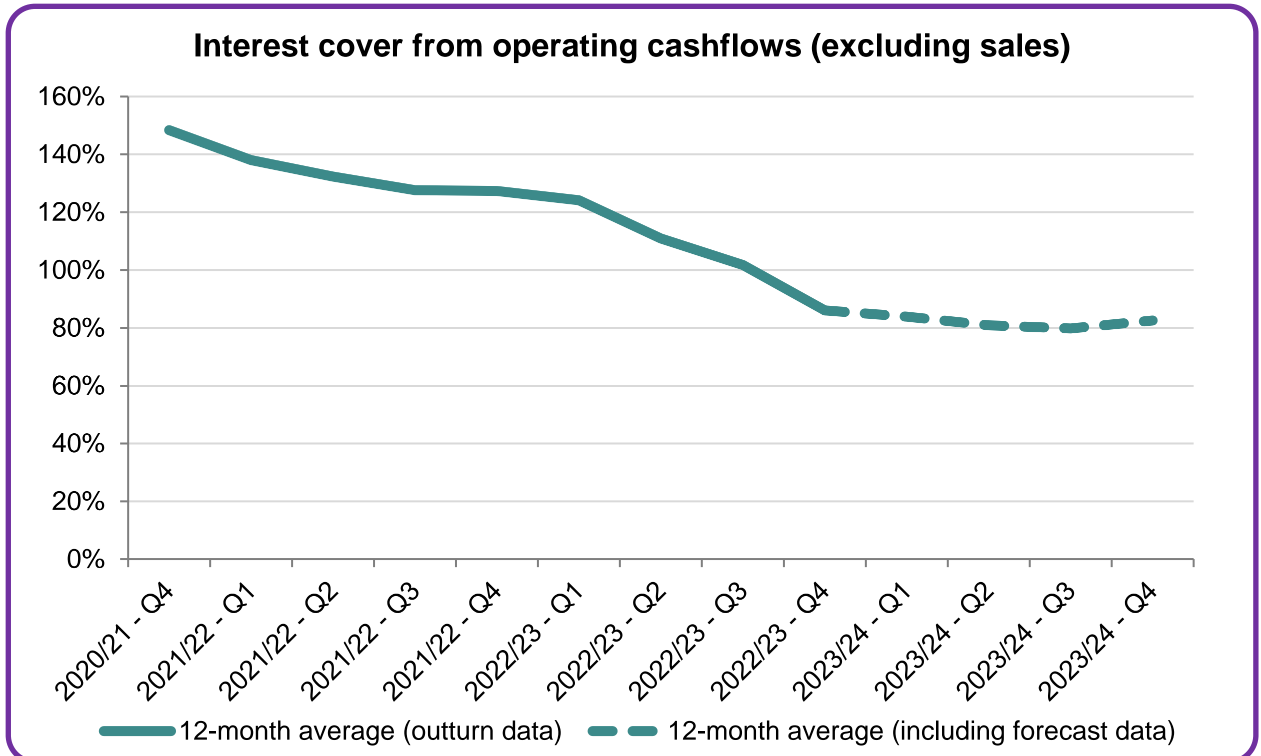
36. The deterioration in interest cover has been ongoing over the last two years, with the regulator actively monitoring the issue, and was a factor in many of the viability regrades published towards the end of 2022. The weakening position reflects how many providers have less headroom compared to recent years and will need to manage their risks effectively and actively.

37. On a quarterly basis, interest cover can fluctuate widely as a result of movements in debtor and creditor balances and has ranged from a low of 66% to a maximum of 158% over the last two years. Therefore a reduction in interest cover below 100% does not immediately suggest a significant problem in the sector. It may be time limited and linked to refinancing activities within the period or planned investment in stock, such as stock transfers or remediation carve-outs, which are likely to have been agreed in advance with lenders. Cash reserves are currently high in the sector, due to a significant proportion of debt being drawn ahead of requirement. Many providers have negotiated covenant waivers on the basis that interest cover will improve over time.

38. However, it is evident that levels of interest cover have deteriorated and are set to reduce again over the next 12 months. Increasing interest rates and continued investment in existing stock will inevitably result in weakened financial performance and reduced capacity to manage downside risk. The regulator will continue to monitor the financial viability of providers forecasting low interest cover and engage with providers where necessary. This will be reflected in the regulatory judgements where appropriate.

39. The anticipated further reduction in interest cover from the previous 12 months results from an increase in capitalised repairs and maintenance expenditure of £0.9 billion (32%) over the 12-month forecast period, combined with an increase in non-capital repairs and maintenance costs of £0.2 billion (5%). In addition, the increase in net interest payable of £0.5 billion (13%) is largely due to the higher interest rate environment. This is partially offset by an increase in net cashflows from operating activities (net of revenue repairs and maintenance costs) of £1.1 billion (18%). The latest 12-month projections include the 7% rent cap for the full forecast.

Figure 6: Interest cover from operating cashflows (excluding sales)



40. Approximately 10% of the sector's operating surplus is derived from properties developed for sale (either 1st tranche shared ownership sales or outright market sales). Income from these activities is not included in the interest cover figures referenced above.

41. Total repairs and maintenance spend in the quarter was £2.1 billion, the highest level reported over the last 12 months. This is also over 20% higher than previous quarter and 3% higher than forecast. Including both capital and revenue works, total expenditure on existing stock in the 12 months to March 2023 was £6.9 billion. A further £7.9 billion spend is included in forecasts over the next 12 months.

42. 55% of providers reported that they experienced delays or made changes to repairs and maintenance programmes during the quarter, a decrease from December 2022 (64%). Inflation continues to be a prime factor, with almost 30% of providers citing price increases in both materials and labour. Limited availability of skilled labour and material shortages also continue to be factors, with almost 15% of providers referencing the availability of resources delaying works, although a small number of providers have stated the issue with materials is improving. Year-end catch up works to reduce back log repairs has also contributed to the increase in repairs and maintenance, with over 10% of the sector reporting this.

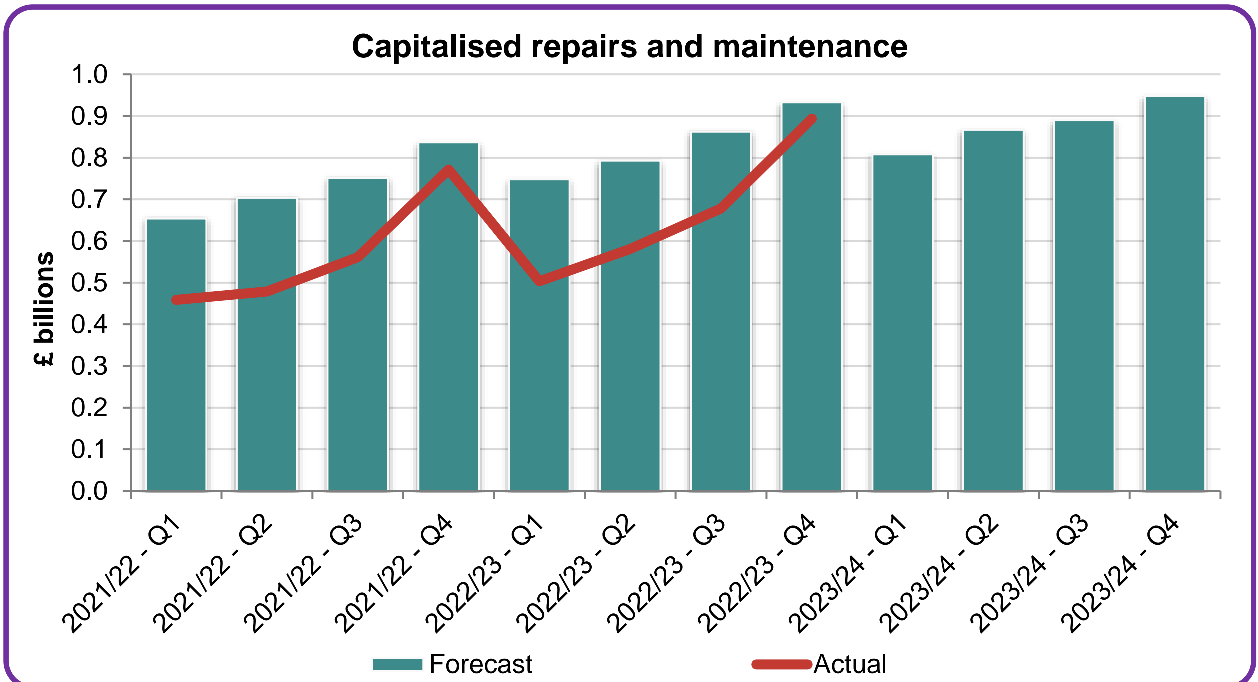
43. Almost 20% of providers have stated that damp and mould works were the main reason for the increase in routine repairs. As a result, a minority have also reported having to redirect resources from non-essential works to prioritise this. The challenges in recruitment and increased demand in responsive repairs has also required additional agency staff and subcontractors to carry out the extra workload, with 10% of providers mentioning this has come at a premium price.

44. Actual expenditure on the capitalised element of repairs and maintenance amounted to £894 million during the quarter; 4% lower than the amount previously forecast but 32% higher than the £678 million recorded in the previous quarter. This is the highest spend recorded since cashflow data was first collected in 2015, and 16% higher than expenditure in the same quarter of 2021/22. Expenditure is forecast to remain around a similar region over the next 12 months, increasing to £948 million in the same quarter of next year.

45. Providers have reported costs being impacted by a number of factors, including the continued effects of inflation and high demand for repairs, increasing the use of external contractors to meet added demand. Priority on the decent homes standard and compliance works has seen an increase in damp and mould repairs in the quarter, highlighting the focus on this area. Additional investment is also being made in areas such as building safety, decarbonisation and energy efficiency.

46. In the 12 months to March 2023 capitalised expenditure on repairs and maintenance was £2.7 billion (2022: £2.3 billion), the highest spend on record since data collection began, and the second year when expenditure has exceeded £2.0 billion. For the 12 months to March 2024 the sector has forecast capitalised repairs and maintenance expenditure of £3.5 billion, a 3% increase on the 12-month forecast made in December.

Figure 7: Capitalised repairs and maintenance expenditure (£ billions)



47. Providers are facing increasing pressure to improve the quality of existing stock, and many are reporting having to prioritise works that maintain Decent Homes Standard and Health and Safety legislation compliance. A number of providers have obtained loan covenant waivers in response to increasing investment in existing stock, with 26 reporting having agreed a waiver to exclude the exceptional costs of building safety works from loan covenant calculations, of which 16 also reported rolling 12-month interest cover excluding sales of less than 100%. A further 25 waivers were reported in respect of energy efficiency or decarbonisation works and six waivers related to general major repairs expenditure. In total, of the providers that had negotiated covenant waivers, 37 also reported less than 100% aggregate interest cover for the year. The regulator has sought additional assurance from providers where investment in stock appears to be insufficient and will continue to engage where appropriate.

48. Current asset sales of £4.2 billion were achieved in the 12 months to March 2023, compared to the £4.5 billion forecast at the start of the period. For the 12 months to March 2024 the sector has forecast a further £4.0 billion worth of current asset sales (December: £4.4 billion), of which £3.6 billion relates to properties for which development is contractually committed (December: £4.1 billion). This is the fifth consecutive quarter that forecasts have decreased. The reduction in forecast compared to previous quarter is mainly due to two providers, who have scaled back over £100 million worth of current asset sales each, attributing to over 75% of the decrease.

49. In the 12 months to March 2023 fixed asset sales totalled £3.0 billion. For the 12 months to March 2024 the sector has forecast a further £4.8 billion worth of fixed asset sales (December 12-month forecast: £4.0 billion). Of the £4.8 billion total forecast, £1.9 billion relates to sales to tenants or open market sales, which include mainly staircasing, RTB/RTA and sale of void properties (voluntary sales). The remaining £2.9 billion relates to other fixed asset sales, including bulk sales to other registered providers. A total of 40 providers are forecasting bulk or other fixed asset sales, with one for-profit provider accounting for almost 45% of the sector total.

50. Available cash balances, excluding amounts held in secured accounts, reduced by £0.7 billion during the quarter, with 67% of the sector reporting a reduction compared to previous quarter. Cash available as at March 2023 totalled £5.1 billion (December: £5.8 billion), and forecasts show this reducing to £3.6 billion over the next 12 months as cash reserves are used to fund development programmes. A small number of providers have reported plans to reduce the amount of surplus cash that they hold in response to rising interest rates, as the cost of drawing down additional debt increases.

51. In addition to the £5.1 billion available, cash held in secured accounts or otherwise inaccessible to providers totalled £1.3 billion (December: £1.3 billion). Typically, these amounts relate to cash held on long-term deposit, mark-to-market (MTM) cash collateral, amounts in escrow and leaseholder sinking funds.

Development

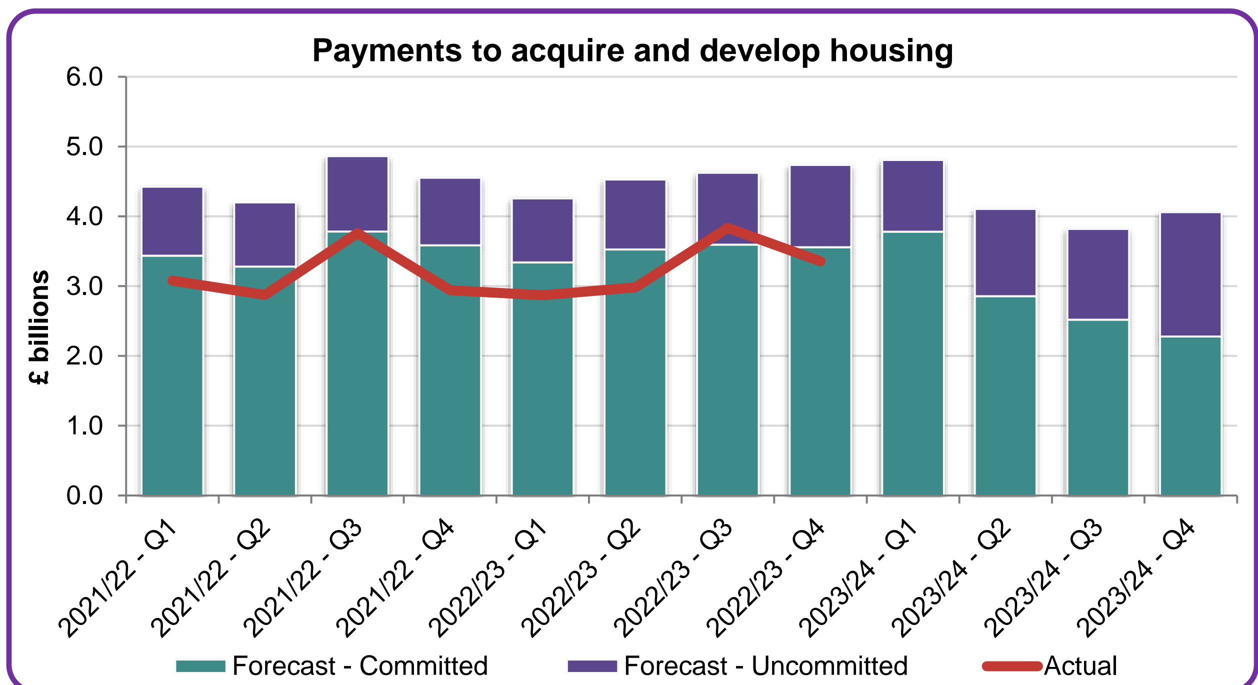
52. In the 12 months to March 2023, £13.0 billion was invested in the acquisition and development of housing properties. This compares to £12.7 billion in the year to March 2022, and £10.3 billion in the year to March 2021.

53. Actual expenditure in the quarter to March 2023 amounted to £3.4 billion (Dec: £3.8 billion); 12% below the record amount invested in the previous quarter but still above the £3.0 billion average quarterly expenditure incurred over the last three years. Development spend is relatively concentrated, with over half of the sector spend during the quarter being reported by 17 providers.

54. Expenditure was 29% below the £4.7 billion forecast for the quarter, and 6% below the £3.6 billion forecast for contractually committed schemes. Underspends against development forecasts are common and widespread, with 84% of providers reporting expenditure below the amount forecast for both committed and uncommitted schemes, and 59% reporting expenditure below the forecast for committed schemes.

55. In addition to general scheme delays and timing differences, other issues reported by providers include planning and legal delays, adverse weather conditions and ongoing material and labour shortages. A small number of providers have also reported being affected by contractors entering administration, resulting in works on certain sites being paused.

Figure 8: Payments to acquire and develop housing



56. For the next 12 months a further £16.8 billion (December: £16.6 billion) worth of investment has been forecast, of which £11.4 billion (December: £11.2 billion) is contractually committed. Forecast expenditure includes around £0.6 billion worth of payments to other registered providers, where stock transfers are being undertaken.

57. Forecast 12-month development payments have increased by £0.2 billion in comparison to the previous quarter's forecast of £16.6 billion. The increase is driven by for-profit organisations, which have collectively increased their forecast development payments by £0.5 billion since December. Without this, overall development forecasts would have reduced by £0.2 billion; however, there is a roughly even split between providers that are increasing expenditure and those forecasting to reduce expenditure.

Housing market

58. 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 £1.9 billion in the quarter to March (December: £1.8 billion). Non-social housing sales totalled £670 million, compared to a quarterly average of £581 million over the last three years. AHO first tranche sale proceeds of £497 million were reported, slightly above the three-year average of £485 million.

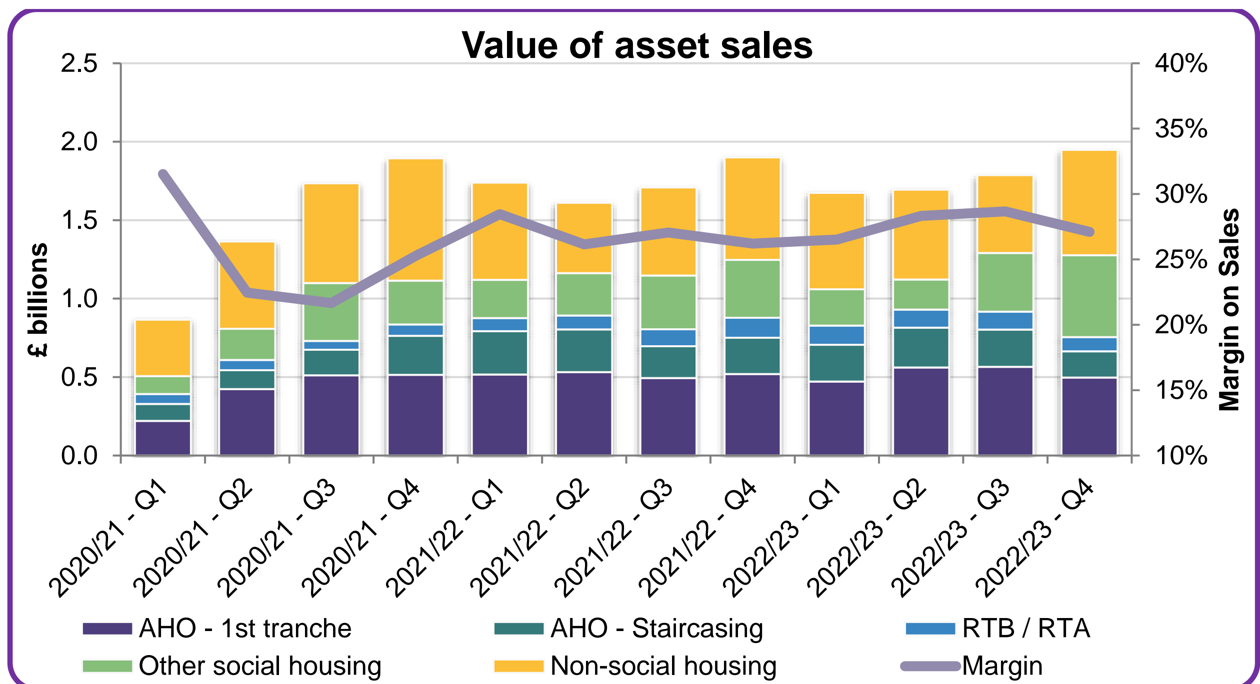
59. Total cash receipts in respect of current asset sales (market sales and first tranche AHO sales) amounted to £1.1 billion in the quarter, compared to £1.0 billion in the quarter to December. Sales were 3% above the total forecast, with two large providers each reporting favourable variances of £0.1 billion due to bulk transactions completing earlier than anticipated. Although total sales were above forecast for the period, a number of providers have reported delays to sales due to overrunning development handovers, and a general hardening of the property market as a result of rising interest rates and cost-of-living pressures.

60. Total fixed asset sales amounted to £0.8 billion (December: £0.9 billion); 52% below the amount forecast in December. Fixed asset sales are categorised as either sales to tenants/open market sales, or other sales (bulk disposals to other organisations, including stock transfers and rationalisation).

    - Sales to tenants and other open market sales (including staircasing, RTB/RTA and voluntary sales) amounted to £0.4 billion (December: £0.5 billion), in line with the amount previously forecast. Ten providers each reported sales in excess of £10 million, together accounting for 43% of the sector total.

    - Fixed asset sales to other organisations amounted to £0.4 billion (December: £0.4 billion), the majority of which relates to sales between PRPs. The outturn figure for the quarter was 70% below the amount previously forecast. Almost 90% of the adverse variance was attributable to just one provider, where a bulk transfer to another related group company was delayed. £0.3 billion (78%) of the total receipts were reported by just four providers.

Figure 9: Value of asset sales



61. Overall surpluses from asset sales remained at £0.5 billion for the quarter, and the overall margin reduced from 29% to 27%. The average margin achieved over the last three years has been 26%.

Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	4,506	5,305	17.7%
Sold	4,445	4,033	(9.3%)
Margin	21.6%	18.4%	(14.8%)
Unsold	6,225	7,407	19.0%
Unsold for more than 6 months	2,601	2,374	(8.7%)
18-month pipeline	37,325	36,979	(0.9%)

62. At 5,305 units, the number of AHO properties completed during the quarter is the highest ever recorded[21], and 18% higher than the amount recorded in the previous quarter. In comparison, the average number of completions achieved over the last three years has been 4,094 units per quarter. Over the year, a total of 17,779 AHO units have been completed, compared to 16,913 in the year to March 2022, and 14,435 units in the year to March 2021.

[21] Data first collected in 2011.

63. Sales of AHO units were 9% lower than in the previous quarter, and slightly below the average of 4,090 units per quarter over the last three years. Nine providers each reported sales of more than 100 AHO units during the quarter, accounting for 40% of the sector total. A total of 16,582 AHO sales were recorded during the year, compared to 17,497 in the year to March 2022 and 15,006 in the year to March 2021.

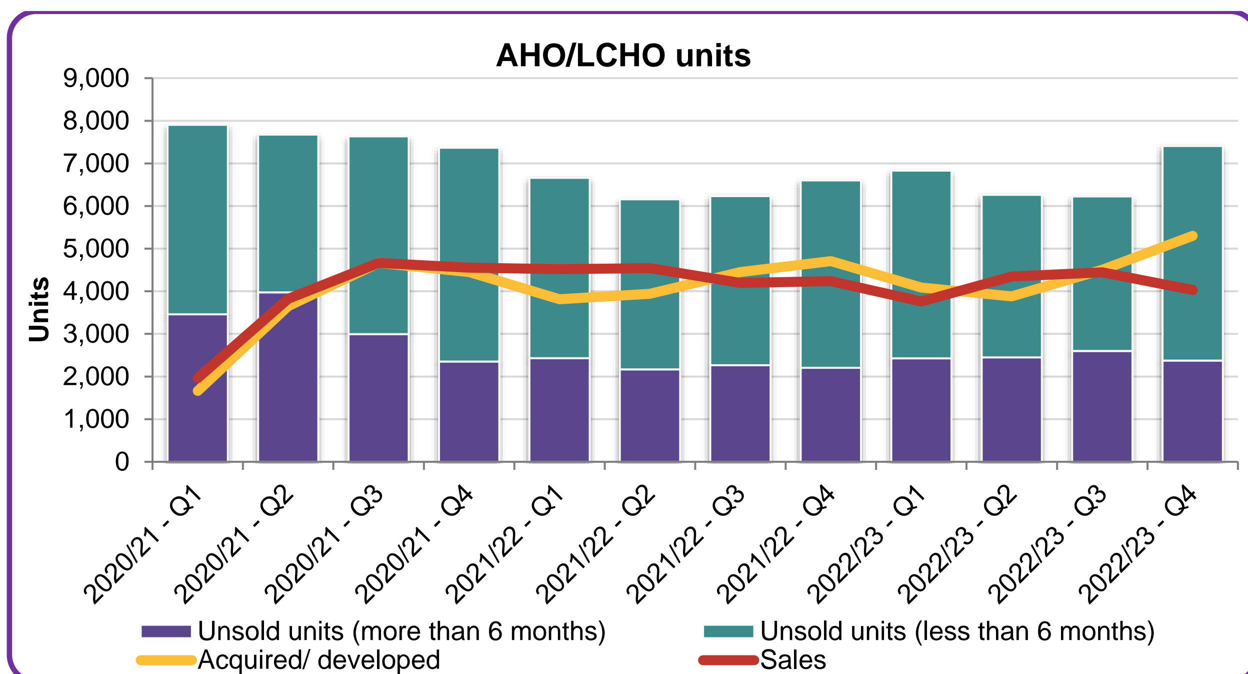
64. The record number of AHO completions, coupled with below-average sales, has resulted in a 19% increase in the total number of unsold units over the quarter, up to 7,407 units. Seven providers each reported an increase of over 50 unsold AHO units, accounting for half of the overall net increase. All seven of these providers also reported an increase in AHO completions of over 50 units.

65. Although there has been an increase in total unsold AHO units, the number of units unsold for over six months has reduced by 9% to 2,374, reducing the proportion of stock unsold for over six months down to 32% (December: 42%).

66. Units unsold for more than six months were concentrated amongst seven providers, each of which held over 100 units of unsold stock. Together they accounted for almost two-thirds of the sector total. 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.

67. Sales proceeds from 1st tranche AHO sales amounted to £497 million during the quarter (December: £565 million). The overall surplus on AHO sales stood at £91 million (December: £122 million), resulting in an average margin of 18.4% (December: 21.6%). This compares to an average margin of 19.3% over the last three years.

Figure 10: AHO/LCHO units



68. The pipeline of AHO completions expected in the next 18 months has reduced by 1% to 36,979 units (December: 37,325), of which 31,886 units are contractually committed. The pipeline figure represents a 37% increase in AHO development compared to actual performance in the 18 months to March 2023, when there were 26,940 completions. Five providers have each reported over 1,000 pipeline units, accounting for 22% of the overall total. This includes two for-profit providers.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,210	1,476	22.0%
Sold	1,100	1,496	36.0%
Margin	15.0%	14.1%	(6.0%)
Unsold	1,131	1,124	(0.6%)
Unsold for more than 6 months	468	487	4.1%
18-month pipeline	8,434	7,809	(7.4%)

69. A total of 1,476 market sale units were completed in the quarter to March; an increase of 22% when compared to the previous quarter (December: 1,210) and above the average of 1,192 units per quarter over the last three years. In the year, a total of 5,091 market sale units have been completed, compared to 4,807 in the year to March 2022 and 4,407 units in the year to March 2021.

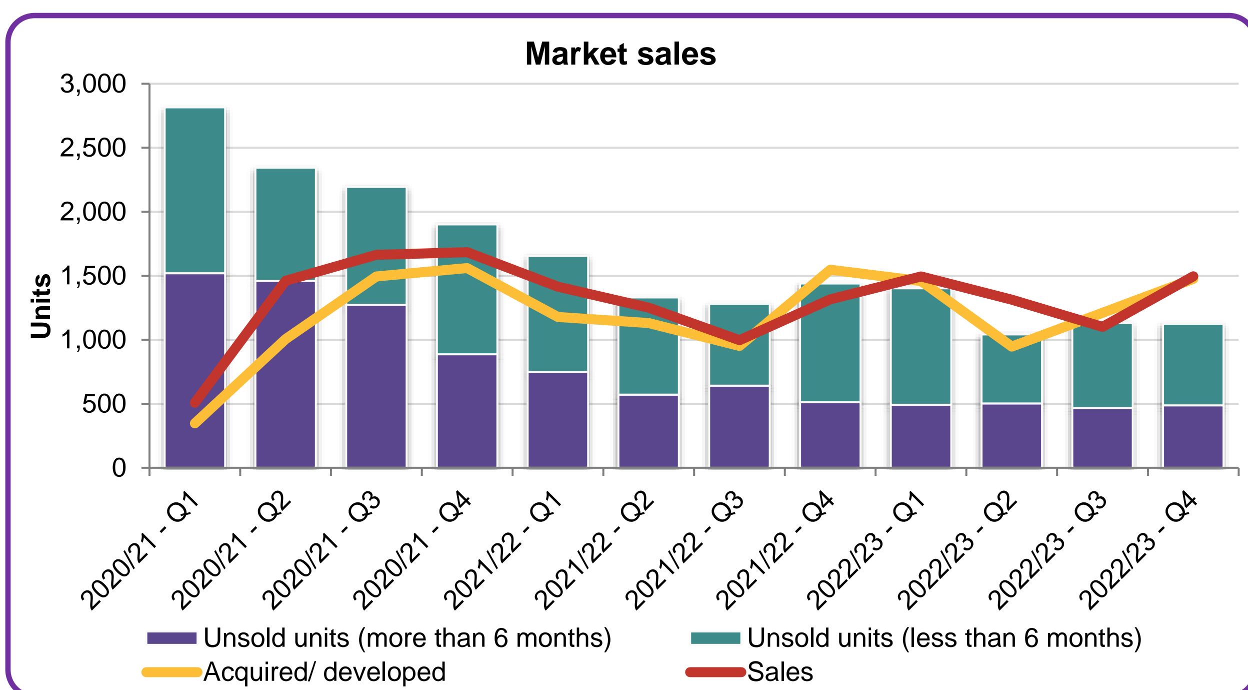
70. At 1,496 units, market sales were 36% higher than in the previous quarter and above the average of 1,308 units per quarter achieved over the last three years. In the year to March 2023 a total of 5,404 market sales were achieved, compared to 4,977 in the year to March 2022 and 5,316 sales in the year to March 2021.

71. At the end of the quarter, the total number of unsold market sale properties had reduced marginally to 1,124 units (December: 1,131). Of these, 43% (December 41%) had been unsold for over six months.

72. Development for outright market sale continues to be concentrated in relatively few providers. 15 providers each developed over 100 market sale units during the year, together accounting for 84% of the sector total, and over 20% of total market sale development during the year was attributable to just one provider. Half of the total unsold units at the end of the quarter were held by five providers. These providers each had access to between £0.5 billion and £1.6 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

73. Total non-social housing sales income amounted to £670 million during the quarter (December: £497 million), the highest amount in two years. Over half of this amount was attributable to three providers. The surplus on non-social housing sales increased to £94 million (December: £74 million), giving an average margin of 14.1% (December: 15.0%). This compares to an average margin of 15.2% over the last three years.

Figure 11: Market sales



74. The pipeline of market sale completions expected over the next 18 months has reduced by 7% since December to 7,809 units (December: 8,434), of which 7,356 units are contractually committed. The total pipeline is now at the lowest level in almost eight years. If achieved, it would represent a 3% increase in development compared to the actual completions achieved over the previous 18 months, which stood at 7,590 units. Half of the total pipeline units are reported by just seven providers.

Derivatives

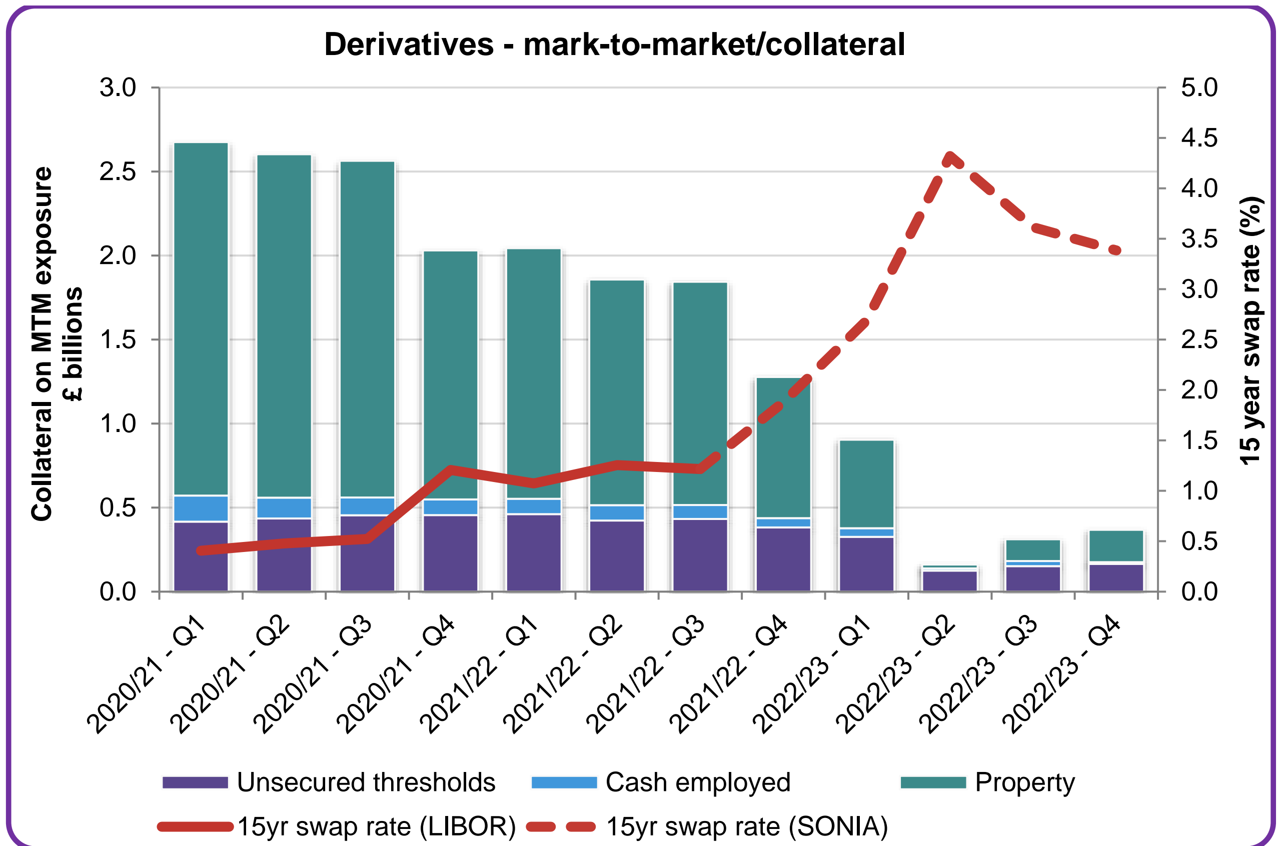
75. At the end of March, 43 providers (December: 44) reported making use of free-standing derivatives. The notional value of standalone derivatives reduced to £8.0 billion in the quarter (December £8.2 billion).

76. Swap rates decreased over the quarter, with the 15-year swap rate reducing from 3.62% at the end of December to 3.39% at the end of March. This resulted in gross MTM exposure increasing from £0.3 billion to £0.4 billion over the same period. MTM exposure levels continue to remain at historically low levels.

77. Of the 43 providers that were making use of free-standing derivatives, 40 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. Eight providers reported favourable MTM positions on all of their swaps as at the end of March.

78. At sector level, unsecured thresholds and available security pledged to swap counterparties totalled £2.2 billion at the end of March (December: £2.4 billion).

Figure 12: Derivatives – mark-to-market/collateral



79. The above graph shows MTM exposure excluding excess collateral. Due to the large reduction in exposure over the last three-quarters, collateral pledged is well above the sector's exposure levels. At the end of March, the total headroom of collateral and unsecured thresholds available over MTM exposure was £1.9 billion (December: £2.1 billion).

80. With continuing fluctuations in swap rates, MTM exposure will remain volatile over the coming months. Providers must retain the ability to respond to further increases in exposure and understand the sensitivity to reductions in swap rates.

Non-registered entities

81. Information on non-registered entities is collected through the additional annual questions that are included in the year-end Quarterly survey. A total of 129 providers (2022: 129) have investment in, or lending to, non-registered subsidiaries, special purpose vehicles or joint ventures. The total value of the investment or indebtedness is reported to be £7.8 billion, consistent with the amount reported in 2022. Investment is concentrated in a small number of providers; eight providers have each reported a total investment of over £300 million, and together account for two-thirds of the sector total.

82. 27 providers (2022: 27) have given guarantees on the obligations or liabilities of other parties, up to a total estimated value of £1.8 billion (2022: £2.2 billion). Of these 27 providers, 6 (2022: 6) have given security.

83. A total of 65 providers (2022: 65) report that a joint venture or non-registered subsidiary is forecasting a loss in their 2022/23 accounts, the total value of which is estimated to be £215 million (2021/22: £142 million). As seen in previous years, providers have reported losses in the early stages of development schemes, where costs are incurred before sales receipts are realised. In addition to this, providers have attributed losses to reasons including downwards valuations of investment properties, increasing development costs and additional fire safety works.

84. Where providers engage in activities through non-registered entities, the regulator expects boards to fully understand the associated risks and any potential recourse to social housing assets.

Impairment

85. Information on impairment is collected through the additional annual questions that are included in the year-end Quarterly survey. 54 providers anticipate an impairment charge in their 2022/23 accounts. This compares to 49 providers that were forecasting charges in their 2021/22 accounts and 58 providers that were forecasting charges in their 2020/21 accounts.

86. The total anticipated impairment charge is £329 million, of which £221 million relates to social housing assets (2021/22: £155 million, £54 million, 2020/21: £159 million, £51 million). From the comments included within returns, it is estimated that over 60% of the total charge relates to development sites, with increased construction costs, contractor insolvency and the effect of higher interest rates on the net present value of schemes being amongst the indicators of impairment.

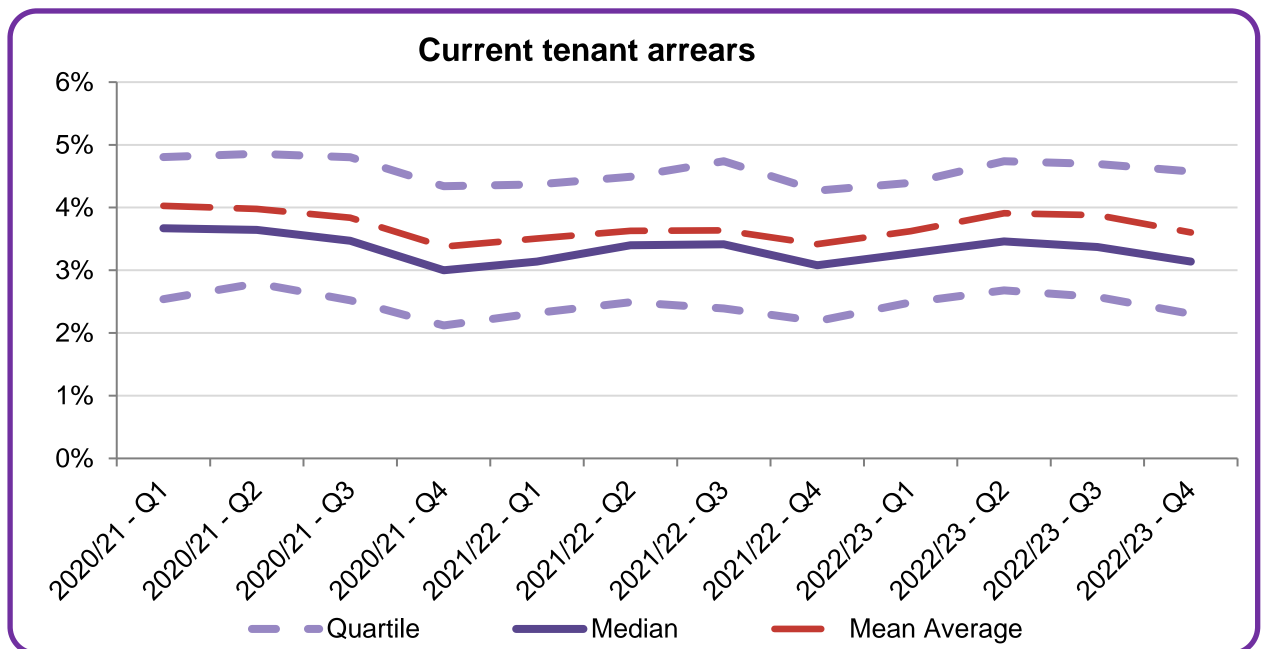
87. 24 providers (2021/22: 28) have forecast a total impairment charge of less than £1 million. Over 30% of the total charge and almost 40% of the charge relating to social housing assets is attributable to just one provider.

88. Impairment charges recognised by individual providers have the potential to result in breaches of loan covenants. Where this is the case, we engage with the provider to ensure the necessary mitigations and arrangements are in place to maintain financial viability.

Income collection

89. At the end of March, 69% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 67% at the end of December.

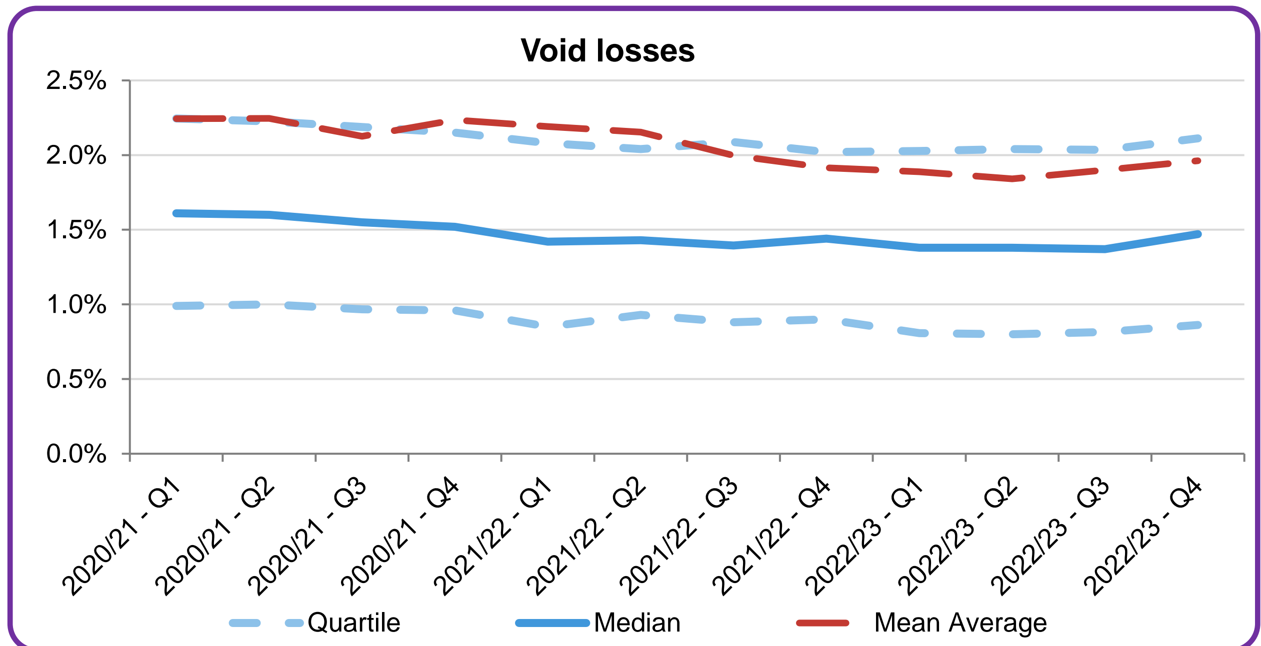
Figure 13: Current tenant arrears



90. Mean current tenant arrears reduced to 3.6% at the end of March (December: 3.9%), however remain above the levels reported in the same period of 2021/22 and 2020/21 of 3.4%. There was also a reduction in median arrears to 3.1% (December: 3.4%), which was consistent with the figure reported in March 2022. The slight improvement in arrears is in line with cyclical trends due to the timing of Housing Benefit payments in quarter four. However around 10% of providers have referenced the cost-of-living crisis impacting arrears, reflecting the increase in mean arrears compared to the previous two year-ends.

91. The highest levels of arrears continue to be experienced by providers operating mainly in London[22], where the mean average stood at 5.3%. An average of 4.1% was recorded by providers operating mainly in the North West, and all other regions experienced arrears of between 2.4% and 3.3%.

Figure 14: Void losses



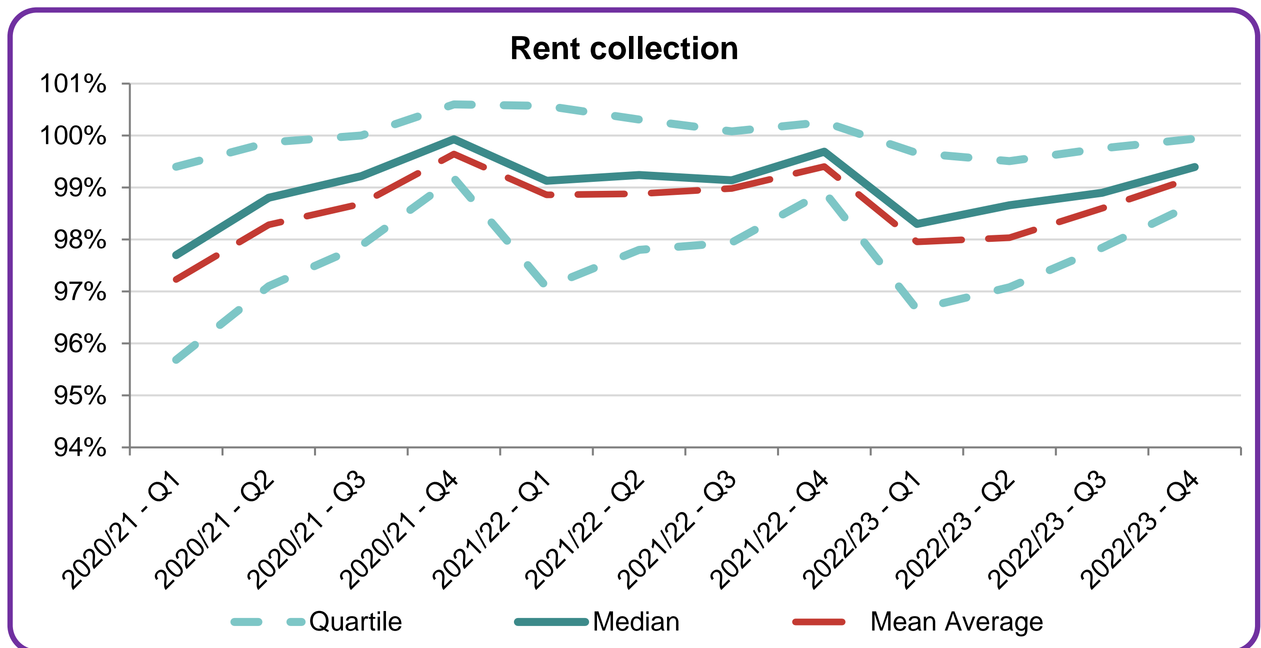
92. Median void losses increased slightly to 1.5% in the quarter, following seven consecutive quarters at 1.4%. Mean void losses increased slightly to 2.0% (December: 1.9%) compared to 1.9% in the same quarter of 2021/22. This is the first time void losses have reached 2.0% in over 12 months. 55% of providers have reported a deterioration of voids since last quarter. Void levels increased at the start of the pandemic and have not shown signs of improvement; prior to this median void losses had averaged 1.1% in 2019/20.

93. 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. Providers with over 50% of their stock within these categories reported mean void losses of 6.3%, compared to 1.5% reported by providers with less than 50%.

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

94. A total of 11 providers have recorded void losses of 5% or more (December: 13). Providers have reported delays in new tenant referrals from local authorities and continued labour shortages, impacting major repair works, hindering void turnarounds. A small number of providers have also paused void repairs or have redirected resources to manage the increase in responsive repair demands and prioritising building safety works.

Figure 15: Rent collection



95. Mean average rent collection rates increased from 98.6% in December up to 99.2% at the end of March, which compares to 99.4% reported in March 2022. Median rent collection rates increased to 99.4% (December: 98.9%), slightly below the 99.7% reported in the same quarter of 2021/22.

96. The number of providers reporting rent collection rates of less than 95% halved to 5 at the end of March (December: 10, September: 22) in line with seasonal trends. 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.

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