Regulator of Social Housing

2023 Global Accounts of private registered providers

December 2023

Contents

Executive summary 2

1. Introduction 4

2. Financial review 5

    Operating environment 5

    Financial highlights 7

    Financial performance 13

3. Financial statements 21

4. Notes to the accounts 23

    1. Global Accounts methodology 23
    2. Particulars of turnover, operating expenditure and operating surplus 24
    3. Gift Aid 28
    4. Disposal of fixed assets 29
    5. Other items 30
    6. Interest payable and finance costs 31
    7. Movements in fair value and remeasurements 32
    8. Fixed assets – housing properties 33
    9. Other fixed assets and investments 34
    10. Current assets 36
    11. Other current liabilities 37
    12. Debt 38
    13. Capital grant 39
    14. Other long-term creditors 39
    15. Provisions 40
    16. Reserves 40
    17. Operating leases 41
    18. Capital commitments 41
    19. Homes owned and managed 42
    20. Pensions 43

5. Annex – Financial forecasts 44

Executive summary

The Global Accounts cover the year up to the end of March 2023. This period saw sustained high inflation and rising interest rates. Consumer Price Index (CPI) inflation peaked at 11.1% in October 2022 whilst the Bank of England base rate increased from 0.75% in April 2022 to 4.25% at the end of March 2023. The financial results of private registered providers (referred to as providers in this document) reflect this more challenging macro-economic environment.

Investment in existing stock continues to be the main driver of financial performance. In total, a record £7.7bn was spent on repairs and maintenance, a 20% increase on the previous record level of £6.5bn reported in 2022. Although high inflation was a contributing factor, a commitment to meet backlogs in repairs programmes following the pandemic and improve stock decency and energy efficiency, were key drivers. Events in the year brought into sharp focus the dangers of living with damp, mould and condensation; highlighting the need for many providers to invest further in tackling this issue.

Combined with continued high levels of investment in the existing housing stock, the economic conditions have led to the sector as a whole being stretched and financial resilience being tested. The operating surplus generated by the sector fell by 9% to £4.0bn, the aggregate operating margin was 16.6%; the lowest reported since 2009. The ‘underlying surplus’ (excluding movements in fair value) fell for the fourth year in a row from £2.4bn to £2.2bn.

The regulator uses a measure of interest cover that includes all major repairs spend as a key indicator of financial viability. Including capitalised costs, the £1.3bn increase in total repairs spend has resulted in EBITDA MRI[1] interest cover deteriorating by 24 percentage points to 103%. Levels of interest cover have deteriorated steadily from a peak of more than 170% in 2018 and are now at the lowest level since 2010. Although the sector remains robust in aggregate, individual providers have less financial headroom and their capacity to absorb downside risk is reduced. The regulator will continue to engage with providers where we have concerns over financial viability and covenant positions.

Investment in new supply also increased by 11% in the year to £13.7bn. This was back in-line with the pre-covid investment figure reported in 2020. The number of social homes completed in the year increased by 7% to 53,000.

The sector continues to demonstrate robust liquidity in aggregate and was able to raise the funds required to support investment in new and existing supply. Including refinancing, the sector agreed new facilities of £9.9bn in the year to March 2023, increasing total available undrawn facilities to £30.3bn. However, weaker performance and high levels of investment are impacting on the level of cash and short-term investments held by the sector which decreased from £7.9bn in March 2022 to £6.3bn in March 2023.

[1] Earnings before interest, tax, depreciation and amortisation inclusive of all major repairs spend.

Debt reported on balance sheets increased by £4.4bn (5%) to £93.7bn in 2023. In aggregate, 79% of the sector's debt at March 2023 was fixed for one year or more[2]. This provides some protection against rising interest rates. Nevertheless, the effective interest rate (excluding one-off breakage costs) increased from 3.8% to 4.0%, applying further downward pressure on interest cover.

Over 90% of the sector's operating surplus was generated through Social Housing Lettings (SHL) activity. The surplus generated from the core activity of renting social properties fell by £0.4bn to £3.8bn. Permitted rent increases were limited to 4.1% (CPI inflation of 3.1% in September 2021 plus 1%) whereas SHL costs were impacted by high inflation in the year and increased by 12%, with the most significant increases in repairs and maintenance spend.

Total sales receipts reported by the sector were £7.0bn and housing market exposure remains a key risk for many providers, particularly those reliant on first tranche shared ownership and outright market sale receipts.

Events after March 2023 demonstrate that the operating environment remains no less challenging. Rent increases were capped at 7% for one year from March 2023 for most social and affordable rented homes. Interest rates continued to rise and the Bank of England base rate reached 5.25% by August 2023.

In this context, as expected, the financial forecasts shown in Annex A show a continuation of lower margins and a decrease in projected interest cover relative to previous business plans. Despite this, the sector is forecasting to sustain the record levels of investment in existing stock. Over the next five years providers are projecting average spend on repairs and maintenance of £9bn per annum.

In the recent past, the sector's capacity to invest has benefitted from historically low interest rates. In the latest plans, higher interest rates are a key driver of weaker projected performance. Interest rates are now predicted to remain higher for longer and this is reflected in the assumptions underpinning latest forecasts.

The annex illustrates that the sector is beginning to make trade-offs to ensure viability is maintained. The latest business plans include 16% fewer units developed over the first five years of projections compared to forecasts submitted in the previous year. In response to the challenging operating environment and level of uncertainty we expect providers to continue to adapt plans appropriately. It is vital they continue to manage their resources and risks effectively to ensure that their financial viability is maintained, and that they remain capable of delivering effective services and on their responsibilities to tenants.

[2] Quarterly Survey of Registered Providers, Q4 2022/23

1. Introduction

1.1 The 2023 Global Accounts of registered providers (Global Accounts) provides a financial overview of the social housing sector based on an analysis of the regulatory returns of private registered providers. The publication does not include any financial data relating to social housing stock held by local authorities.

1.2 In total, there are around 1,400 active providers, of which the majority have fewer than 1,000 homes. This publication is concerned with the financial analysis of 202 large provider groups which own or manage at least 1,000 social homes, together representing more than 95% of the sector's stock. The underlying dataset used to produce the Global Accounts is subject to change as the number of providers above or below the 1,000 homes cut-off changes each year.

1.3 The provision of homes for rent is the main activity of the sector. Many providers also generate income from the sale of homes, by providing homes for ownership either on a shared ownership basis or for outright sale. This activity exposes providers to a different risk profile to that for traditional renting and has changed the financial profile of several providers.

1.4 Most large providers are part of a group structure; these can include multiple registered providers and non-registered entities. The development of properties for outright sale and other non-social housing activity is often delivered by non-registered entities or joint ventures within group structures. This leads to differences between the accounts prepared by registered entities (entity level) and those prepared on a consolidated group basis (consolidated level). This publication presents results both at consolidated and entity level.

1.5 Further differences exist between providers. While most providers have some supported housing or housing for older people, there is a small but significant number of primarily specialist providers. A small sub-set of supported housing providers operate a lease-based business model.

1.6 The vast majority of providers are designated as not-for-profit. The Global Accounts dataset includes the results of four for-profit providers which hold more than 1,000 homes. Together these currently comprise a small but growing part of the sector.

1.7 A financial review of the 2022/23 Global Accounts is presented in Part 2. Part 3 comprises the aggregate financial statements. Part 4 contains notes to the primary statements showing further detail of key entries and balances.

1.8 The Annex includes an analysis of providers' latest financial forecasts. This compares aggregate current projections and business plans against those submitted in previous years.

2. Financial review

Operating environment

2.1 During the period covered by this Global Accounts, all measures implemented by the Government to mitigate the impacts of the pandemic had been phased out. Although the economy was emerging from the pandemic, it was followed by a significant shortage of resources including labour and materials. Demand for goods and energy also outpaced supply, leading to a rise in inflation. This was further exacerbated by the impact of the war in Ukraine, which saw inflation increase due to rising energy prices. The reporting period witnessed levels of inflation and interest rates that had not been witnessed for decades[3], resulting in what became known as a 'cost-of-living crisis'.

2.2 In response to rising energy costs, the Government introduced a number of measures to support households[4]. This included a cap on the unit price payable for electricity and gas and a £400 discount on energy bills, for a period of six months, towards the end of 2022.

2.3 Interest rates had been at historic low levels below 1% since 2009. However, December 2021 saw interest rates begin to increase to manage high inflation. By the beginning of the Global Accounts reporting period the base rate had been raised by the Bank of England (BoE) on three consecutive occasions and stood at 0.75%. As the financial year concluded interest rates had increased on eight consecutive occasions, reaching 4.25%. Since April 2023 the bank rate has increased on three further occasions and currently stand at 5.25%.

2.4 Consumer Prices Index (CPI) inflation rose by 10.1% in the twelve months to March 2023 down from a peak of 11.1% in October 2022, the highest annual inflation rate in over 40 years[5].

2.5 In the Global Accounts reporting period annual maximum rent increases of CPI +1% were allowed for the majority of properties. However, permitted rent increases were based on the September 2021 CPI of 3.1%. This lag meant that growth in core costs exceeded allowable rent increases, putting pressure on sector performance.

2.6 Across the UK, average construction costs on new properties increased by 10.3%[6] over the 12-month period to 31 March 2023. In the same period construction material prices increased by 9.5% and repair and maintenance costs increased by 7.5%[7].

[3] BOE Monetary Policy Report May 23
[4] Help with your energy bills: Overview - GOV.UK (www.gov.uk)
[5] Consumer price inflation, UK - Office for National Statistics
[6] Construction output price indices - Office for National Statistics
[7] Construction Material price

2.7 Annual construction output increased in the year and by March 2023 was at the highest monthly rate of growth since records began in 2014, 4.3%[8], with the biggest increase seen in the repairs and maintenance index of 9.4%. There were 246,750 new homes completed in the 12 months to March 2023 according to Energy Performance Certificates (EPCs), a small increase of 3% compared to the previous year[9].

2.8 The average house price in England during the period covered by the Global Accounts increased by 4.1%[10], however there were notable regional variations in housing market performance. The South West was the fastest growing region with annual growth of 5.4%, and London for the third consecutive year saw the lowest annual growth, where prices increased by 1.5%.

2.9 Towards the end of 2022, mortgage and interest rates increased. The average interest rate for a typical 5-year mortgage stood at 4.26% at the end of March, following a peak of 5.61% in October 2022[11]. Average monthly mortgage approvals for house purchases were 56,200 in 2023, below the monthly average of 62,700 during 2022[12].

2.10 The number of people on Universal Credit was 5.1 million[13] at March 2023, an increase from the figures reported for March 2022 of 4.8 million but lower than the numbers reported in March 2021 of 5.2million. The number of households on Universal Credit in England claiming housing entitlement with a social rented landlord increased from 1.2 million in March 2022[14] to 1.4 million in March 2023, although this also reflects the Universal Credit migration roll-out which restarted in 2022 post-pandemic[15].

2.11 Following the social housing rents consultation, the government announced in November 2022 that the maximum permissible rent increase for existing tenants will be limited to 7%, between 1 April 2023 and 31 March 2024 (applicable to general needs Social Rent and Affordable Rent homes but excluding supported housing)[16]. CPI inflation fell from 10.1% at the end of the Global Accounts reporting period to 4.6% in October 2023. The latest BoE forecasts project that inflation will reach the 2% UK target by the end of 2025[17].

2.12 Moving into 2023 the sector was already forecasting record investment in existing stock, with a commitment to improve the energy efficiency and safety of homes. In November, the publication of the coroner's report into the death of Awaab Ishak brought into sharp focus the dangers of living with damp, mould and condensation. The regulator

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[8] Construction output in Great Britain: March 2023- Office for National Statistics
[9] Gov.UK/housing-supply-indicators-of-new-supply-England
[10] UK House Price Index - Office for National Statistics (ons.gov.uk)
[11] Quoted household interest rates - a visual summary of our data | Bank of England
[12] Money and Credit - March 2023 | Bank of England
[13] Stat-Xplore - Log in (dwp.gov.uk)
[14] Stat-Xplore - Log in (dwp.gov.uk)
[15] Completing the move to Universal Credit - GOV.UK (www.gov.uk)
[16] The Direction on the Rent Standard 2023 (publishing.service.gov.uk)
[17] Monetary Policy Report - November 2023 | Bank of England

subsequently published an 'initial findings' report on damp and mould in social housing in early 2023[18]. This highlighted the need for many providers to invest further in tackling this issue.

2.13 The trajectory of macro-economic indicators remains uncertain. However, inflation and interest rates are set to remain higher for longer. Given the sector's focus on building safety and stock quality it is more important than ever for providers to closely monitor and update plans to reflect ongoing economic and operating risks.

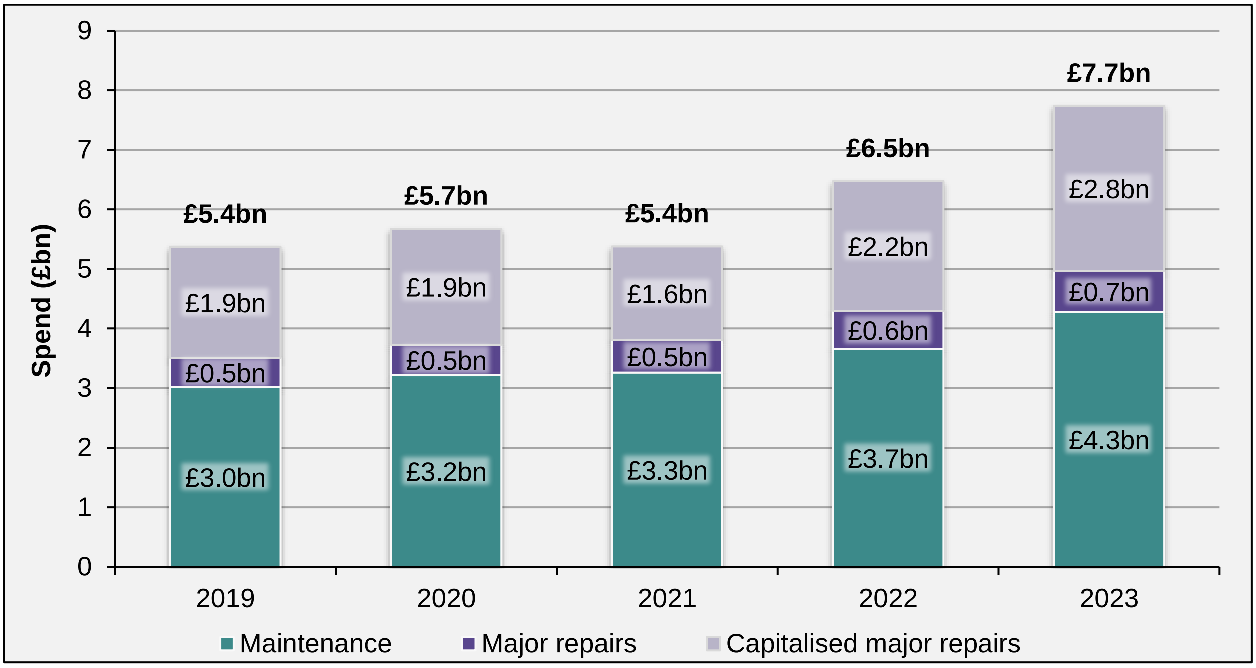
Financial highlights

Spend on existing stock

2.14 During 2022 a record amount was spent on investment in existing stock; a trend which was to continue throughout 2023. During the first half of the year in particular, providers continued to work through backlogs of repairs that had built up during the Coronavirus lockdowns of previous periods. Shortages of both labour and materials that had arisen during 2022 continued to drive up prices, combined with high levels of general inflation being experienced throughout the wider economy.

2.15 In total, £7.7bn was invested in repairs and maintenance over the year; surpassing last year's record expenditure by a further 20%. Capitalised major repairs (that which adds to the reporting value of the asset) increased by 27% to £2.8bn. Repairs and maintenance disclosed as expenditure in the Statement of Comprehensive Income (SOCI) increased by 16% to £5.0bn.

Figure 1: Total major repairs and maintenance spend (consolidated)



[18] Regulator of Social Housing publishes initial findings on damp and mould - GOV.UK (www.gov.uk)

2.16 In 2023 there has been an increased focus on damp and mould issues within the sector, and on maintaining the Decent Homes Standard. Many providers have reported prioritising these works towards the end of 2022 due to an upsurge in demand, resulting in the reallocation of in-house resources and increased spend on additional contractors.

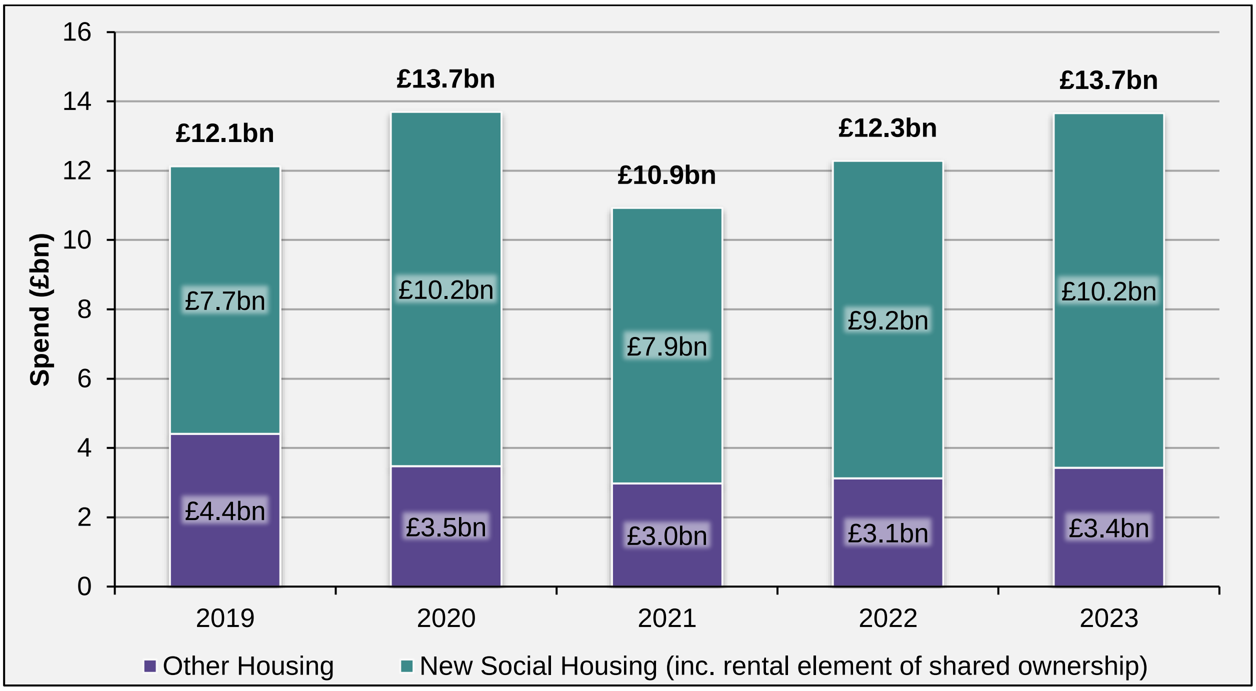
2.17 A number of providers have also commenced works to improve the energy efficiency of existing homes. At the end of the financial year the Department for Energy Security and Net Zero announced the successful bids from wave 2.1 of the Social Housing Decarbonisation Fund, which included over £300m for PRPs[19]. The associated costs for these works will be incurred by providers over the next two years.

2.18 Latest business plans show that investment in existing stock is set to continue to increase, with a total of £8.3bn included in forecasts for 2024.

Investment in new supply

2.19 Investment in new supply totalled £13.7bn for the year; an 11% increase on spend of £12.3bn in 2022, and back in line with the pre-pandemic peak of £13.7bn in 2020. The total includes the development and acquisition of social housing properties, properties developed for sale, and investment properties.

Figure 2: Investment in new supply (consolidated)



2.20 Although investment was the highest attained in three years, the Quarterly Survey returns submitted in the year[20] showed that providers continued to be affected by labour and material shortages throughout the reporting period, and incidences of contractor

[19] Social Housing Decarbonisation Fund Wave 2.1: successful bids - GOV.UK (www.gov.uk)

[20] Quarterly survey of private registered providers - GOV.UK (www.gov.uk)

insolvency affected a growing number of developments. Other issues reported included planning delays, and extended contract negotiations due to the rapidly changing economic environment.

2.21 A total of £10.2bn was invested in new social housing properties for rent (including the rental element of shared ownership properties). This delivered 53,000 new units; 7% higher than the 49,000 new units completed in 2022. In comparison, expenditure of £10.2bn was 12% higher than in 2022, reflecting the impact of inflation on development costs. Net of demolitions and disposals, the total number of social homes owned by providers increased by 2% to 2,817,000.

2.22 In addition to the £10.2bn invested in social housing properties for rent, providers spent a further £3.4bn on the supply of properties developed for sale and units classified as investment properties.

- In 2023, estimated spend on properties developed for outright sale and the expected first tranche element of shared ownership properties was £3.0bn (2022: £2.7bn).
- Properties held for market rent and other properties held primarily for non-social housing purposes[21] are categorised as investment properties in financial statements. Investment in the supply of such new properties was £0.4bn (2022: £0.4bn), over half of which was attributable to one for-profit provider.

2.23 Although both the number of units developed and the value of investment increased in 2023 compared to 2022, providers are having to make difficult decisions as to where they invest limited resources. With increasing borrowing costs and a rent cap in place for 2024, a number of providers have indicated that they will prioritise works to existing stock over new development in coming years.

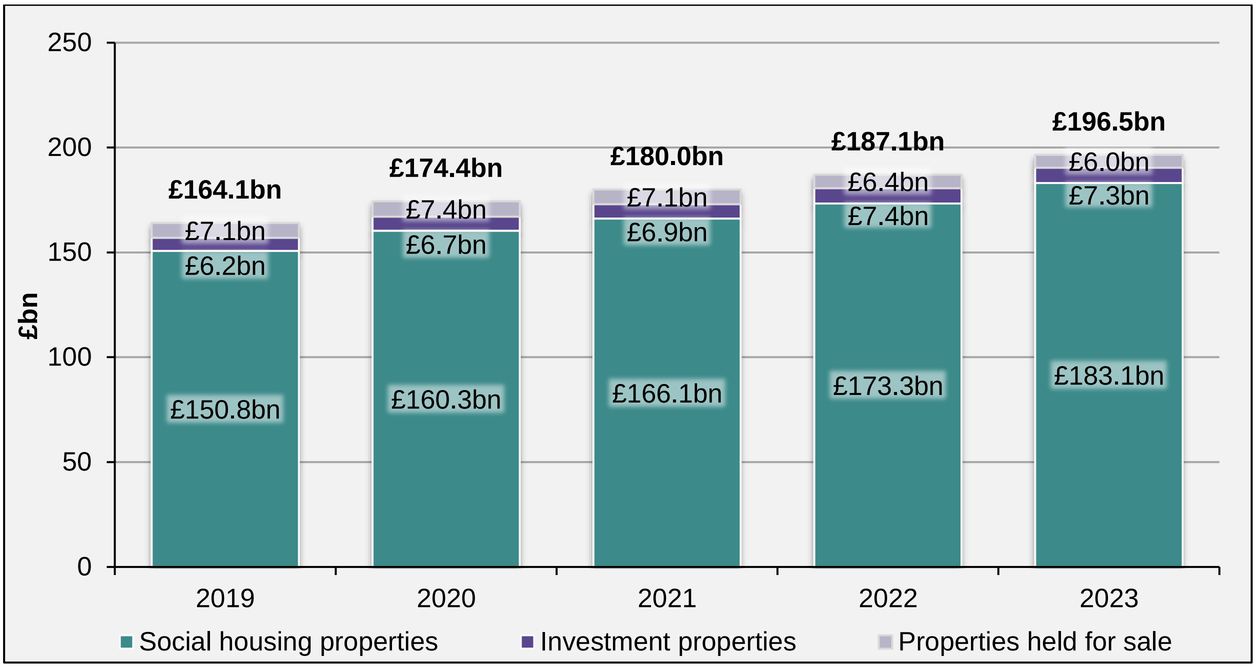
2.24 The financial statements show that capital expenditure that has been approved by directors but has not yet entered into contract has reduced for the first time in three years; falling from £20.2bn as at March 2022 to £18.3bn as at March 2023. Latest business plans also show a 16% reduction in the number of units being delivered over the next five years in comparison to 2022 forecasts (see annex).

Housing assets

2.25 Following the record levels of capitalised major repairs expenditure over the year, as well as increased investment in new supply, the total value of housing assets held by the sector increased by £9.4bn (5%) to £196.5bn. This includes both completed properties and properties under construction.

[21] One provider recognises social housing properties as Investment Properties in their financial statements. Although this is a deviation from the Housing SORP, this is permitted under IAS 40 as the for-profit provider holds properties for capital appreciation.

Figure 3: Housing assets (consolidated)

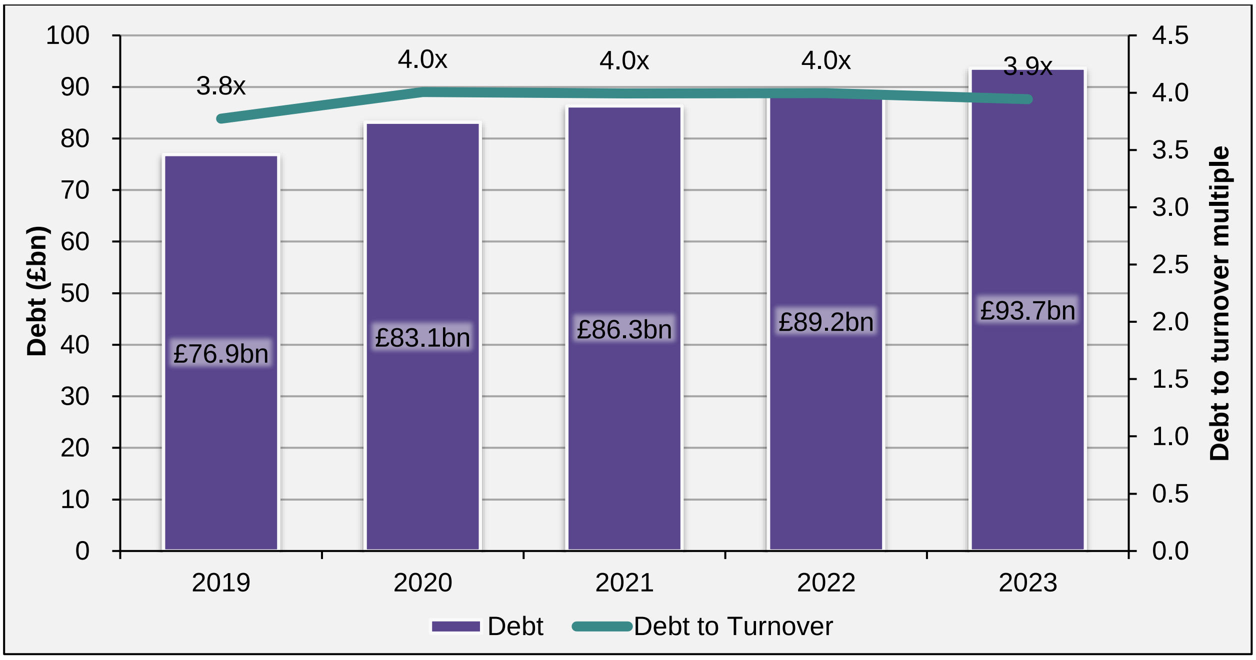


2.26 Housing assets include £183.1bn of social housing properties held for rent and under construction, £7.3bn of investment properties (predominantly completed market rent properties) and £6.0bn of properties held for sale. The latter relates mainly to land and properties under construction.

Debt and funding

2.27 The investment in existing properties and new supply was primarily funded through operating surpluses, debt, and capital grant, and to a lesser extent, through the use of cash reserves.

Figure 4: Total debt (consolidated)



2.28 Including refinancing, in the year to March 2023 the sector agreed new facilities of £9.9bn, increasing the total available undrawn facilities to £30.3bn at the end of the year (March 2022 £29.8bn)[22]. This was the lowest amount of new facilities arranged since 2017.

2.29 Providers continued to access funding through the capital markets, with £4.2bn raised in the year (2022: £7.4bn). However, for the first time in three years capital market funding was exceeded by new bank lending, which amounted to £5.5bn in the year (2022: £4.5bn). As of 31 March 2023, 49% of existing facilities were in the form of bank loans compared to 48% capital market funding.

2.30 Over the year the BoE base rate moved from 0.75% in March 2022 to 4.25% in March 2023, with further increases up to 5.25% post year-end. Prior to 2022, rates had been below 1% since 2009, meaning that future borrowing costs are likely to be considerably higher than those experienced in recent years. In aggregate, almost 80% of sector debt is held at a rate that is fixed for more than one year, however there will be individual providers where interest rate risk needs to be carefully managed.

2.31 Reported levels of indebtedness remained stable in the year. The increase in debt of 5% was slightly less than the increase in the net book value of social housing assets and turnover growth; both of which stood at 6%. Debt per unit increased by 3%.

Table 1: Indebtedness metrics

	Consolidated		Entity	
Metric	**2023**	**2022**	**2023**	**2022**
Gearing (debt as % of social housing assets)	51%	51%	51%	52%
Debt to turnover (as a multiple)	3.9	4.0	4.3	4.3
Debt per unit (£ per social housing unit)	32,635	31,586	31,996	31,179

2.32 In addition to new debt being arranged, capital grant totalling £1.7bn was received during the year. As at 31 March 2023, total capital grant recognised on the balance sheet was £40.3bn.

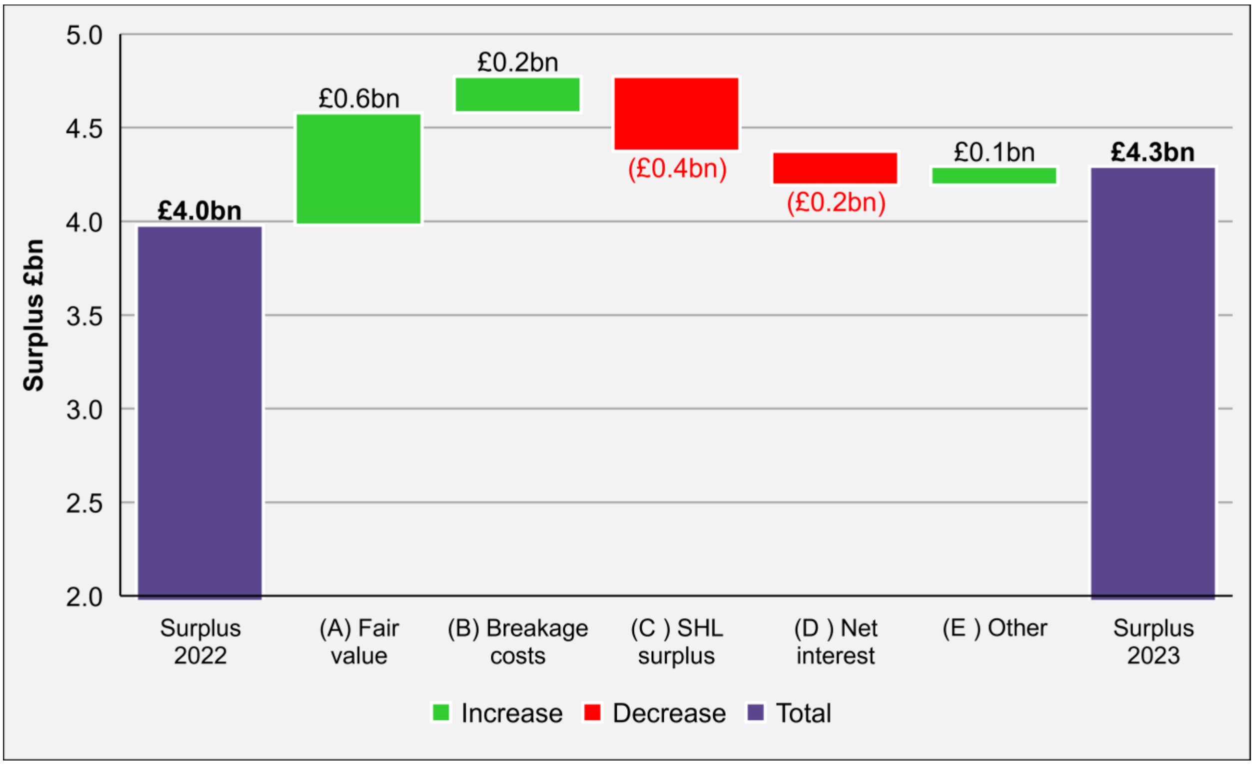
2.33 Levels of cash and short-term investments held by PRPs reduced by 20% over the year to £6.3bn (2022: £7.9bn); the lowest level in eight years. This reflects the increased cost of holding cash in a high-inflation environment and where taking on additional debt to fund development is becoming increasingly expensive. The regulator continues to review each provider’s Quarterly Survey and will engage with providers where indicators identify short-term liquidity issues.

[22] Quarterly survey for Q4 (January to March) 2022 to 2023 - GOV.UK (www.gov.uk)

Underlying surplus

2.34 Based on the consolidated financial statements, the surplus reported in 2023 was £4.3bn; an 8% increase on the £4.0bn reported in 2022.

Figure 5: Factors impacting the reported surplus (consolidated)



2.35 As can be seen from the figure above, the reported surplus fluctuates year-on-year as a result of movements in fair value. This is particularly true in consolidated financial statements which often include fair value gains from group merger activity. The underlying surplus, excluding these 'non-cash' gains and losses decreased from £2.4bn in 2022 to £2.2bn in 2023.

2.36 Each of the key drivers behind the reported surplus are examined in turn below.

2.37 (A) Fair value gains (excluded from the underlying surplus) were £0.6bn greater than in 2022:

- In 2023 there was one large business combination (merger) that took place, which accounted for almost 95% of the £2.0bn total gain on business combinations. In 2022 there were a number of smaller mergers, with associated fair value gains totalling £1.2bn.
- Other non-cash items reported in the surplus include movements in the fair values of investment properties and financial instruments. In total the sector reported a net gain on these items of £0.2bn, compared to a gain of £0.4bn in 2022.

2.38 (B) A saving of £0.2bn in respect of loan breakage costs:

- During 2023, 20 providers reported incurring loan breakage costs, in total amounting to £0.1bn.
- This compares to 34 providers in 2022, when an overall cost of £0.3bn was reported.

2.39 (C) A decrease in the operating surplus from SHL of £0.4bn:

- The operating surplus from social housing lettings fell from £4.2bn in 2022 to £3.8bn in 2023.
- Rental income increased by £0.9bn, and service charge income by a further £0.2bn.
- However, the additional income was surpassed by growth in SHL costs, which increased by £1.5bn.

2.40 (D) An increase in net interest payable of £0.2bn:

- Interest payable (excluding loan breakage costs) increased by £0.3bn to a total of £3.3bn in 2023 (2022: £3.0bn).
- This was partially offset by a £0.1bn increase in interest receivable, from £0.1bn in 2022 to £0.2bn in 2023.

2.41 (E) Other net favourable movements of £0.1bn:

- Other net movements included a £0.1bn increase in the surplus on asset sales (including both current and fixed assets), which totalled £1.8bn in 2023 (2022: £1.7bn).

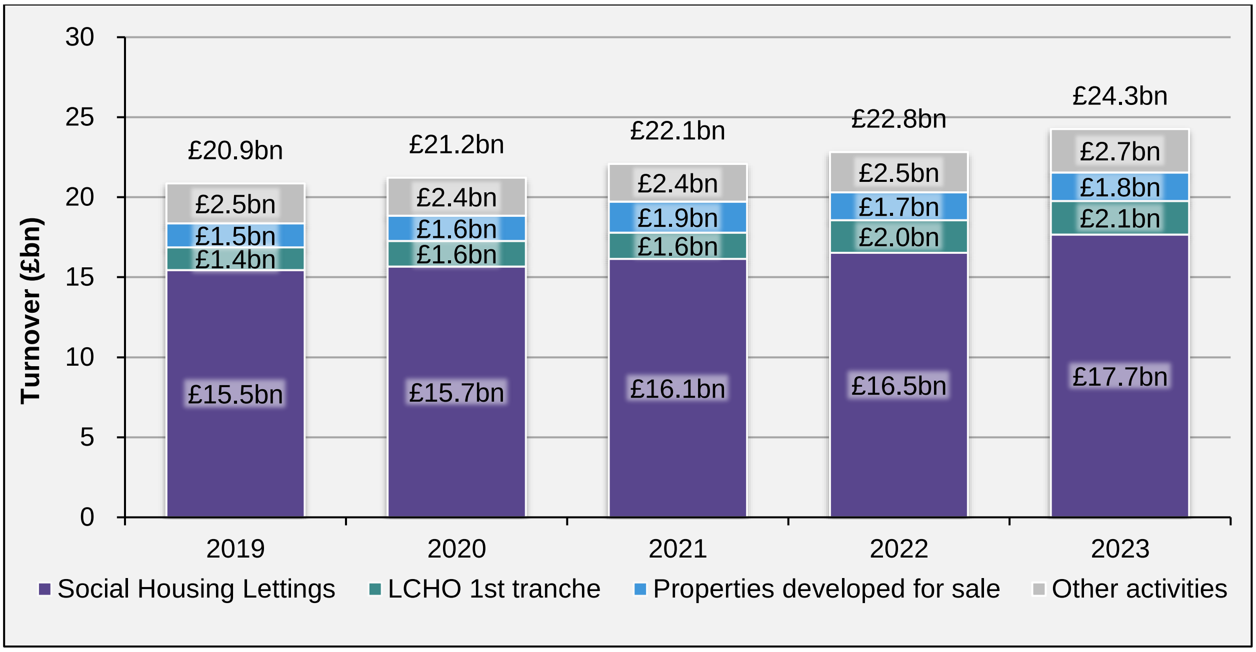
2.42 Total comprehensive income is £2.0bn higher than the surplus of £4.3bn due to non-cash adjustments. This includes an actuarial gain of £1.3bn in respect of pension schemes, which results from changes in the underlying financial and economic assumptions underpinning valuations. A gain of £0.7bn was also recognised in respect of hedged financial instruments, resulting from an increase in swap rates over the year.

Financial performance

Operating activity and EBITDA MRI interest cover

2.43 73% of total sector turnover is generated through SHL activity. A further 16% is generated through development for sale; either first tranche sales from shared ownership properties or outright market sales. This proportion of income from development for sale and non SHL activity is consistent with recent years.

Figure 6: Breakdown of turnover (consolidated)



2.44 The operating surplus (excluding fixed asset sales) decreased overall by £0.4bn to £4.0bn. This was almost entirely attributable to a fall in the surplus from SHL activity, with the contribution from other activities remaining stable. However, the drop in margin on the sector's core activity has resulted in the overall operating margin deteriorating to 16.6% based on consolidated returns. This is the lowest level reported since 2009.

Table 2: Margins

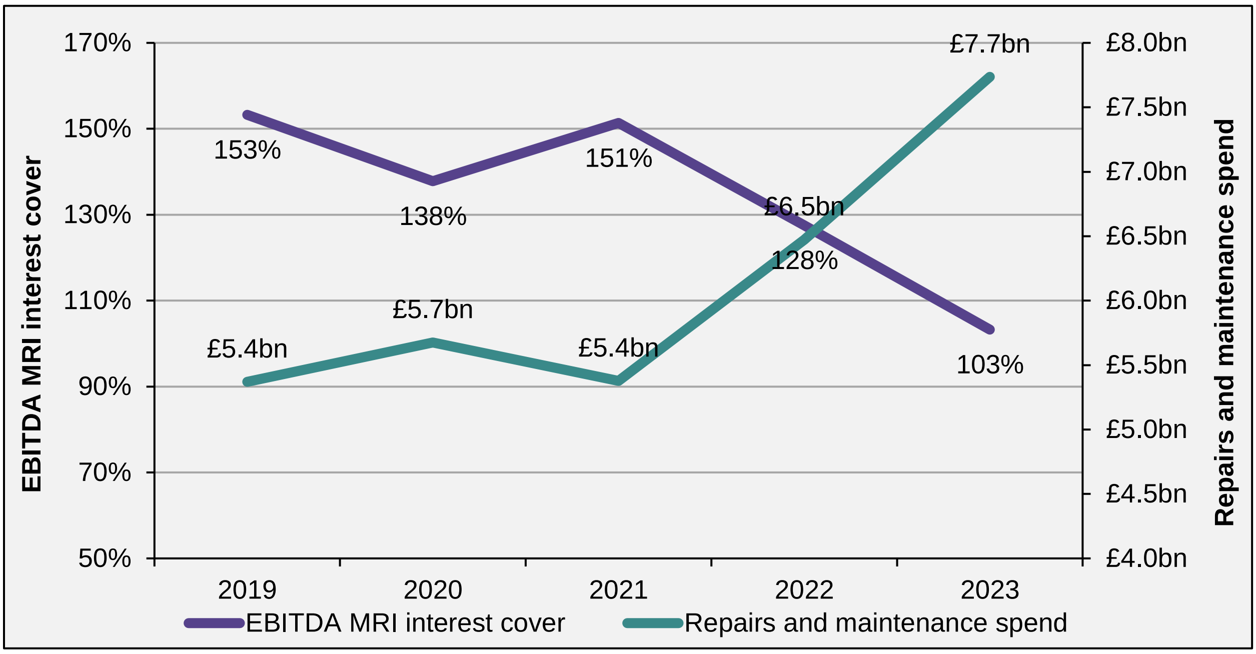
	Consolidated		Entity	
%	**2023**	**2022**	**2023**	**2022**
Operating margin	16.6%	19.5%	18.2%	21.3%
Operating margin on social housing lettings	21.4%	25.3%	21.2%	24.8%
Operating margin on 1st tranche sales	18.1%	16.4%	17.4%	16.6%
Operating margin on outright sale	10.6%	9.7%	3.5%	17.8%
Operating margin on other activities (excluding gift aid)	(11.7%)	(9.1%)	(15.9%)	(11.8%)

2.45 The total impairment charge recognised by providers increased from £161m in 2022 to £312m in 2023. An impairment loss is normally recognised in operating expenditure against the associated activity. Of the total impairment figure reported in 2023, £89m related to SHL with the balance allocated to other social and non-social activities.

2.46 The increase in impairment was mainly attributable to assets under construction and development schemes. One large provider accounted for more than one-third of the total impairment charge reported in the year.

2.47 The sector's key limitation is its ability to cover ongoing finance costs from operating activity. The interest cover measure used by the regulator includes all major repairs spend. This ensures a consistent comparison of performance across providers, regardless of capitalisation policies.

Figure 7: EBITDA MRI interest cover (consolidated)



2.48 Aggregate EBITDA MRI interest cover fell to 103% and the median value was 124% (2022: 146%). In total 69% of providers were reporting a figure greater than 100%. This is a decrease from 2022 when 76% of providers reported a figure greater than 100%.

2.49 The driver for lower interest cover in 2023 is a £0.8bn decrease in total EBITDA MRI reported by the sector, from £4.7bn to £3.9bn. This is in turn attributable to the £1.3bn increase in total repairs and maintenance spend covered earlier in this document.

2.50 As set out in table 3 below, the aggregate level of indebtedness (debt to turnover) and the cost of finance (effective interest rate) have, by contrast, remained relatively stable.

Table 3: Interest cover metrics

	Consolidated		Entity	
% (unless otherwise stated)	**2023**	**2022**	**2023**	**2022**
EBITDA MRI interest cover	**103%**	**128%**	**107%**	**132%**
EBITDA MRI interest cover SHL	**97%**	**120%**	**100%**	**122%**
EBITDA MRI margin	16.5%	21.0%	19.4%	23.8%
Debt to turnover (as a multiple)	3.9	4.0	4.3	4.3
Effective interest rate (EIR)	4.1%	4.1%	4.2%	4.2%
EIR (excluding breakage costs)	4.0%	3.8%	4.1%	3.9%

2.51 The aggregate figure of 103% is the lowest level reported since 2010. Measured on an EBITDA MRI basis, aggregate interest cover was lower following the 2007-2008 financial crisis. However, the low level of cover reported then was partially attributable to the number of providers undertaking stock improvement programmes following stock transfers.

2.52 The sector is evidently in a weaker financial position than it has been in the recent past. Individual providers have less financial headroom and their capacity to absorb downside risk is reduced. Most providers have interest cover loan covenants with limits typically between 110% and 125%. However, the basis used for covenant calculations vary and may exclude certain expenditure or factor in non-operating income such as fixed asset sales.

2.53 Significantly, covenants may exclude elements of major repair spend, particularly where they relate to exceptional costs. Where this is not the case many providers have sought waivers from lenders to exclude specific components of expenditure from covenant calculations. If we exclude all capitalised repairs spend of £2.8bn from the calculation, then interest cover would be 176% on an EBITDA only basis.

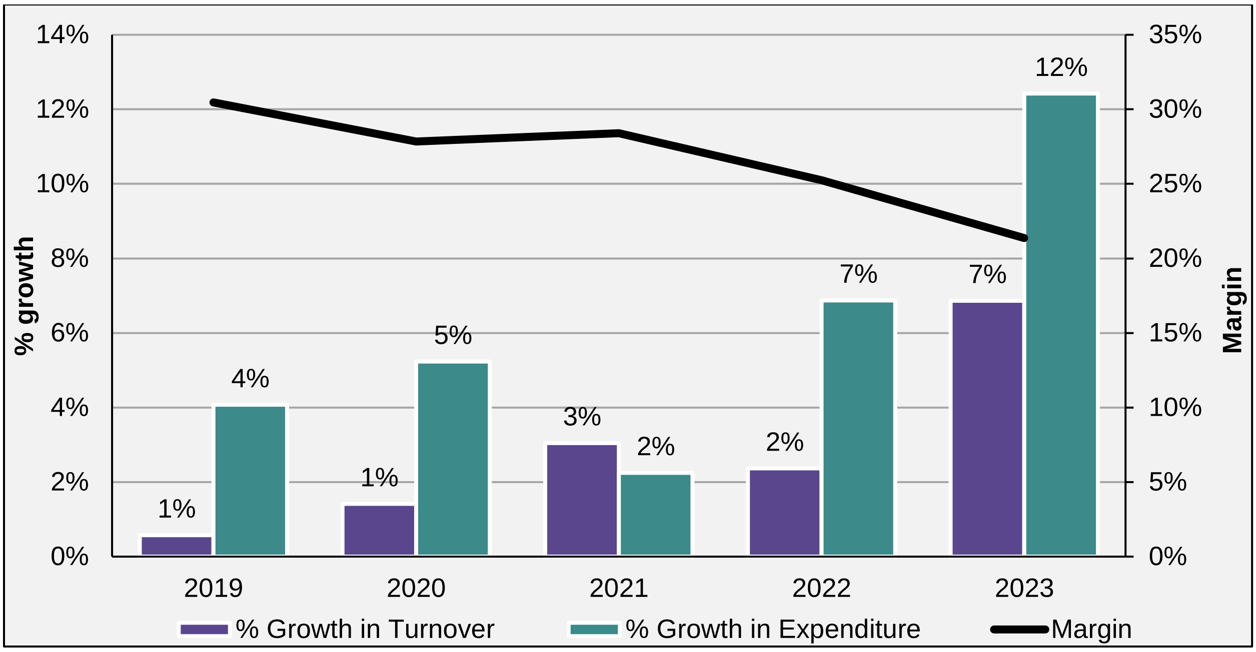
2.54 However, raised capitalised major repairs costs relate to catch-up spend on backlog works from the pandemic, fire-safety activity and commitments to improving stock quality. We view this expenditure as critical in maintaining homes to meet statutory and regulatory requirements and enabling providers to achieve their objectives. A provider's capacity to fund such costs from operating income will continue to be a cornerstone of how the regulator monitors financial viability on an ongoing basis.

2.55 The recent regulatory judgements published by the regulator reflect the impact of increased asset management spend and the broader financial pressures currently faced by providers. We will continue to engage with providers to gain assurance where there are indicators of weakening headroom.

Social housing lettings activity

2.56 The operating surplus on SHL has decreased by £0.4bn to £3.8bn. Turnover increased by £1.1bn (7%) to reach £17.7bn, whereas costs increased by £1.5bn (12%) to a total of £13.9bn. This resulted in a reduction in the operating margin, which fell from 25% in 2022 to 21%. The reduction in margin was widespread, with almost three-quarters of providers reporting a deterioration since 2022.

Figure 8: Social housing lettings income and expenditure growth (consolidated)



2.57 For the year ending March 2023 permitted rent increases for general needs Social Rent and Affordable Rent tenancies were capped at 4.1% (September 2021 CPI inflation of 3.1% plus 1%). Combined with an increase in stock numbers this contributed towards a 6% increase in total rents receivable, which reached £15.2bn.

2.58 However, as annual permitted rent increases are based on the inflation rate experienced in the prior year, there will always be a lag between increases in income and increases in costs; something that becomes acutely apparent in periods of high inflation. With CPI inflation moving from 7.0% to a peak of 11.1% over the course of the financial year, the resulting growth in costs outstripped the allowable rent increase, and specific inflationary pressures contributed towards an overall increase in SHL costs of more than 12%.

2.59 The greatest increases were seen in repair and maintenance costs (£0.7bn), management costs (£0.3bn) and service costs (£0.3bn). The main factors placing upward pressure on repairs and maintenance costs are covered elsewhere in this publication.

2.60 In other cost areas, increases in energy prices have affected both providers' own management costs, as well as the service costs that are rechargeable to tenants. A number of providers have also referenced large increases in insurance premiums. The latter is partially attributable to building and fire safety considerations.

2.61 Increased staffing costs are also reported, resulting from both an additional use of temporary workers and from pay awards to staff, with a number of providers choosing to provide additional support to staff during the cost-of-living crisis.

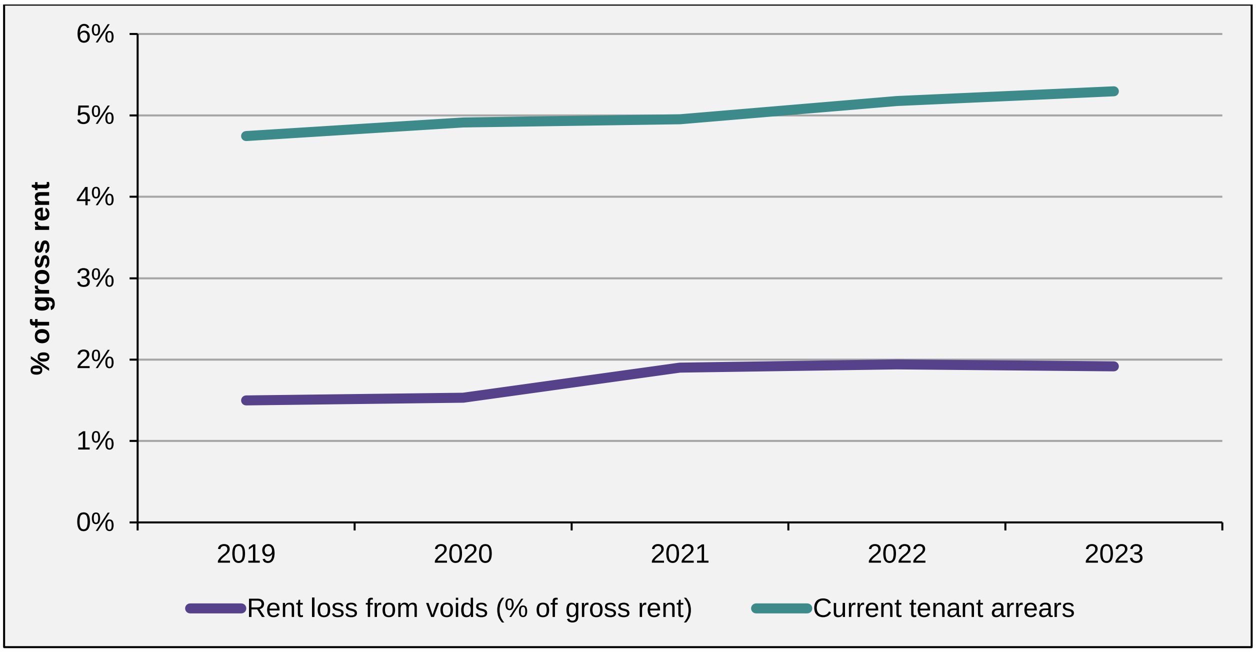
Social housing lettings: Operational performance

Table 4: Indicators of operating performance

	Consolidated		Entity	
% of gross rent	**2023**	**2022**	**2023**	**2022**
Rent loss from voids	1.9%	1.9%	1.9%	1.9%
Bad debts for the year	0.7%	0.6%	0.7%	0.6%
Current tenant arrears	5.3%	5.2%	5.3%	5.1%

2.62 Void losses and current tenant arrears are key performance indicators in assessing the efficiency of letting and rent collection.

Figure 9: Voids and current tenant arrears as % of gross rent



2.63 Rent loss from voids increased during the pandemic. As a percentage of gross rent, void losses reached 1.9% in 2021, the highest point since 2010. The results up to March 2023 have remained at similar levels and there are no indications yet of a return to pre-pandemic levels.

2.64 The highest levels of voids continue to be experienced by providers with a large proportion of supported housing units, care home units or housing for older people.

2.65 Providers reported delays in new tenant referrals from local authorities and continued labour shortages, impacting major repair works and hindering void turnarounds, in their Quarterly Survey submission for Q4 2022/23[23]. A small number of providers have also

[23] Quarterly survey for Q4 (January to March) 2022 to 2023 - GOV.UK (www.gov.uk)

paused void repairs or have redirected resources to manage the increase in responsive repair demands and prioritising building safety works.

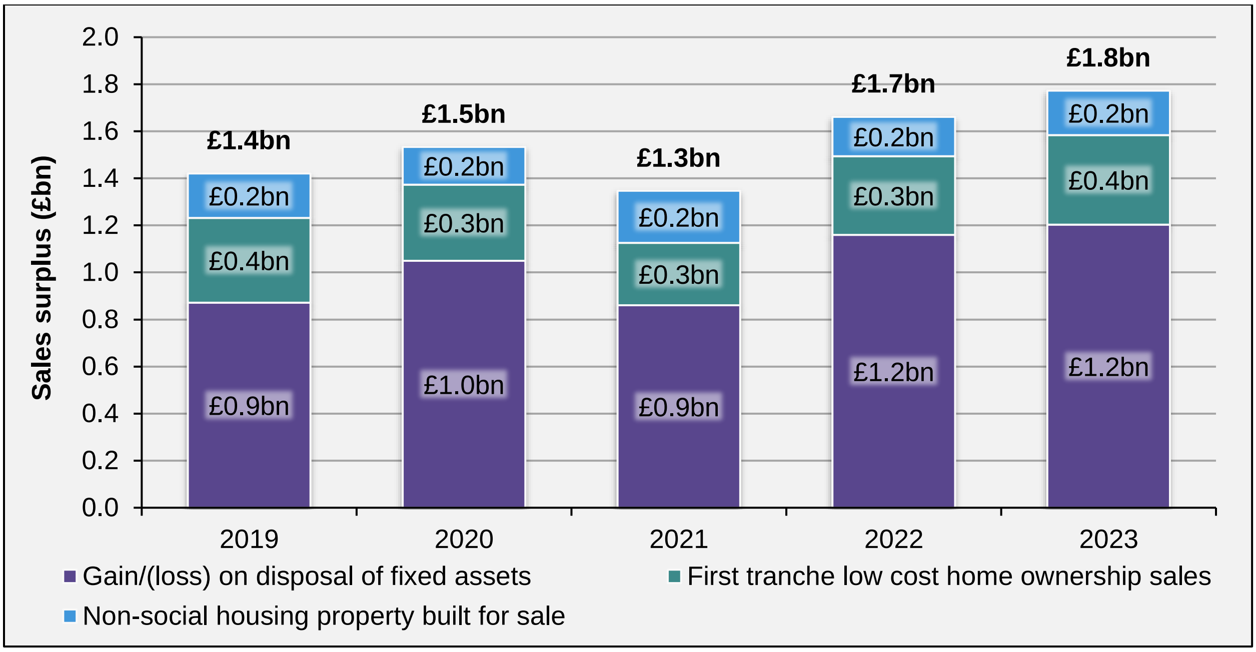
2.66 Current tenant arrears have gradually increased over the last five years and now stand at 5.3% of gross rents. Current tenant arrears at the end of March 23 were £819m, a £67m increase on the comparable figure from 2022.

2.67 The highest levels of arrears are typically reported by providers operating mainly in London or a mix of locations. Around 10% of providers referenced the cost-of-living crisis impacting arrears in their Quarterly Survey submission for Q4 2022/23[24].

Sales

2.68 Total sales receipts for the reporting period increased by £0.3bn to £7.0bn and the corresponding surplus increased by £0.1bn to £1.8bn.

Figure 10: Profit on sales (consolidated)



2.69 Many providers develop properties for sale. These may be units for outright sale at market values or low-cost home ownership (LCHO) units where a proportion of the property is sold as a first tranche. Both types of sale are classified as current asset sales and are included in operating activities.

2.70 Development for sale is concentrated in a small number of large providers with significant exposure to the housing market. The total surplus recognised on both these types of sale combined was £0.6bn (2022: £0.5bn).

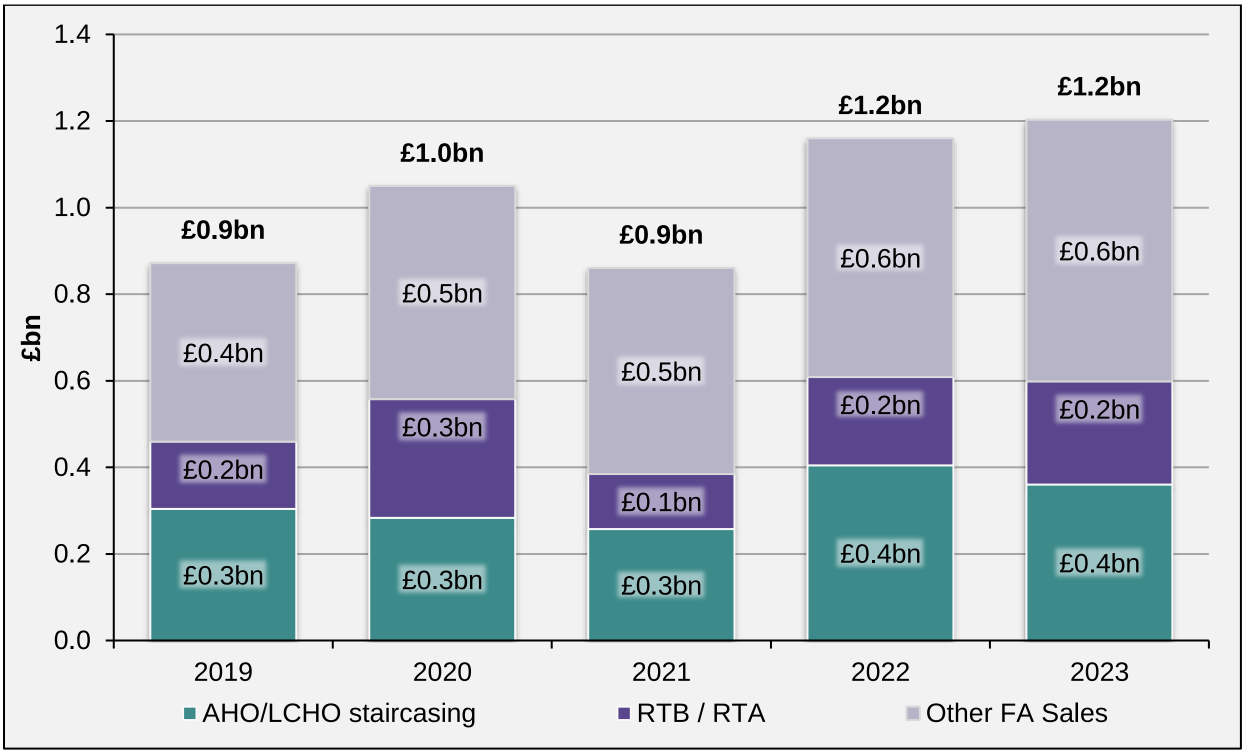
[24] Quarterly survey for Q4 (January to March) 2022 to 2023 - GOV.UK (www.gov.uk)

- LCHO first tranche sales receipts were £2.1bn (2022 £2.0bn) and the contribution was £0.4bn (2022: £0.3bn). The margin on first tranche sales increased slightly to 18% (2022: 16%).
- Outright sale receipts were £1.8bn (2022: £1.7bn) and the contribution was £0.2bn. The margin on outright sales increased slightly to 11% (2022: 10%).

2.71 In respect of outright sales, 88% of the sector's total receipts are reported by just 19 providers. As market conditions change in response to the economic environment, sales exposure remains a key risk for these providers to manage.

2.72 The sector also recognises profit realised on the sale of properties held for rent. Such sales are classified as fixed asset sales and the profit recognised on disposal stood at £1.2bn, a slight increase on 2022.

Figure 11: Profit on fixed asset sales (consolidated)



2.73 The profit recognised on RTB / RTA sales increased from £204m in 2022 to £238m in 2023. However, both the proceeds and surplus recognised on the AHO/LCHO staircasing sales to shared owners dropped by 7% and 11% to £886m and £360m respectively.

2.74 Other fixed asset sales generated a profit of £0.6bn in 2023. This mainly relates to stock transactions between registered providers and the strategic sale of void properties.

3. Financial statements

Table 5: Statement of Comprehensive Income

		Consolidated		Entity	
£ billion	***Notes***	**2023**	**2022**	**2023**	**2022**
Turnover	***2***	24.3	22.8	21.6	20.7
Operating expenditure	***2***	(16.9)	(15.0)	(15.8)	(14.3)
Cost of sales	***2***	(3.4)	(3.4)	(1.9)	(2.0)
Operating surplus/(deficit)	***2***	**4.0**	**4.4**	**3.9**	**4.4**
Gain/(loss) on disposal of fixed assets	***4***	1.2	1.2	1.2	1.2
Operating surplus/(deficit) including fixed asset disposals		**5.2**	**5.6**	**5.1**	**5.6**
Other items	***5***	2.0	1.3	0.1	0.2
Interest receivable		0.2	0.1	0.5	0.3
Interest payable and financing costs	***6***	(3.4)	(3.3)	(3.5)	(3.3)
Movements in fair value	***7***	0.2	0.4	0.3	0.3
Surplus/(deficit) before tax		**4.3**	**4.0**	**2.5**	**3.1**
Taxation		0.0	(0.1)	0.0	0.0
Surplus/(deficit) for the period		**4.3**	**4.0**	**2.5**	**3.1**
Unrealised surplus/(deficit) on revaluation of housing properties		0.1	0.1	0.1	0.1
Actuarial (loss)/gain in respect of pensions	***20***	1.3	1.5	1.3	1.4
Change in fair value of hedged instruments	***7***	0.6	0.4	0.4	0.3
Total comprehensive income for the period		**6.3**	**6.0**	**4.3**	**4.9**

Table 6: Statement of changes in reserves

£ billion	**Income and expenditure reserves**	**Revaluation reserves**	**Other reserves**	**Total**
Consolidated				
Closing balance 2022	***49.7***	***10.9***	***(0.1)***	***60.5***
Restatements	0.0	0.0	0.0	**0.0**
Balance at start of period	**49.7**	**10.9**	**(0.1)**	**60.5**
Surplus/(deficit) for the period	4.3	NA	NA	**4.3**
Other comprehensive income	1.1	0.1	0.7	**2.0**
Transfer from revaluation reserve	0.1	(0.1)		**0.0**
Other transfers	0.0	0.0	0.1	**0.2**
Closing balance 2023	**55.2**	**10.9**	**0.8**	**67.0**
Entity				
Closing balance 2022	***48.3***	***11.8***	***0.1***	***60.2***
Restatements	0.0	0.0	0.0	**0.0**
Balance at start of period	**48.3**	**11.8**	**0.1**	**60.1**
Surplus/(deficit) for the period	2.5	NA	NA	**2.5**
Other comprehensive income	1.1	0.1	0.6	**1.8**
Transfer from revaluation reserve	0.1	(0.1)		**0.0**
Other transfers	0.6	0.0	0.2	**0.8**
Closing balance 2023	**52.6**	**11.8**	**0.8**	**65.2**

Table 7: Statement of Financial Position

		Consolidated		Entity	
£ billion	**Note**	**2023**	**2022**	**2023**	**2022**
Fixed assets					
Tangible fixed assets: housing properties at cost & valuation	***8***	183.1	173.3	177.2	168.4
Other fixed assets	***9***	3.1	3.0	2.7	2.6
Investment properties	***9***	7.3	7.4	4.3	4.2
Other investments	***9***	1.8	1.9	3.7	3.8
Total fixed assets		**195.4**	**185.5**	**187.9**	**179.0**
Current assets					
Properties held for sale	***10***	6.0	6.4	2.9	2.8
Trade and other debtors	***10***	2.4	2.2	2.0	1.7
Cash and short-term investments	***10***	6.3	7.9	5.1	6.4
Other current assets	***10***	2.3	2.1	8.9	9.7
Total current assets		**17.1**	**18.5**	**18.9**	**20.6**
Creditors: amounts falling due within one year					
Short-term loans	***12***	2.5	1.9	2.5	1.8
Deferred capital grant: due within one year	***13***	0.6	0.5	0.5	0.5
Other current liabilities	***11***	7.6	6.9	7.8	7.2
Total creditors: amounts falling due within one year		**10.6**	**9.3**	**10.8**	**9.5**
Net current assets/liabilities		**6.5**	**9.2**	**8.1**	**11.2**
Total assets less current liabilities		**201.8**	**194.7**	**196.0**	**190.2**
Creditors: amounts falling due after more than one year					
Long-term loans	***12***	89.8	86.2	68.1	65.5
Amounts owed to group undertakings	***12***	0.5	0.5	19.8	19.8
Finance lease obligations	***12***	0.8	0.6	0.7	0.5
Deferred capital grant: due after more than one year	***13***	39.7	38.5	38.8	38.2
Other long-term creditors	***14***	2.3	3.3	2.0	2.7
Total creditors: amounts falling due after more than one year		**133.2**	**129.1**	**129.5**	**126.7**
Provisions for liabilities					
Pension provision	***20***	0.7	1.9	0.7	1.8
Other provisions	***15***	1.0	0.9	0.7	0.7
Total net assets		**67.0**	**62.8**	**65.2**	**61.0**
Reserves					
Income and expenditure reserve	***16***	55.2	51.1	52.6	49.0
Revaluation reserves	***16***	10.9	11.7	11.8	11.8
Other reserves	***16***	0.8	0.0	0.8	0.1
Total reserves		**67.0**	**62.8**	**65.2**	**61.0**

4. Notes to the accounts

1. Global Accounts methodology

4.1.1 This analysis is based on a database of information derived from housing providers' audited financial statements. The database contains data from the annual account regulatory returns (known as Financial Viability Assessments – FVAs) which must be submitted by providers that own or manage 1,000 or more homes.

4.1.2 Where a provider is a parent of a group structure that produces consolidated financial statements, it submits both an entity and a consolidated FVA.

4.1.3 These regulatory returns are aggregated to produce the Statement of Financial Position (SOFP), Statement of Changes in Reserves and SOCI. The statements and notes within this document are based on the entity and consolidated datasets for 2022/23. Comparative figures for 2021/22 are also provided.

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

Aggregate SOCI

4.1.5 The aggregate SOCI reflects the sum of private registered provider activity for all accounting periods ending between 1 April 2022 and 31 March 2023[25].

Aggregate SOFP

4.1.6 The aggregate SOFP is the sum of individual statements where the financial year-end falls within the period from 1 April 2022 to 31 March 2023[25].

Additional information

4.1.7 Additional information is provided on other activities, selected notes to the financial statements and the number of homes in management.

Changes to the FVA return

4.1.8 Two additional disclosures were added, namely a new line to record the amount of grant received in relation to capitalised major repairs spend, and an additional comments box to give further details of any capital or revenue repairs grant.

[25] The database excludes a regulatory return submitted by one provider with a financial year end of 30 September 2022. The figures would not materially impact this publication.

2. Particulars of turnover, operating expenditure and operating surplus

a. Social housing lettings

4.2.1 Turnover from SHL increased by 7% in the consolidated return and by 5% in the entity return, reaching £17.7bn and £17.3bn respectively. Factors contributing to the small difference between the consolidated and entity figures include turnover from small registered providers with fewer than 1,000 units where these form part of group structures, and social housing letting activity undertaken outside England.

Table 8: Income and expenditure from SHL

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Income				
Rents	15.2	14.2	14.9	14.1
Service charge income	1.7	1.5	1.6	1.5
Net rental income	**16.9**	**15.8**	**16.5**	**15.6**
Capital grant released to income	0.5	0.5	0.5	0.5
Other & revenue grant	0.3	0.3	0.3	0.3
Turnover from SHL	**17.7**	**16.5**	**17.3**	**16.4**
Expenditure				
Management	3.4	3.1	3.4	3.1
Service charge costs	2.3	2.0	2.2	2.0
Routine maintenance	3.0	2.6	3.0	2.6
Planned maintenance	1.3	1.1	1.2	1.1
Major repairs expenditure	0.7	0.6	0.7	0.6
Bad debts	0.1	0.1	0.1	0.1
Depreciation of housing properties	2.6	2.5	2.6	2.5
Impairment of housing properties	0.1	0.0	0.1	0.0
Other costs (including lease costs)	0.4	0.3	0.4	0.4
Expenditure on SHL	**13.9**	**12.4**	**13.6**	**12.3**
Operating surplus / (deficit) on SHL	**3.8**	**4.2**	**3.7**	**4.1**
Void rent loss	*0.3*	*0.3*	*0.3*	*0.3*

4.2.2 Rental income increased by £918m (6%) in the consolidated returns. Rent increases were capped at CPI at September 2021 of 3.1% + 1%. For the rental element of shared ownership units, increases were capped at RPI + 0.5%. A net increase in the overall number of housing units during the year has further increased the level of rental income recorded.

4.2.3 At both consolidated group and entity level, void rent losses remained at elevated levels of £0.3bn, in line with the three-year average of £0.3bn. Providers have experienced increased void repair times due to continued material and labour shortages, a backlog of outstanding properties, alongside delays in new tenant referrals from local authorities.

The increased focus on damp and mould issues towards the end of 2022 also saw a number of providers redirecting resources to manage the surge in demand for responsive repairs.

4.2.4 The highest levels of void rent losses are typically reported by providers with a large proportion of supported housing units, care home units or housing for older people. Void losses relating to supported housing and housing for older people accounted for 39% of total void losses.

4.2.5 Total expenditure on SHL increased by 12% to £13.9bn. The main areas of expenditure that experienced an increase in costs related to management, service charge costs, routine maintenance and planned maintenance.

4.2.6 Total maintenance and major repairs costs (recognised as operating expenditure) increased by 16% in 2023, with 85% of providers reporting an increase in spend compared to 2022. Within this, routine maintenance and planned maintenance expenditure increased by £624m (17%) over the year. On top of the rise in demand for repairs post lockdown, and the catch up of outstanding works, providers have also reported an increase in repairs relating to building safety and damp and mould issues. Expensed major repairs spend also increased by £50m (8%).

4.2.7 Service charge costs increased by £299m (15%), with the corresponding income increasing by £169m (11%). The ratio of service charge income to associated costs dropped slightly to 74% (2022: 77%).

4.2.8 Depreciation charges increased by £141m (6%) over the year, reflecting the continued investment in new and existing properties over recent years. Impairment charges relating to SHL were £89m, £60m higher than in 2022. This was mainly due to an increase in development costs, contractor failure and a one-off cost relating to supported housing. Bad debt charges, including the movement in provisions and amounts written off, were £27m (32%) higher than in the previous year.

4.2.9 Management costs increased by £323m (10%) over the year. 75% of providers reported an increase in management costs relative to 2022, predominantly due to inflationary pressures on energy prices and overheads, and higher costs relating to the rehousing of residents whilst their homes were being rectified. Other costs, including lease payments, increased by £11m (3%).

4.2.10 On a consolidated basis, operating surplus has decreased by £400m (10%), with the operating margin reducing from 25.3% to 21.4%. The margin on an entity basis is not materially different.

b. Other social housing activities

Table 9: Other social housing activities

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
First tranche LCHO sales				
Turnover	2.1	2.0	2.0	2.0
Expenditure / Cost of sales	1.7	1.7	1.6	1.6
Surplus	**0.4**	**0.3**	**0.4**	**0.3**
Other social housing activities				
Turnover	0.9	0.7	1.0	1.1
Expenditure / Cost of sales	1.3	1.1	1.2	1.2
Surplus	**(0.4)**	**(0.4)**	**(0.2)**	**(0.1)**
Total				
Turnover	3.0	2.8	3.0	3.1
Expenditure / Cost of sales	3.0	2.8	2.8	2.9
Surplus	**0.0**	**0.0**	**0.1**	**0.2**

4.2.11 Turnover from first tranche LCHO sales in the consolidated statements increased by 3% (£63m) to £2.1bn (2022: £2.0bn). The margin increased to 18% (2022: 16%), resulting in an overall surplus on sales of £381m (2022: £334m). LCHO sales activity is widespread across the sector, with 75% of providers reporting income from this source. However, it is heavily concentrated amongst a small number of these providers, with four PRPs reporting turnover of over £100m each, accounting for almost 30% of the sector total.

4.2.12 Income from other non-letting social housing activities increased by 17% (£124m) in the consolidated accounts to reach £851m. Costs increased by 17% to £1,269m, resulting in a deficit of £418m (2022 deficit: £361m).

4.2.13 Almost half of the other non-letting social housing income reported by the sector relates to support services. At £406m, income from support services increased compared with 2022 (£389m), however there was also a £47m increase in the overall deficit on this activity, which rose to £72m. Support service income is concentrated in a small number of providers, with 13 PRPs each reporting income in excess of £10m from this source, and in aggregate accounting for almost 70% of the sector total.

4.2.14 Development activity accounted for 55% of the total deficit on other social housing activity. Income of £37m was reported, mainly from development services provided to external organisations. In addition to the overheads relating to these services, total development costs of £266m included latent build defect costs and impairment charges. Over half of the sector's total development services costs were reported by just one provider.

4.2.15 The remainder of other social housing activity in consolidated accounts includes community and neighbourhood services and management services, in addition to a range of other activities. The sector reported income of £408m from these activities (2022: £313m), and an overall deficit of £116m (2022 deficit: £139m).

4.2.16 Turnover from other social housing activities is higher in the entity accounts than at group level, due to the effect of intra-group transactions that are eliminated on consolidation. Entity turnover also includes Gift Aid receipts of £105m (see note 3).

c. Non-social housing activities

Table 10: Non-social housing activities

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Properties developed for sale				
Turnover	1.8	1.7	0.2	0.2
Expenditure / Cost of sales	1.6	1.6	0.2	0.2
Surplus	**0.2**	**0.2**	**0.0**	**0.0**
Other non-social housing activities				
Turnover	1.9	1.8	1.1	1.1
Expenditure / Cost of sales	1.8	1.7	1.0	0.9
Surplus	**0.1**	**0.1**	**0.1**	**0.1**
Total				
Turnover	3.6	3.5	1.3	1.3
Expenditure / Cost of sales	3.4	3.2	1.1	1.1
Surplus	**0.3**	**0.3**	**0.1**	**0.2**

4.2.17 Turnover from properties developed for outright sale increased by £51m (3%) to £1.8bn in the consolidated statements. Sales margins also slightly rose, from 10% in 2022 to 11% in 2023, resulting in an overall surplus of £188m (2022: £168m). Three providers reported an increase in surplus of over £15m each compared to 2022.

4.2.18 Turnover from outright sales included £137m worth of income from bulk sales to other organisations, reported by just five providers. This was an increase of £54m from 2022 and mainly attributable to one provider generating a surplus of £11m.

4.2.19 Outright sale activity is primarily undertaken by non-registered entities within group structures and is therefore materially greater in the consolidated returns. It is also concentrated in a comparatively small number of providers, with only 31% of PRPs reporting any turnover from this activity. 14 providers reported turnover in excess of £50m each, together accounting for over 75% of the overall sector total.

4.2.20 A number of providers deliver units for outright sale through joint ventures, the income and expenditure from which is not separately reported. The net surplus from joint ventures is included in the income statement under “Other items” (see note 5).

4.2.21 Income from all other non-social housing activities increased by 4% (£64m) in the consolidated accounts to reach £1.9bn. Costs also increased by 6% to £1.8bn, resulting in a surplus of £101m (2022 surplus: £132m).

4.2.22 Other non-social housing turnover of £1.9bn is analysed by providers between market rent (£316m; 17%), nursing home provision (£280m; 15%), student accommodation (£91m; 5%), and non-social support service charges (£78m; 4%). However, the bulk of the turnover does not sit within these categories and is disclosed as ‘other’. This category accounted for 59% (£1,101m) of total other non-social housing turnover.

4.2.23 Other non-social activities are concentrated in a small number of specialist or diverse groups; 10 providers each reported income in excess of £20m, and together accounted for almost 60% of the overall sector total of £1,101m. The nature of the non-social housing activity varies between providers, and includes the provision of leisure facilities, property management, land sales, commercial property rental and the provision of care services. In addition to the costs associated with these income streams, other non-social costs which contributed to the deficit of £37m included amortisation and impairment charges, legal costs, and costs relating to the cessation of a pension scheme. This was mainly driven by one provider contributing to over 20% of overall other non-social costs.

3. Gift Aid

4.3.1 Within PRP groups, Gift Aid payments are typically made by a trading subsidiary to a charitable group member, thereby allowing tax relief to be claimed on the amount donated. Gift Aid receipts and payments are eliminated on consolidation in group accounts.

4.3.2 Within entity returns, Gift Aid receipts are included within turnover and disclosed as part of either ‘other social housing’ or ‘non-social housing’ activities. Receipts totalled £196m in 2023, a 15% reduction when compared to the £231m reported in 2022, with one provider accounting for around half of the overall reduction. Gift Aid payments from PRPs to other group members amounted to £31m (2022: £82m).

4.3.3 The Gift Aid receipts recognised in the year include donations from group members participating in development for outright sale, shared ownership first tranche sale and management, and market rent. Providers classified £105m of the total receipts as relating to social housing activity (2022: £140m), with £91m being allocated to non-social housing activities (2022: £91m).

4. Disposal of fixed assets

4.4.1 Based on consolidated returns, total fixed asset sales during the year generated proceeds of £3.1bn, with a surplus of £1.2bn. This is an increase in sales proceeds of 8% (£229m) from 2022, and an increase in surplus of 4% (£43m). The surplus on disposal of fixed assets is calculated by deducting the carrying value of the asset from the sales proceeds. For the majority of providers, the carrying value is equal to the historic cost of the asset, less accumulated depreciation, and therefore this typically results in higher surpluses than with current asset sales.

Table 11: Disposal of fixed assets

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Staircasing				
Proceeds	0.9	1.0	0.9	1.0
Costs of Sales	0.5	0.6	0.5	0.6
Surplus	**0.4**	**0.4**	**0.4**	**0.4**
RTB/RTA				
Proceeds	0.4	0.4	0.4	0.4
Costs of Sales	0.2	0.2	0.2	0.2
Surplus	**0.2**	**0.2**	**0.2**	**0.2**
Other housing property sales				
Proceeds	0.9	0.8	0.8	0.7
Costs of Sales	0.6	0.4	0.5	0.4
Surplus	**0.4**	**0.4**	**0.3**	**0.3**
Sales to other RPs and other				
Proceeds	0.9	0.7	0.8	0.8
Costs of Sales	0.6	0.5	0.5	0.5
Surplus	**0.2**	**0.2**	**0.2**	**0.2**
Total				
Proceeds	3.1	2.9	2.9	2.8
Costs of Sales	1.9	1.7	1.7	1.6
Surplus	**1.2**	**1.2**	**1.2**	**1.2**

4.4.2 Staircasing receipts fell by 7% (£70m), and surpluses by 11% (£44m). Despite the decrease, ten providers had sales over £20m accounting for just over half the staircasing proceeds, and just under half the surplus. Staircasing transactions accounted for nearly a third of the total fixed asset sale receipts generated during the year.

4.4.3 Proceeds from RTB and RTA sales to tenants increased by 10% (£40m) to a total of £434m, and the corresponding surplus increased by 17% to £238m. Sales proceeds were split almost equally between RTB and RTA sales, however RTA sales accounted for 60% of the surplus. RTA sales proceeds were at the highest level recorded since the data was first collected in 2017.

4.4.4 Other housing property sales, including stock rationalisation and the strategic sale of void properties, generated proceeds of £928m (2022: £806m); an increase of 15% compared to 2022. The surplus on this type of sale was £375m (2022: £373m), with 60% of this amount being reported by just ten providers.

4.4.5 Proceeds from sales of housing properties to other registered providers were £655m (2022: £534m) and the corresponding surplus was £201m (2022: £156m). Sales to other RPs were reported by 16 provider groups, with three providers accounting for more than two thirds of the total receipts.

4.4.6 Sales of other assets, including the sale of commercial properties, amounted to £197m in the year (2022: £181m), with a surplus of £28m being achieved (2021: £22m). Over half these sales were reported by just three providers.

5. Other items

Table 12: Other items

	Consolidated		**Entity**	
£ billion	**2023**	**2022**	**2023**	**2022**
Other items	1.9	1.2	0.1	0.2
Share of operating surplus in joint ventures or associates	0.1	0.1	0.0	0.0
Total	**2.0**	**1.3**	**0.1**	**0.2**

4.5.1 Other items consist mainly of gains resulting from business combinations where the acquisition method of accounting has been used[26]. Based on consolidated returns, seven providers reported net gains on business combinations amounting to £1.9bn (2022: 7 providers, £1,2bn), with one transaction accounting for 93% of this amount. The total includes both combinations where a new subsidiary is established, and where another organisation is acquired via a transfer of engagements. The comparable figure for entity returns includes only acquisitions via transfer of engagements and amounts to £54m (2022: £227m).

4.5.2 In consolidated returns, providers account for activity undertaken in jointly controlled entities using the equity method. In the SOCI, income and expenditure are not reported separately; instead, the net surplus or deficit from joint ventures is included as an individual line item.

[26] As public benefit entities, combinations between providers which cannot be classified as a merger are treated either as ‘combinations that are in substance a gift’ or as ‘acquisitions’. The acquiring provider is required to recognise the fair value of the transferring provider in the Statement of Comprehensive Income

4.5.3 The net surplus from joint ventures increased by £9m (10%) to £103m in 2023. A total of 44 PRP groups reported a surplus or deficit from joint venture activity, with five providers accounting for over half of the overall sector surplus. The majority of the surplus from joint ventures is generated through the provision of homes for outright sale.

4.5.4 Providers are not required to report the turnover associated with the net surplus from joint ventures in their audited financial statements, however, it is included as a separate note in FVA returns. For 2023, providers reported a share of turnover from joint ventures of £918m (2022: £793m).

6. Interest payable and finance costs

4.6.1 Total interest and finance costs increased by £84m (3%) in the consolidated statements to a total of £3.4bn. This increase comprised a £361m (11%) rise in interest payable on liabilities, offset by a £215m (52%) decrease in 'other amounts payable' and a reduction of £17m (26%) in defined benefit pension charges.

4.6.2 The increase in interest payable was widespread throughout the sector with 78% of providers reporting an increase compared to 2022. Almost half of the overall increase was reported by just eight providers with an increase of over £10m each. This reflects the high interest rate environment exacerbated by the increased financial pressures of building safety, decarbonisation and maintaining the decent homes standard. Many providers have increased their debt portfolio in order to meet these requirements, whilst continuing to invest in new stock.

4.6.3 Loan breakage costs saw the largest reduction within 'other amounts payable', with a 77% (£194m) decrease to £56m compared to 2022. As the cost of borrowing increased the number of providers refinancing reduced and a total of just 20 providers reported loan breakage costs, compared to 34 providers last year. The primary item within 'other amounts payable' is amortisation of loan premiums and arrangement costs, which amounted to £63m, whereas in 2022 the main item was loan breakage costs.

Table 13: Interest payable and finance costs

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Interest payable on liabilities	3.6	3.2	3.5	3.2
Defined benefit pension charges	0.0	0.1	0.0	0.1
Other amounts payable	0.2	0.4	0.3	0.4
Less: interest capitalised in housing properties	(0.4)	(0.4)	(0.3)	(0.3)
Total interest payable and financing costs	**3.4**	**3.3**	**3.5**	**3.3**

7. Movements in fair value and remeasurements

Movements in the fair value of investment properties

4.7.1 Properties held for market rent or for capital appreciation are categorised as investment properties. They are re-measured annually at their fair value, with any change in fair value being reported in the surplus for the year.

4.7.2 Based on consolidated returns, the fair value of investment properties held by the sector fell by a net total of £59m. This resulted from valuation losses totalling £178m that were reported by 34 providers, partially offset by favourable movements of £118m, reported by 82 providers. One large provider reported a revaluation loss of £85m in relation to market rent properties, without which the sector would have experienced an overall gain. As this activity was carried out in a non-registered entity, the entity level accounts do not include this amount and instead an overall net gain of £35m was reported.

Movements in the fair value of financial instruments

4.7.3 Interest rate swaps and a minority of loans are classified as 'non-basic' or 'other' financial instruments under FRS102 and must be re-measured annually at fair value. Movements in the fair value of financial instruments are included within either the surplus, or, where they meet the conditions for hedge accounting, within other comprehensive income. Whether hedge accounting can be applied or not is determined by the economic relationship between the hedged item and the hedging instrument.

4.7.4 Financial instruments held at fair value through the SOCI increased in value by £239m during the year. Almost three-quarters of this amount was reported by six providers, that each reported fair value gains of over £10m.

4.7.5 In respect of hedged financial instruments, providers reported a favourable movement of £664m for the year, with one provider accounting for over 20% of this amount. The majority of hedging instruments within the sector are variable rate to fixed-rate interest rate swaps, and the liability associated with these reduces as swap rates increase. Over the year the 15-year swap rate increased from 1.58% in March 2022 to 3.39% in March 2023.

8. Fixed assets – housing properties

Table 14: Fixed asset housing properties

£ billion	Consolidated	Entity
Housing properties at cost or valuation		
Properties held at cost	195.1	191.9
Properties held at valuation	1.1	1.1
Total properties held at start of period	**196.2**	**193.0**
Additions		
Additions (new properties)	10.2	9.7
Additions (existing properties)	2.8	2.7
Disposals	(1.7)	(1.7)
Transfers and reclassifications[27]	4.2	0.3
Revaluation and other	0.0	1.6
Total properties held at end of period	**211.8**	**205.7**
Depreciation and impairment		
Total depreciation and impairment at start of period	***26.3***	***26.2***
Depreciation and impairment charged in period	2.8	2.7
Released on disposal	(0.5)	(0.5)
Revaluation and other	0.0	0.0
Total depreciation and impairment at end of period	***28.6***	***28.5***
Net book value at end of period:		
Properties held at cost	181.8	175.9
Properties held at valuation	1.3	1.3
Total net book value	**183.1**	**177.2**
Net book value at start of period	**170.0**	**166.8**

4.8.1 The consolidated results for the sector reported an increase of £15.5bn over the year in the gross book value of housing properties, to reach a total of £211.8bn at the end of March 2023. Movements during the year included:

- £10.2bn of investment in new supply
- £2.8bn worth of works to existing social housing properties
- Stock disposals with a book value of £1.7bn
- Transfers (including transfers of engagements) from other RPs of £4.6bn less reclassifications of £0.3bn

4.8.2 Investment in new supply for social housing properties increased by £1.1bn (12%), from £9.2bn to £10.2bn, attaining peak levels reported in 2020 prior to the pandemic. Investment in new properties is fairly concentrated in a small number of providers, with

[27] Includes mergers where the acquisition method is used and the units are transferred/acquired during the year.

19 providers reporting investment in excess of £150m each and together accounting for 52% of the £10.2bn total.

4.8.3 Works to existing properties, which includes capitalised major repairs spend, increased by £0.6bn compared to 2022, exceeding all pre-pandemic levels. Capitalised repairs spend increased by 27%, with the majority of providers reporting an increase. A quarter of the spend in the year was accounted for by six providers. Eleven providers reported an increase in spend of over £15m each, accounting for just over half the overall increase.

4.8.4 Merger activity resulted in a £1.9bn (2022: £2.2bn) increase in transfers from other registered providers and reclassifications. A total of £2.3bn was added to the sector's cumulative depreciation and impairment balance, resulting in a net book value of £183.1bn at March 2023. This represents an increase of £13.2bn[28] (8%) during the year.

9. Other fixed assets and investments

Table 15: Other fixed assets

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Tangible fixed assets: other	2.0	2.0	1.8	1.8
HomeBuy loans receivable	0.6	0.6	0.5	0.6
Intangible fixed assets and goodwill	0.5	0.4	0.4	0.3
Total	**3.1**	**3.0**	**2.7**	**2.6**

4.9.1 Based on consolidated returns, other fixed assets were valued at £3.1bn, an increase from the previous year. This consists mainly of tangible fixed assets other than housing properties, which account for 64% of the total and includes items such as office buildings and IT equipment. The increase is mainly attributable to one provider with a large increase in intangible fixed assets and goodwill arising from an acquisition earlier in the year, accounting for almost half of the overall increase.

Table 16: Investments

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Investment properties	7.3	7.4	4.3	4.2
Investment in joint ventures	1.2	1.2	0.2	0.2
Investment in associates	0.1	0.1	0.1	0.0
Investment in subsidiaries	0.0	0.0	2.9	3.0
Other investments	0.5	0.6	0.6	0.6
Total	**9.1**	**9.3**	**8.0**	**8.0**

[28] Based on the restated net book value at the start of the period from FVA returns submitted in 2023.

4.9.2 Total investments reported at consolidated level reduced by £0.1bn (2%) in the year. This was mainly due to a decrease in investment properties of £88m, attributable to three providers reducing their investment properties by over £75m each. This was offset by one for-profit provider with the largest increase in investment properties within the year.

4.9.3 Investment in joint ventures remained in line with the previous year at £1.2bn at group level. A total of 44 out of 202 groups in the dataset reported investments in joint ventures, with two large providers dominating the sector and accounting for 44% of the overall total. The value of investments in joint ventures is substantially lower in the entity level accounts as much of the activity is managed through non-registered entities.

4.9.4 The total value of investments in subsidiaries reported in the entity level accounts decreased by £0.1bn (3%) to £2.9bn. This was mainly due to a large drop in investment by one provider, who accounted for 83% of the total reduction.

4.9.5 Other investments at consolidated level decreased by £41m (7%) to £0.5bn. This was mainly due to the reclassification of investment activity and the maturity of a fixed term deposit.

Table 17: Investment properties

	Consolidated	Entity
£ billion	**2023**	**2023**
Opening valuation restated	**7.4**	**4.1**
of which under construction	*0.2*	*0.1*
Additions	0.4	0.3
Transfers & reclassifications	0.0	0.1
Movement in fair value	(0.1)	0.0
Disposals	(0.4)	(0.3)
Closing valuation	**7.3**	**4.3**
of which under construction	*0.3*	*0.0*

4.9.6 The value of investment properties reported in consolidated accounts decreased by £49m (1%) to £7.3bn.

4.9.7 One for-profit provider has recognised its social housing properties as Investment Properties. Although this deviates from the Housing SORP (Statement of Recommended Practice), it is permissible under the Financial Reporting Council (FRC) rules, due to it holding the properties for capital appreciation. This provider accounts for 5% of the £7.3bn total and represents over half of total additions.

4.9.8 The total value of investment properties relates to both housing properties developed for market rent and commercial properties and includes £0.3bn relating to properties under construction. These activities are heavily concentrated within a small number of providers, with 12 providers reporting balances of more than £100m, accounting for

75% of the sector total. At £4.3bn, the value disclosed in the entity accounts is significantly lower, reflecting the use of unregistered entities for this activity.

4.9.9 Total disposals amounted to £0.4bn which were heavily concentrated amongst four providers, each with disposals in excess of £60m, accounting for 83% of the total.

10. Current assets

4.10.1 Total current assets held by consolidated groups decreased by £1.4bn over the year (8%), to £17.1bn. At entity level, a decrease of £1.7bn (8%) was reported.

Table 18: Total current assets

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Properties held for sale	6.0	6.4	2.9	2.8
Trade and other debtors	2.4	2.2	2.0	1.7
Cash and short-term investments	6.3	7.9	5.1	6.4
Other current assets	2.3	2.1	8.9	9.7
Total current assets	**17.1**	**18.5**	**18.9**	**20.6**

4.10.2 The total value of properties held for sale is considerably higher at consolidated level (£6.0bn compared to £2.9bn in entity returns). This reflects market sale developments undertaken by unregistered entities (51% of the consolidated figure relates to market sale development, compared to just 10% in entity accounts).

4.10.3 Of the £6.0bn total at consolidated level, 80% relates to land and properties under construction rather than unsold completed properties. Properties held for sale are concentrated in a small number of providers; a total of 15 provider groups reported values in excess of £100m, and between them accounted for 66% of the sector total. The £327m decrease is driven by three providers, with a reduction of over £100m each.

Table 19: Cash and short-term investments

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Cash	5.7	7.0	4.7	5.7
Short-term investments	0.6	0.9	0.4	0.7
Total	**6.3**	**7.9**	**5.1**	**6.4**

4.10.4 Based on consolidated returns, cash and short-term investments decreased by £1.6bn (20%) to £6.3bn. Reducing cash balances were widespread in the sector with two thirds of providers reporting this. Cash held by the sector decreased by 19% to £5.7bn with ten providers accounting for 70% of the decrease. Although around a quarter of providers have short-term investments these decreased by 27% to £0.6bn at consolidated level, with two providers reporting nearly 80% of the decrease.

4.10.5 At both consolidated and entity level cash balances are at levels not seen since 2017, with the decrease reflecting spend on developing new homes together with the increased spend on existing stock.

Table 20: Other current assets

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Amounts owed by group undertakings	0.1	0.0	7.2	8.2
Refurbishment obligations	0.5	0.5	0.5	0.5
Fair value of derivative financial instruments	0.1	0.1	0.1	0.1
Other debtors due after one year	0.7	0.7	0.3	0.3
Any other current assets	1.0	0.7	0.8	0.6
Total	**2.3**	**2.1**	**8.9**	**9.7**

4.10.6 Amounts owed by group undertakings make up over 80% of other current assets in entity level accounts. Of the £7.2bn total reported, almost 75%% is attributable to 12 associations reporting balances in excess of £100m. Amounts owed by group undertakings are eliminated on consolidation in group accounts. The small balance reported at consolidated level relates to groups where there is an unregistered parent.

4.10.7 Refurbishment obligations decreased by around £75m at both consolidated and entity level to £0.5bn, with one provider accounting for almost 30% of the total. This balance relates to cases where a provider has entered into an agreement with a local authority to undertake refurbishment on transferred stock.

4.10.8 The fair value of derivative financial instruments remained at £0.1bn in both the consolidated group and entity accounts. This is reported by providers making use of freestanding interest rate swaps or currency hedges, where the value of the cash flows due to the provider is greater than those due to the counterparty. In 2023 returns, there were 14 provider groups reporting a derivative financial instrument current asset.

11. Other current liabilities

4.11.1 Total other current liabilities, as reported in consolidated accounts, increased by £0.7bn (9%) over the year, largely due to a £0.4bn increase in accruals and deferred income.

4.11.2 The largest item is accruals and deferred income, which represents 47% of the consolidated group total. The increase was widespread with almost 65% of providers reporting an increase compared to 2022.

Table 21: Other current liabilities

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Trade creditors	1.0	0.8	0.7	0.6
Rent and service charges received in advance	0.7	0.6	0.7	0.6
Amounts owed to group undertakings	0.0	0.0	1.8	1.7
Recycled Capital Grant Funds	0.4	0.4	0.4	0.4
Accruals and deferred income	3.6	3.2	2.6	2.3
Other	1.9	1.8	1.6	1.5
Total	**7.6**	**6.9**	**7.8**	**7.2**

4.11.3 ‘Other’ current liabilities have increased to £1.9bn in consolidated group accounts. This category includes various miscellaneous creditor balances, including development related creditors, grant received in advance and leaseholder sinking funds.

12. Debt

4.12.1 At consolidated group level total debt in the sector increased by £4.4bn (5%) in the year to £93.7bn. In entity returns debt increased by £3.5bn (4%) to £91.2bn.

Table 22: Debt

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Short-term loans	2.5	1.9	2.5	1.8
Long-term loans	89.8	86.2	68.1	65.5
Amounts owed to group undertakings	0.5	0.5	19.8	19.8
Finance lease obligations	0.8	0.6	0.7	0.5
Total	**93.7**	**89.2**	**91.2**	**87.6**

4.12.2 Quarterly Financial and Risk Survey data collected in the year to March 2023 shows that just over half of new finance agreed in the year was raised in the form of bank loans with the remaining mainly raised on the capital markets (43%).

4.12.3 The amount of short-term debt held in the consolidated accounts increased by £0.6bn (31%) with 87% of the net increase attributable to two providers. Long-term loans have increased by £3.6bn (4%) to reach £89.8bn. A total of 14 providers reported an increase in long-term debt of £0.1bn or more.

4.12.4 The large difference in long-term loan balances at consolidated group level compared to entity level reflects the practice of raising finance within designated treasury vehicles. Amounts owed to group undertakings are eliminated on consolidation in group accounts, except where the PRP has an unregistered parent. Two providers reported unconsolidated balances at group level, with one provider accounting for over 90% of the £0.5bn total.

13. Capital grant

4.13.1 At consolidated group level, the total capital grant reported within creditors (due within one year and after one year) increased slightly to £40.3bn. The transactions in the year included the following:

- New grant totalling £1.7bn was received during the year.
- Grant of £491m was amortised and recognised in income. The majority of housing properties are held at cost with deferred capital grant being held as a creditor in the SOFP and released to income over the useful life of the asset (the accrual model).
- A net total of £129m grant was released on disposal of housing properties, which includes balances transferred to RCGF. Other movements gave a net total of £64m grant.

14. Other long-term creditors

4.14.1 At consolidated group level, other long-term creditors have decreased by £1.0bn (31%) to £2.3bn, driven by a reduction in the fair value of derivative instruments. At entity level, a decrease of £0.7bn (24%) has been reported.

Table 23: Other long-term creditors

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Fair value derivative financial instruments	0.4	1.2	0.3	0.9
HomeBuy grant	0.3	0.3	0.3	0.3
RCGF	0.7	0.7	0.7	0.7
Other	0.9	1.1	0.8	0.8
Total	**2.3**	**3.3**	**2.0**	**2.7**

4.14.2 A total of 35 groups disclosed derivative financial instruments at fair value as a long-term creditor. These are mainly providers that have utilised standalone interest rate swaps to fix the interest payable on variable rate debt, or in a minority of cases, where currency swaps have been utilised to fix the exchange rate on interest payable in a currency other than Sterling. A liability arises when the value of cash flows due to the counterparty is greater than those due to the provider. 46% of the sector total is reported by four providers that have recognised a liability in excess of £20m.

4.14.3 The total liability reported in consolidated group accounts in respect of derivative financial instruments has decreased by £0.8bn (69%) since 2022. For most providers utilising vanilla interest rate swaps, the liability decreases as interest rates rise, and the decrease from 2022 reflects the rise in swap rates experienced over the year, due to a rise in interest rates.

15. Provisions

4.15.1 The provision reported in respect of pension liabilities is covered in Note 20 Pensions.

4.15.2 Based on consolidated returns, other provisions disclosed by the sector increased by £0.1bn (11%) to £1.0bn. Of this, £0.5bn (2022: £0.4bn) relates to obligations to undertake refurbishment work where a stock transfer provider has entered into an agreement with a local authority. Providers must report both a payment in advance (creditor) and a prepayment (debtor), the latter is reported within current assets (see note 10). The increase in the refurbishment provision since 2022 is due to the reclassification of balances previously included within long-term creditors, rather than an actual increase in liability over the year.

16. Reserves

4.16.1 The total reserves within the consolidated group accounts (Table 6) increased by 7% during the year to £67.0bn (entity: 7%, £65.2bn). The majority of this increase relates to the annual surplus recognised in the year.

4.16.2 Most reserves are not 'cash backed' as the surpluses transferred to the SOFP are reinvested in providers' businesses, including major repairs of existing stock and the development of new homes.

4.16.3 Based on consolidated returns, the income and expenditure reserves increased by 8% to £55.2bn and the revaluation reserve reduced by 7% to £10.9bn. Other reserves, as reported in the SOFP (Table 7) are further broken down in Table 24 below.

Table 24: Other reserves

	Consolidated		**Entity**	
£ billion	**2023**	**2022**	**2023**	**2022**
Restricted reserves	0.5	0.4	0.5	0.4
Cashflow hedge reserves	(0.1)	(0.8)	(0.1)	(0.6)
Other reserves	0.5	0.4	0.4	0.4
Total	**0.8**	**0.0**	**0.8**	**0.1**

4.16.4 A total of 36 consolidated groups have applied hedge accounting in respect of interest rate swaps and hold a balance in a cashflow hedge reserve. Half of these balances were negative, however the sector aggregate increased by £0.6bn, reflecting the favourable movement in valuations linked to interest rates.

4.16.5 Aggregate restricted and other reserves increased by a combined £0.2bn. Within this, £0.1bn of the increase relates to shares issued by a for-profit provider.

17. Operating leases

4.17.1 The total amount of future obligations under operating leases disclosed in the financial statements has increased by £0.1bn (3%) to £2.0bn. There are three providers with operating lease commitments in excess of £200m, together accounting for 54% of the total.

Table 25: Operating leases

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Amounts payable not later than one year	0.2	0.2	0.2	0.2
Amounts payable between one and five years	0.5	0.5	0.5	0.5
Amounts payable later than five years	1.2	1.2	1.3	1.2
Total	**2.0**	**1.9**	**2.0**	**1.9**

4.17.2 One provider operating a lease-based business model accounts for 32% (£0.6bn) of the total operating lease obligations.

18. Capital commitments

4.18.1 As a note to published accounts, providers must disclose the value of contracts for capital expenditure that are not provided for in the primary financial statements. In addition, they must also disclose the value of capital expenditure that has been approved by the board but not contracted for.

Table 26: Capital commitments

	Consolidated		Entity	
£ billion	**2023**	**2022**	**2023**	**2022**
Expenditure contracted but not accounted for	22.4	21.2	18.6	17.8
Expenditure approved but not contracted for	18.3	20.2	14.5	15.4
Total	**40.8**	**41.4**	**33.1**	**33.1**

4.18.2 Based on consolidated returns, future capital expenditure contracted for has increased by 6% to £22.4bn. The value of capital expenditure approved but not yet contracted for has decreased by 9% to £18.3bn. This resulted in total capital commitments decreasing by 1% to £40.8bn overall.

4.18.3 Future capital expenditure commitments are concentrated in a small number of provider groups. 13 providers disclosed capital commitments in excess of £750m each; together these accounted for 47% of the £40.8bn total.

19. Homes owned and managed

Table 27: Social housing units owned

Unit numbers ('000s)	Consolidated	Entity
2022 closing units owned	**2,770**	**2,738**
Restatements	(32)	(28)
Opening units owned	**2,738**	**2,710**
Units developed	53	52
Units sold/demolished	(15)	(15)
Transfers	39	17
Other movements	2	11
Closing units owned	**2,817**	**2,776**
Units managed but not owned	52	73
Units managed and/or owned	**2,870**	**2,849**

4.19.1 Based on consolidated returns, the total number of units owned increased by 47,000 (2%) to 2,817,000. This includes the development of 53,000 new social units; a 7% increase on the 49,000 units completed in 2022. These additional units were partially offset by 15,000 units that were lost from the sector through either sale or demolition.

4.19.2 At consolidated level, restatements between the 2022 and 2023 returns result primarily from merger activity where units included in the 2022 closing total are not shown in the 2023 opening total. Where this is the case, the units will instead be included in the 'transfers' line of the acquiring provider following the completion of the merger. The majority of this total relates to two separate mergers, with one of these accounting for 97% of the 32,000 total restatements.

4.19.3 In total, providers also reported a further 52,000 social units which they manage on behalf of another organisation but do not own (2022: 54,000). These units are concentrated in a small number of providers, with the top ten accounting for almost 60% of the total.

4.19.4 At entity level, the number of units owned is slightly lower than at consolidated level. The majority of the difference relates to a small number of provider groups where the consolidated returns also include entities operating outside of England. There are also a number of small subsidiary PRPs that own or manage less than 1,000 units and are therefore not required to submit an FVA, however are still included at consolidated level.

4.19.5 The number of non-social homes owned or managed in consolidated returns is significantly higher than that included in entity returns. This reflects the extent to which non-social housing activity, such as market rent, is delivered in non-registered entities within group structures.

4.19.6 Based on consolidated returns, 2,000 new non-social rent units were developed or acquired in the year. Around a third of total non-social units are managed on behalf of other organisations.

Table 28: Non-social housing units owned and managed

Unit numbers ('000s)	**Consolidated**	**Entity**
2022 closing units	**90**	**44**
Restatements	3	(2)
Opening units	**93**	**42**
Units developed	2	2
Units sold / demolished and other	(1)	(1)
Transfers and other movements	(3)	4
Closing units	**91**	**46**

4.19.7 In addition to the note on non-social housing units, the FVA return includes disclosures relating to the number of outright sale units developed and sold. Based on consolidated returns, 4,800 new outright sale units were completed in the year. In total 51 providers reported outright sale development activity with 16 completing more than 100 units and accounting for over 80% of the total.

20. Pensions

4.20.1 In 2023, based on consolidated returns, an overall pension provision liability of £0.7bn was reported, a decrease of £1.2bn (64%) compared to the overall liability reported in 2022 of £1.9bn.

4.20.2 Actuarial gain or loss in respect of the revaluation of defined benefit pension schemes is reported in other comprehensive income and can arise as a result of movements in underlying actuarial assumptions and changes in the value of plan assets. These include projected changes in inflation, future salary increases, a discount rate linked to bonds and mortality assumptions in relation to how long a pension is expected to be paid.

4.20.3 Actuarial gains and losses on pension schemes can therefore fluctuate year-on-year. In 2023, based on consolidated returns, an overall actuarial gain of £1.3bn was reported; a slight decrease of £0.2bn compared to the gain reported in 2022 of £1.5bn. This gain was however more concentrated, with a mix of gains and losses being reported across the sector in 2023, compared to nearly all providers reporting an actuarial gain in 2022.

4.20.4 Where providers reported an actuarial gain in 2023, this was driven by gains on remeasurement of plan obligations, often influenced by changes to underlying financial assumptions, with discount rates being highlighted by some providers as a particular driver. Where actuarial gains resulted in an overall plan surplus, restrictions on this surplus were often seen, to restrict the surplus to that which is able to be recovered; often netting down the overall level of gain seen.

5. Annex – Financial forecasts

Financial Forecasts

5.1 This section of the report provides an overview of data submitted to the regulator in relation to providers' current business plans.

Background

5.2 Financial forecast returns (FFRs) are collected from all private registered providers owning and/or managing more than 1,000 units. The returns set out the financial elements of providers' business plans in a standardised form and include 30-year projections of the key financial statements plus further details of development plans and the key financial assumptions used.

Context

5.3 The data in this report is based on the 202 FFRs submitted in June 2023 and focusses on the first five years of those plans, that is the period from April 2023 to March 2028. It also draws on the submissions from previous years to identify some key long-term trends. Business plans are considered commercially sensitive and therefore the dis-aggregated data source will not be made publicly available.

5.4 Providers' business plans represent their view of a range of key factors at a given point in time. As such there can be substantial changes made to forecasts between years.

5.5 Changes in comparison to the 2022 forecasts reflect the impact of the higher inflation and interest rate environment that providers are now operating in. These factors were only beginning to emerge when the 2022 business plans were developed. Two key factors which have impacted the 2023 forecasts are higher inflation and rising interest rates.

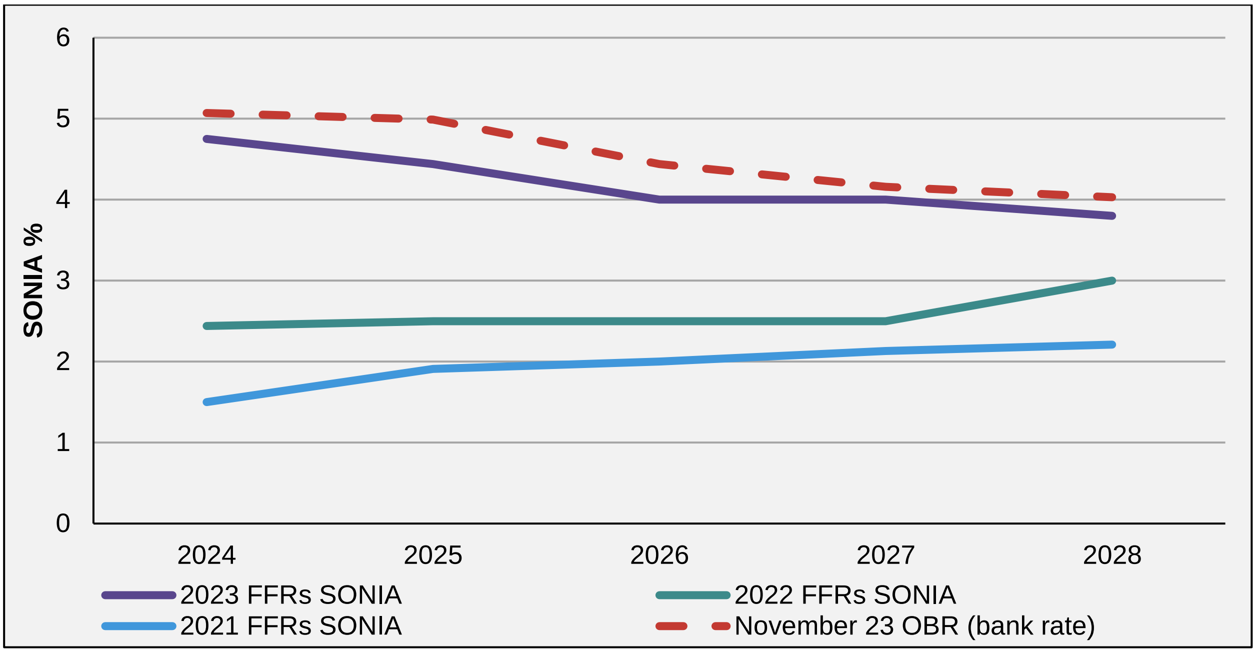
5.6 Social housing rents are linked to the previous September's CPI meaning that they respond more slowly to rising inflation than costs do. For the year ending March 2022, annual CPI inflation was 7% whereas the rent increase for 2022/23 was based on the previous September CPI figure of 3.1% plus 1%. In addition, the government imposed a 7% cap on rent increases for 2023/24 whereas inflation for the year ending March 2023 was 10.1%[29]. This has impacted on forecast margins by increasing costs faster than income.

5.7 Interest rate assumptions have increased sharply in comparison to previous business plans. The 2023 business plans were submitted in June and based on projections from earlier in the year. The second half of the year saw the Bank of England base rate

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

increase to 5.25% by August 2023. The chart below illustrates the degree of change between 2022 and 2023 business plan assumptions and provides a further comparison against the latest projection.

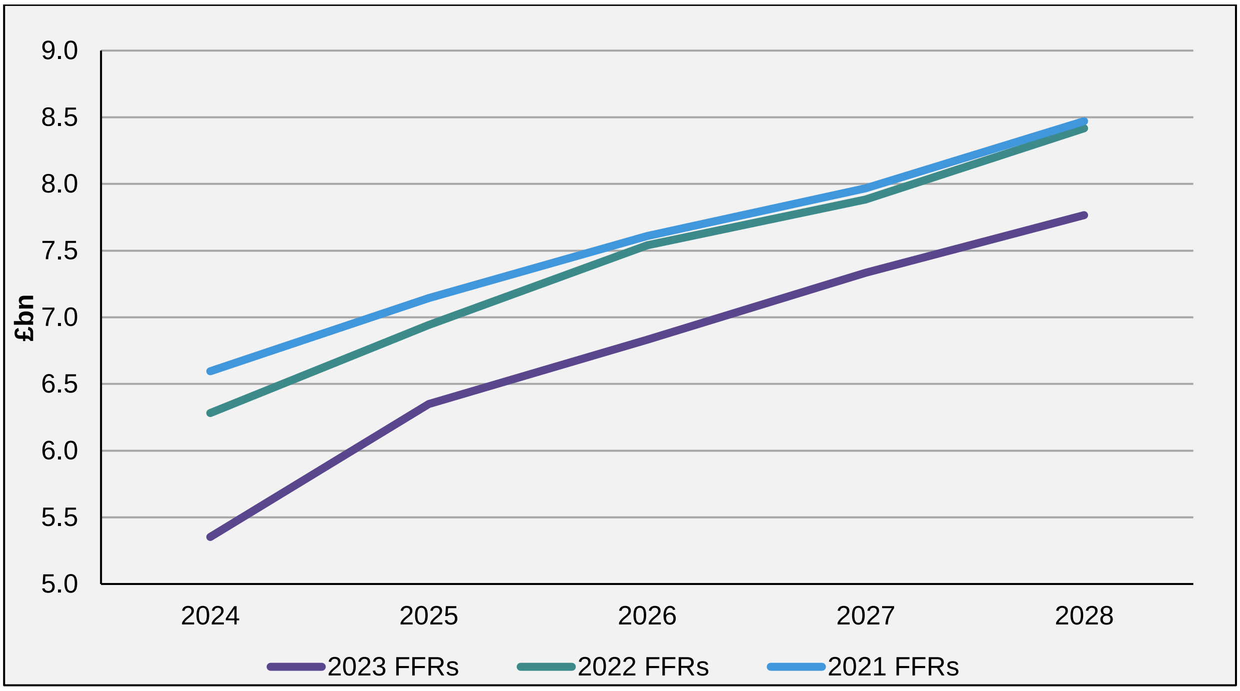
Figure 12: Median interest rate assumptions and central forecast (Sterling Overnight Index Average (SONIA))



Impact on financial metrics

5.8 The impact of costs rising more rapidly than income is illustrated by the reduction in forecast operating surplus as shown in the chart below.

Figure 13: Operating surplus



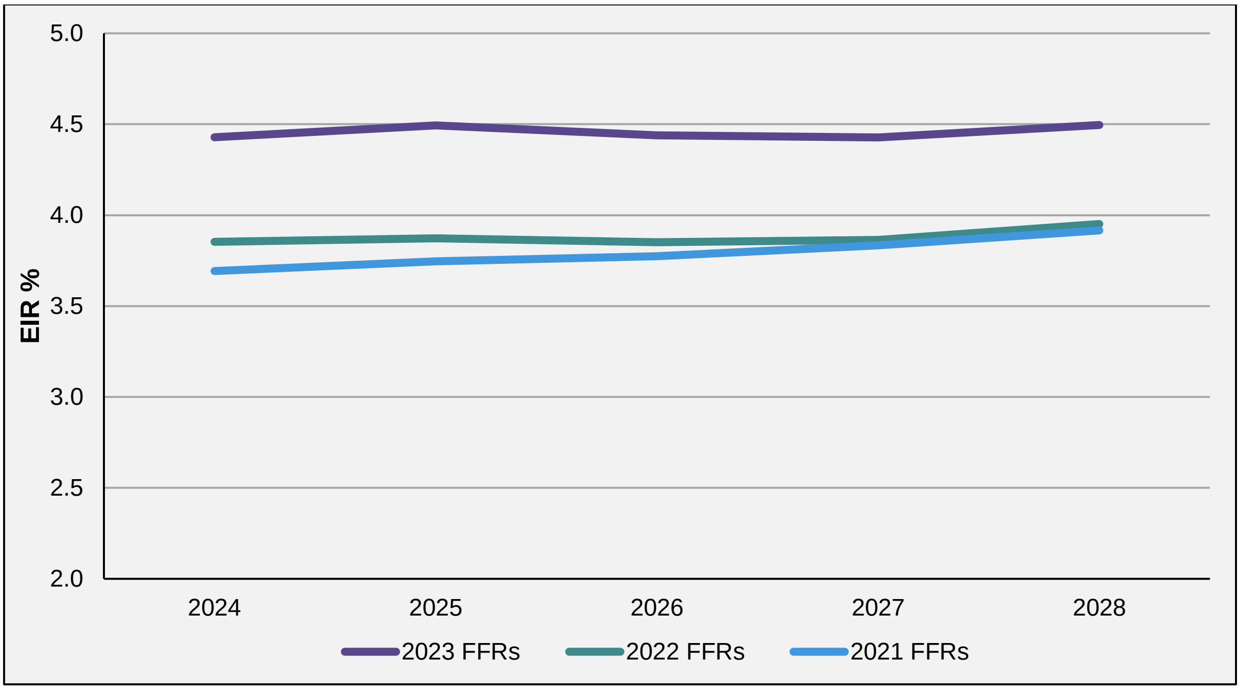
5.9 Margins have reduced with the sector aggregate over the first five forecast years at 21%, down from 23% in the previous set of forecasts. The margin on social housing letting activity alone is slightly higher at 27% (2022, 29%).

5.10 The headline social housing cost per unit over the first five forecast years is up 11% compared to the previous business plans at £5.8k per unit per year. Of this, £3k per year is expenditure on repairs and maintenance.

5.11 In recent years spend on repairs and maintenance has been increasing significantly faster than the general rate of cost inflation indicating that providers were responding to the various challenges around stock condition by including additional investment in their business plans. The increase in spend in latest business plans is broadly in line with higher inflation projections. This suggests that the cost of delivering repairs has increased, rather than the volume of work included in forecasts. Over the next five years providers are projecting average spend on repairs and maintenance of £9bn.

5.12 Rising interest costs are a key factor in the business plans this year. Although most of the sector's drawn debt is held at fixed rates, a total of £19.8 billion (21%)[30] will be impacted by fluctuations in interest rates in the short term. In addition to this, the business plans are based on agreeing £44bn in new facilities in the first five years which is a combination of refinancing existing debt and additional facilities. The increased cost of borrowing will raise the cost of servicing that debt. The impact of this is seen in the chart below which shows the marked shift in the effective interest rate[31] in the latest plans.

Figure 14: Effective interest rate

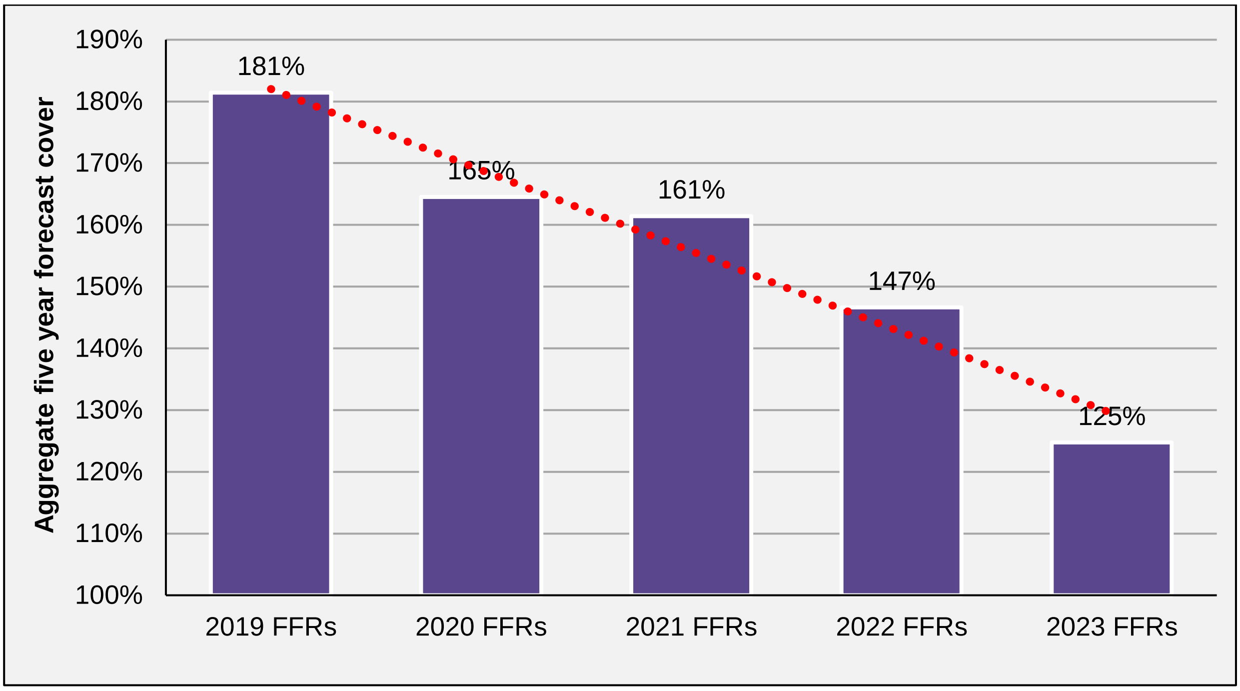


[30] Quarterly survey for Q4 (January to March) 2022 to 2023
[31] Interest payments divided by total debt.

5.13 Total interest payments across the first five years of plans are up £3.1bn (15%) in comparison to the previous plans and are a major factor in deteriorating interest cover.

5.14 The combined impact of reduced margins and increased interest costs has contributed to a continuation of the trend of weakening interest cover across the sector. EBITDA MRI[32] interest cover is a key measure of providers' ability to cover finance costs from operating income. The chart below shows the sector aggregate results for the first five forecast years over the last five sets of annual FFR submissions.

Figure 15: Five year forecast aggregate EBITDA MRI interest cover



5.15 Sector aggregate interest cover over the first five forecast years has fallen to 125%. The annual profile shows that within this period aggregate interest cover is forecast to dip again in 2024 before gradually increasing to 138% by 2028. As a result, individual providers have less financial headroom than in the recent past and their capacity to absorb further downside risk is reduced.

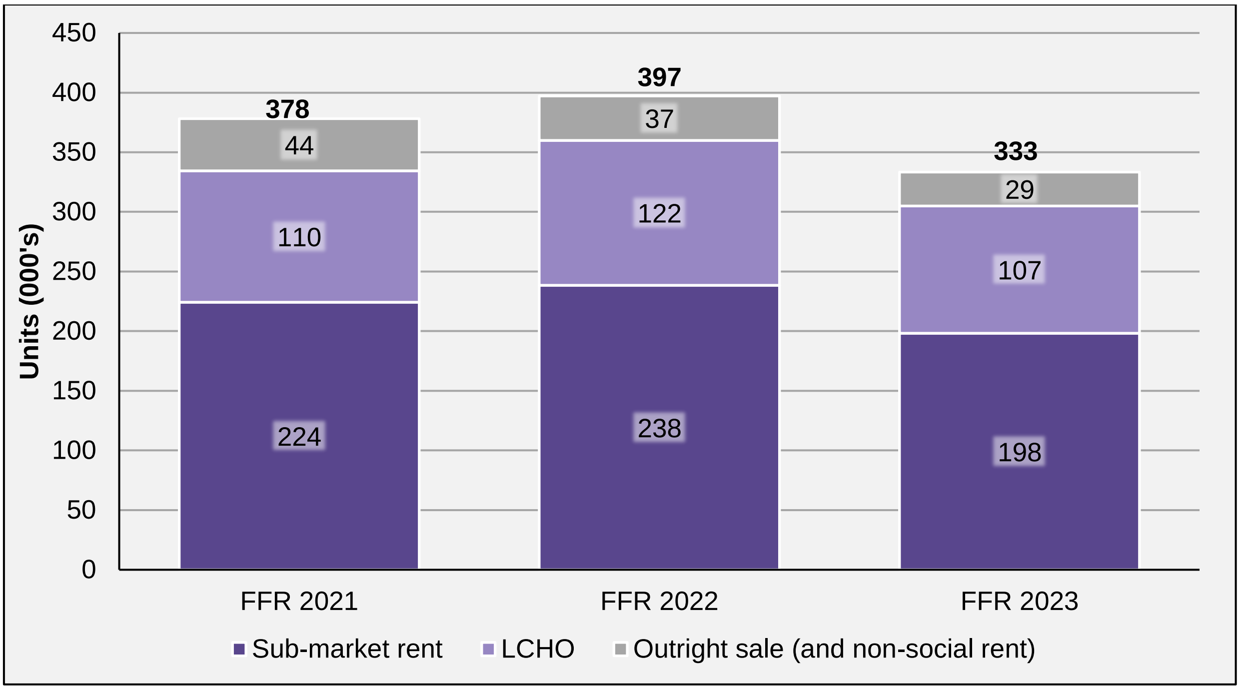
Impact on development and debt

5.16 The combination of tightening financial headroom and the increased cost of borrowing has resulted in providers making trade-offs in their latest business plans. For example, some providers are pulling back on their development forecasts. As shown in the chart below, the number of units forecast to be delivered over the first five years of plans has decreased by 64,000 (16%), while remaining above historic delivery levels.

[32] Earnings Before Interest Taxation Depreciation and Amortisation, Major Repairs Included.

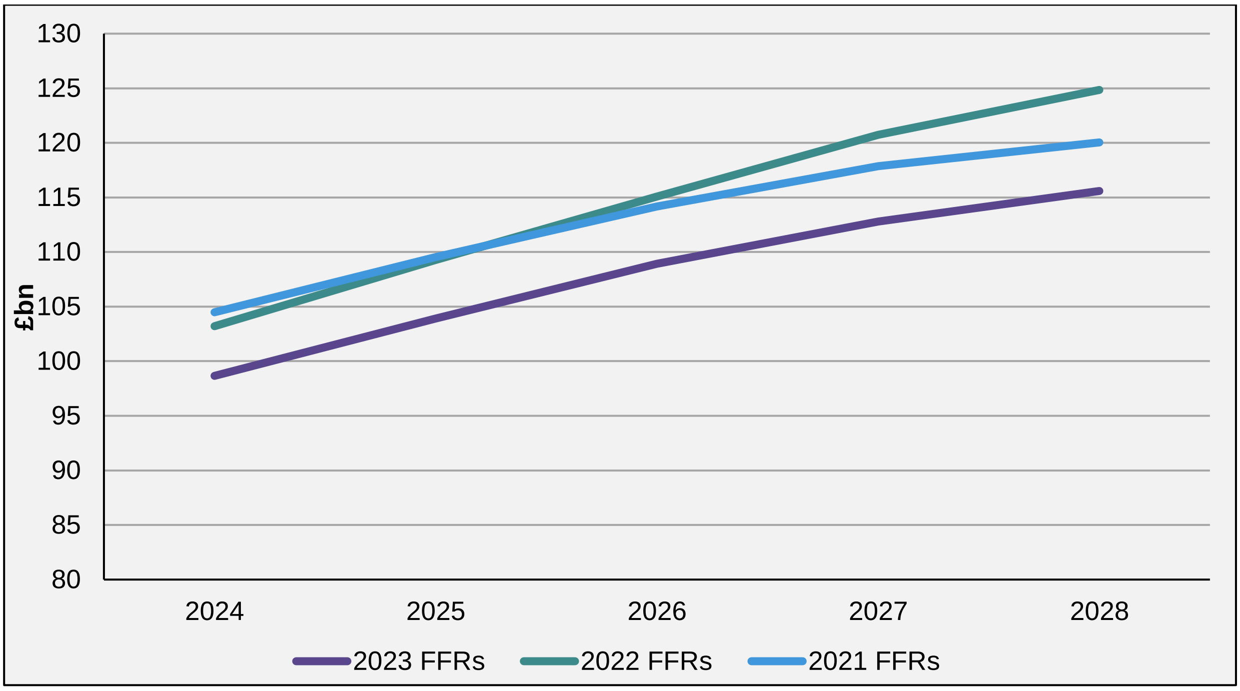
Proportionally the largest drop is amongst units developed for outright sale which is down 23%.

Figure 16: Five-year forecast development (units)



5.17 The reduction in development in plans results in a reduced funding requirement. Peak debt falls to £116bn, down £9bn (7%) from £125bn in the 2022 forecasts. Projected indebtedness also shows a decrease as shown in the chart below. This also reduces forecast interest payments acting as a mitigating factor in the interest cover calculation.

Figure 17: Total debt



Conclusions

5.18 The latest financial forecasts reflect the substantial changes in economic conditions since the previous set of forecasts were prepared. The combination of increasing investment, high inflation and increased borrowing costs has led to reduced financial headroom. This has resulted in a reduction in the development plans of some providers thereby reducing future funding requirements and finance costs.

5.19 Since these plans were produced, interest rates have continued to rise and are predicted to stay higher for longer. This may lead to further reductions in financial headroom and development plans in the next round of business plans.

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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

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