



SOCIAL HOUSING FINANCIAL STATE OF THE SECTOR FY20/21

Presenting the definitive headline
financial results from the Vantage
Global Accounts Plus analysis

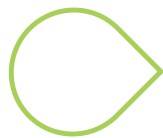


OCTOBER 2021

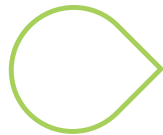
CUSTOMER FIRST

TACKLING THE RISE IN COMPLAINTS AND DRIVING UP CUSTOMER EXPERIENCE THROUGH SECTOR COLLABORATION

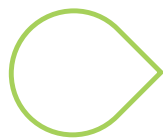
Through knowledge sharing, q&a with customer experience experts and a series of focused roundtable workshops, our aim is to facilitate a sector wide response to customer complaints and satisfaction. Themes include:



BASELINING, DATA INSIGHTS
& SUCCESS MEASUREMENT



OMBUDSMAN AND
REGULATOR ALIGNMENT



ACCOUNTABILITY, SKILLS
AND RESOURCE PLANNING

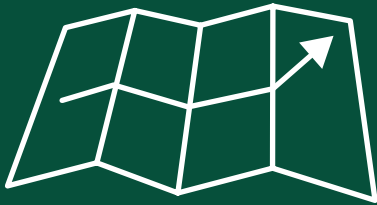


CULTURE, SYSTEMS
AND COMMUNICATION

We are currently accepting applications
to the programme to commence in early 2022.

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*This report was written by Rob Bryan,
Jane Cryer and Aaron Magee of Vantage.*



All the information used within this report is taken from RPs audited financial accounts and is in the public domain. We cannot accept responsibility or accept liability for any inaccuracy in the housing provider's data or for any consequences (inadvertent or otherwise) subsequent to the use of said data.

ANALYSIS OF FINANCIAL PERFORMANCE

INTRODUCTION

WELCOME TO OUR FIFTH ANNUAL FINANCIAL STATE OF THE SECTOR REPORT COVERING THE PERIOD FY2020/21.

This report provides context to the strategic challenges and tough decisions ahead for social housing providers in looking after their customers, investing in their stock and retaining financial strength.

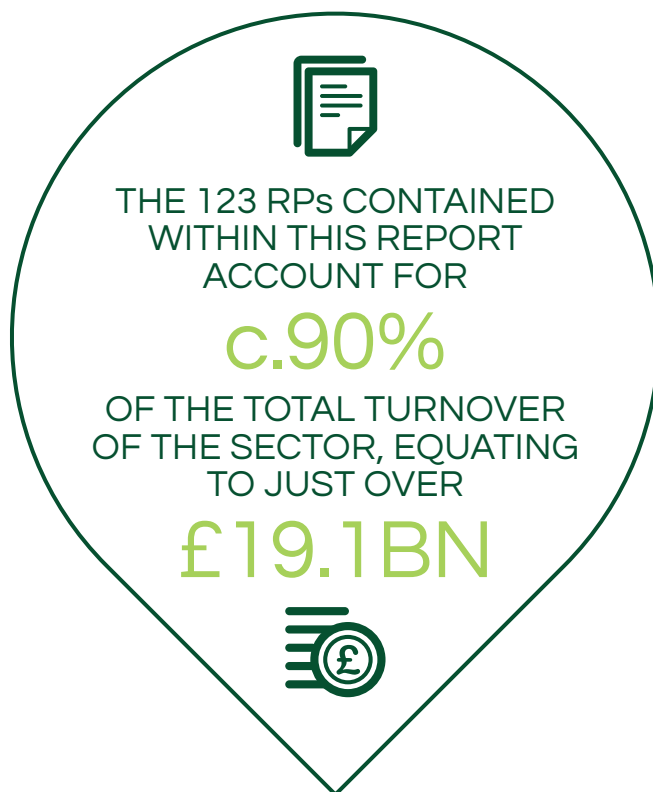
This year our analysis is based on the published financial statements of 123 of the TOP 150 RPs for the year ended 31st March 2021, which accounts for roughly 90% of the total turnover of the sector, equating to just over £19.10BN.

Our Performance Club members benefit from tailored reports which can be provided via our online Global Accounts Plus financial comparison tool, to help housing providers understand financial performance against peers and across the sector as a whole. It enables housing providers to compare their individual performance against all the Top 150 Registered Providers (RPs) or against a subset of peers that is more relevant to them.

Financial performance has become more challenging for many RPs in the last two years and it is perhaps ironic

"This report provides in-depth insight for the executive team into the sectors performance based on geography and size. Last year, we built upon this by commissioning Vantage to produce a tailored financial report for us including all the VfM sector metrics and then presented to our Board as part of our strategic away day. This helped us understand our position and identify our targets as part of our VfM strategy."

Mona Shah, Executive Director of Finance & Business Services, Grand Union Housing Group



that in the most volatile year in recent history the financial results are relatively stable compared with FY2019/20.

It is good to hear that the RSH continues to indicate that the sector remains strong financially, which is essential with the tough economic climate ahead.

This last year in particular we have seen the positive impact of our cross-sector collaborations, with leadership teams tackling shared challenges. The galvanising of the sector can now be used as a springboard for addressing the significant de-carbonisation targets and social challenges that lie ahead. Our Zero Carbon Club is about to launch its fourth cohort of providers and is making significant impact in moving the sector towards net zero goals.

The impact of consumer regulation compounded by media coverage has sharpened the focus on customers experience. A recent poll we undertook indicated that 70% of RPs had seen a sharp increase in complaints in 2021 and 70% forecast that this was going to worsen. This year we have launched our Customer First programme which will bring the sector closer in dealing with these issues.

We hope you find this report insightful and informative and if you would like to find out more about any aspect of the financial performance of the sector, the Performance Improvement Club, the Zero Carbon Club, the Customer First Programme or any of our director forums, please contact us via info@yourvantage.co.uk or call 0151 342 5989.

ANALYSIS OF FINANCIAL PERFORMANCE

EXECUTIVE SUMMARY

FY20/21 WAS A CHALLENGING YEAR FOR REGISTERED PROVIDERS AND THE COUNTRY AS A WHOLE WITH THE IMPACT OF COVID AND LOCKDOWNS DOMINATING THAT PERIOD. AS WE TRY TO MOVE ON THERE ARE CHALLENGES AROUND THE AFFORDABILITY OF OUR RENTS, A MOVE TO A ZERO CARBON ENVIRONMENT AND FURTHER SCRUTINY FROM THE REGULATOR, PARTICULARLY AROUND CONSUMER REGULATION.

RENTAL INCOME

Turnover was up by c. 4% in FY20/21. Our analysis shows social housing operating margins have fallen from on average 35.5% in 2017 to 27.7% in 2021. From April 2020 rents reverted to a CPI plus 1% but we still expect to see inflationary pressures on annual running costs of Housing Providers.

The combined social housing operating profit of £5.2 billion, is bolstered by a profit on the sale of fixed assets of £730 million, as our analysis demonstrates through continued high level of asset disposals across a number of RPs. This class of activity will naturally increase over time as a consequence of the sector's growing shared ownership portfolio.

Despite the increasing cost pressures, many of the Directors at our Director forums have expressed their real concerns at choosing to increase rents for customers by circa 4% at a time when key social factors such as fuel poverty are getting considerably worse. It is a time of tough decisions. It does seem however that many RPs will choose to increase rents by the full amount especially with the compounding impact of not doing so, the scale of future decarbonisation expenditure and inflationary cost pressures.

REPAIRS & MAINTENANCE

Despite the impact of lockdowns and reduction in repairs services, routine maintenance saw a 1% increase in spend compared with FY19/20. There has been a 5.0% decrease since last year in terms of overall repairs and maintenance spend (including capitalised programmes), which reflects delays in capital investment programmes.

Those providers who managed to ride the lockdown storm with relative ease are now finding that the post lockdown world is proving even more challenging with chronic labour shortages and rising prices. From FY21/22 the impact of decarbonisation expenditure will start to rise

and forecasts suggest that RPs are already forecasting over £4bn additional spend for the next 5 years than they predicted a year ago.

The Governments recent consultation documents will undoubtedly put pressure on future R&M budgets and will further necessitate the need for RPs to increase their efficiency levels.

VOIDS

In FY20/21 income lost due to void properties has significantly increased to £214 million up on last year's figure of £158 million. It appears that as a sector despite a number of innovative initiatives, the challenge of turning around empty properties remains, although it is still too early to say what the impact of Covid and lockdown is going to have on these figures in the medium to longer term.

To give you a feel for the magnitude of this we have calculated that void losses for the sector equate to over 44,300 empty properties for the whole year.

NEW BUILD

There is a great expectation from the Government that social housing providers are part of the solution to increase housing supply across the country. The scale of this challenge is reflected in this year's figures where overall new social housing supply has remained on a par with last year.

The Regulators metric for new social housing supply has indeed fallen from 1.8% to 1.4% overall with some RPs struggling with outright sales.

Forecasts remain positive and suggest that RPs believe that despite the lags resulting from Covid, development will still meet and even exceed last year's forecast over the next 5 years.



RENT ARREARS

Whilst rent arrears have increased by £8 million in the year, they have reduced from 4.4% to 4.3% of turnover. This increase can be directly attributed to the further roll out of Universal Credit. This has given income collection teams across the country a real challenge in supporting tenants with their rent arrears and is also having an impact on the lives of tenants affected by Universal Credit.

The impact of Covid-19 on arrears performance did not materialise to the degree expected in FY20/21 results. However, with much of the impact starting to bite in FY21/22 the results for this year may look different.

STAFF COSTS

In relation to management costs the highest cost continues to be staffing. There has been another increase last year in the financial cost of staffing by 4.5% and an increase in staff numbers of 2.4%.

Some of this will be linked to agreed annual inflationary pay rises but this also supports our view that RPs are having to pay a premium to attract the right staff and bolstering teams such as asset management functions. There has been a slowdown in the number of RPs insourcing their repairs services which has had a material impact in previous years on the staff directly employed.

REGULATOR

We now have five years' worth of the Regulators value for money metrics. This year all RPs have again included them with some prominence within their directors reports and have clearly taken on board the Regulator's comments by including relevant comparators and giving a good level of detail to explain their individual positions.

On page 17 we have provided an easy to read summary comparing this year's metrics to last years. I will leave you to draw your own conclusions but it is pleasing that they are now being calculated in-line with the regulator's expectations.

TO SUMMARISE

Financially, a fairly stable year relative to other years despite the pandemic. A year when social housing providers stood up and met the challenges and frontline workers certainly made the sector proud. 2021 seems to have shown no signs of a let up though and the sector needs to work closely together to address these challenges.

The work we do with 80 or so providers through our collaboration programmes, director forums, and consultancy projects has highlighted that providers are more determined than ever to help their customers through these tough times, decarbonise their stock and tackle the challenges ahead.

I hope you find this report insightful.

Kind regards,

ROB BRYAN

Operations Director, Vantage

WHAT OUR SAMPLE REPRESENTS:

▶ 123

REGISTERED SOCIAL HOUSING PROVIDERS

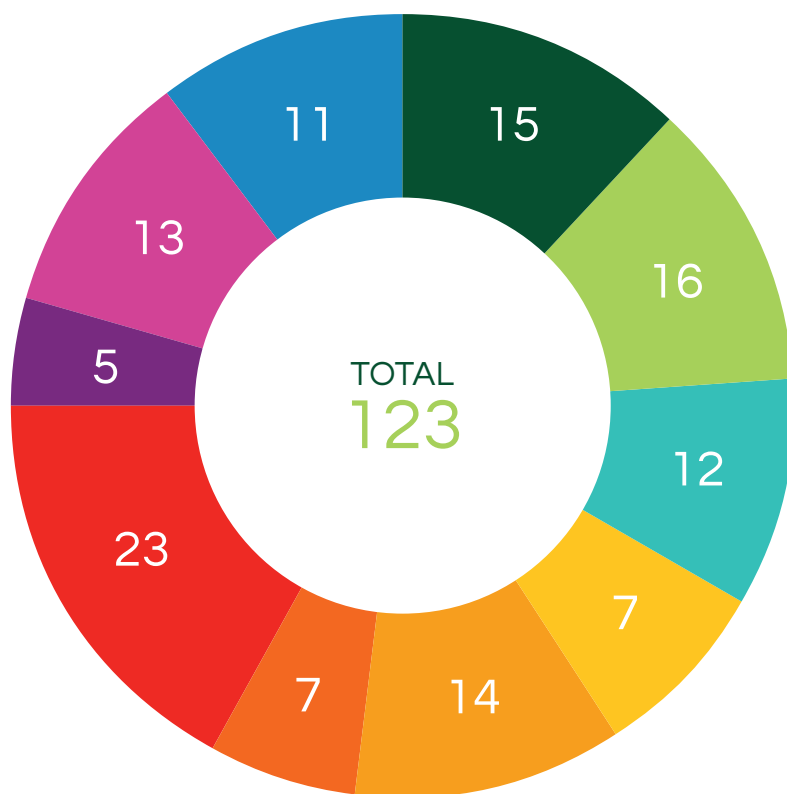
▶ 2,487,806

SOCIAL HOUSING UNITS OWNED AND MANAGED

▶ 91.5%

OF SECTOR TURNOVER

NUMBER OF RPs:



KEY:

- EAST ANGLIA
- MIDLANDS
- G15
- GREATER LONDON
- NATIONAL
- NORTH EAST
- NORTH WEST
- YORKSHIRE AND THE HUMBER
- SOUTH EAST
- SOUTH WEST

STOCK SIZE: TOTAL 123

IN BRIEF:
OUR HEADLINE ANALYSIS

£19.10BN

TOTAL TURNOVER
UP 4.0% ON LAST YEAR

£5.19BN

OPERATING SURPLUS
INCREASE OF 1.3%

£13.91BN

SOCIAL HOUSING TURNOVER
WITH A MARGIN OF 29.1%GENERAL NEEDS
REPRESENTED

75%

OF SOCIAL HOUSING LETTINGS

NUMBER OF STAFF
MEMBERS INCREASED BY

2.4%

EMPLOYMENT
COSTS REACHED

£4.40BN

4.5% UP ON LAST YEAR

AVERAGE DEBT
WAS UP 4.4% TO

£73.35BN

HEADLINE SOCIAL HOUSING
COST PER UNIT WAS

£3,958

COMPARED TO £3,979 IN FY19/20

ANALYSIS OF FINANCIAL PERFORMANCE

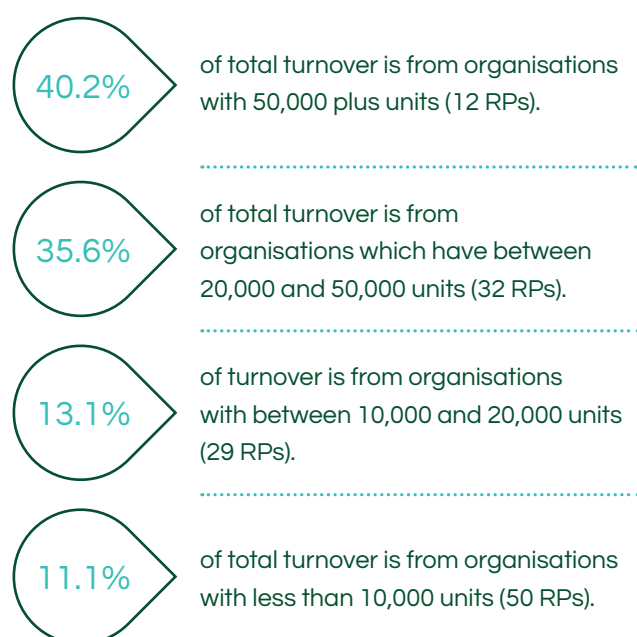
TURNOVER

TURNOVER FOR FY20/21 WAS £19.10BN, AN INCREASE OF 4.0% IN COMPARISON TO £18.37BN IN 2019/20.

FY20/21 was the first year of rent increases since the rent reduction programme and is a key driver behind the 4.0% increase in turnover.

The chart to the right shows Social Housing Lettings turnover was £13.91BN (72.8%) and the split between social and non-social housing was 91.8% and 8.2% respectively.

BREAKDOWN OF TURNOVER BY STOCK SIZE:



BREAKDOWN OF TURNOVER BY REGION:

G15	£5.92BN	31.0%
National	£4.28BN	22.4%
North West	£1.95BN	10.2%
South East	£1.65BN	8.7%
Midlands	£1.61BN	8.4%
East Anglia	£1.01BN	5.3%
Other Regions	£2.68BN	14.0%

OVERALL TURNOVER SPLIT FY20/21 (£19.10BN)

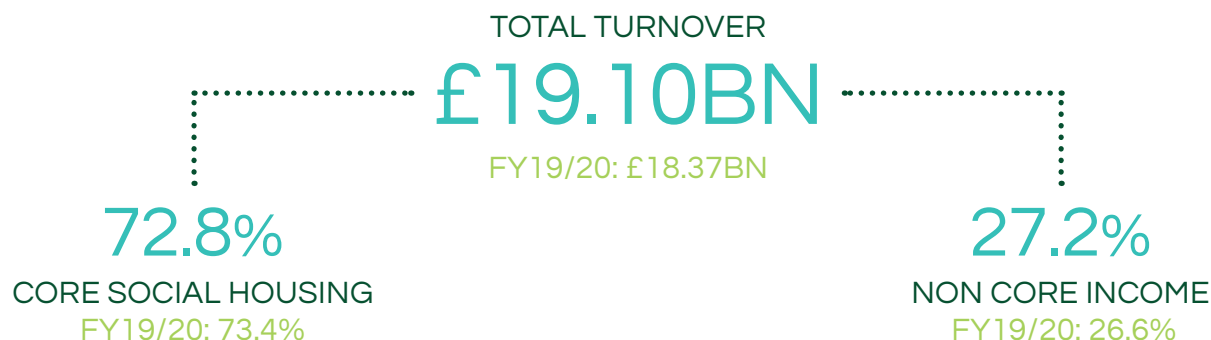


ANALYSIS OF FINANCIAL PERFORMANCE

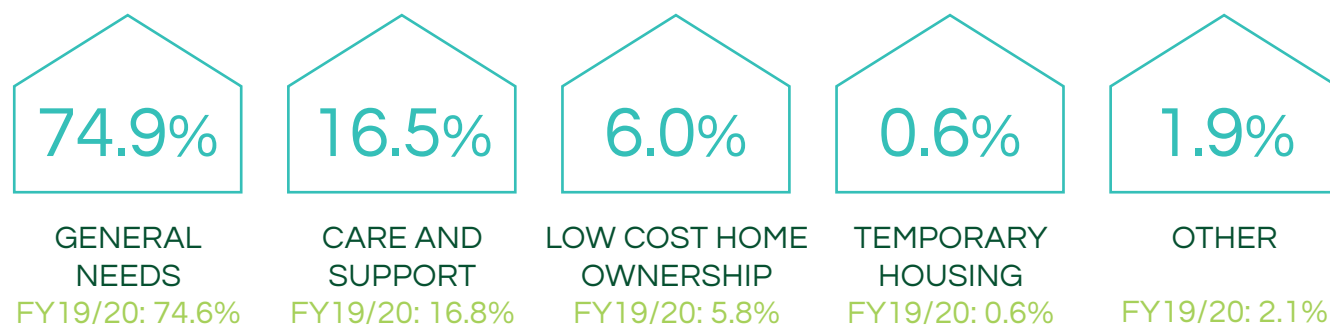
TURNOVER

SOCIAL HOUSING LETTINGS

Social Housing Lettings made up 73% of the total turnover and is broken down as follows:



TURNOVER BY SEGMENT: CORE SOCIAL HOUSING



Nationals had the lowest proportion of General Needs turnover at 62.3%, up from 61.8% in the previous year. The greatest was 91.2% in Yorkshire & the Humber.



The proportion of Care and Support turnover as a percentage of total Social Housing Lettings turnover ranged from 6.5% in the Yorkshire & the Humber to 33.0% for National organisations.



The regions with the largest proportion of Low Cost Home Ownership turnover are in G15 (11.0%) with the lowest being North East (1.2%).



Out of the 123 RPs there are only 13 who provide a Temporary Housing service. Regionally, G15 has the greatest proportion of Temporary Housing turnover at 2.1%.

VOID LOSSES

In FY20/21, £214.6M was lost due to properties being empty compared to £164.8M in FY19/20. This equates to £86.27 per unit, an increase in relation to FY19/20 which was £66.85 per unit. For FY20/21 the loss equates to approximately 44,295 empty homes for an entire year. This could also be illustrated as 2,303,316 homes empty for one week per year at an average rent of £93.18 per week, £214.6m worth of lost rent.

Overall this equates to a 30.2% increase in void losses set against an increase in stock of 0.9%.



VOID LOSSES BY REGION AS % OF SOCIAL HOUSING LETTINGS TURNOVER



The bar chart above shows void loss by region as a percentage of Social Housing Lettings turnover. In addition, we have shown the corresponding (average) rent per week for each region to assess the approximate volume of empty properties.

ANALYSIS OF FINANCIAL PERFORMANCE

OPERATING MARGIN

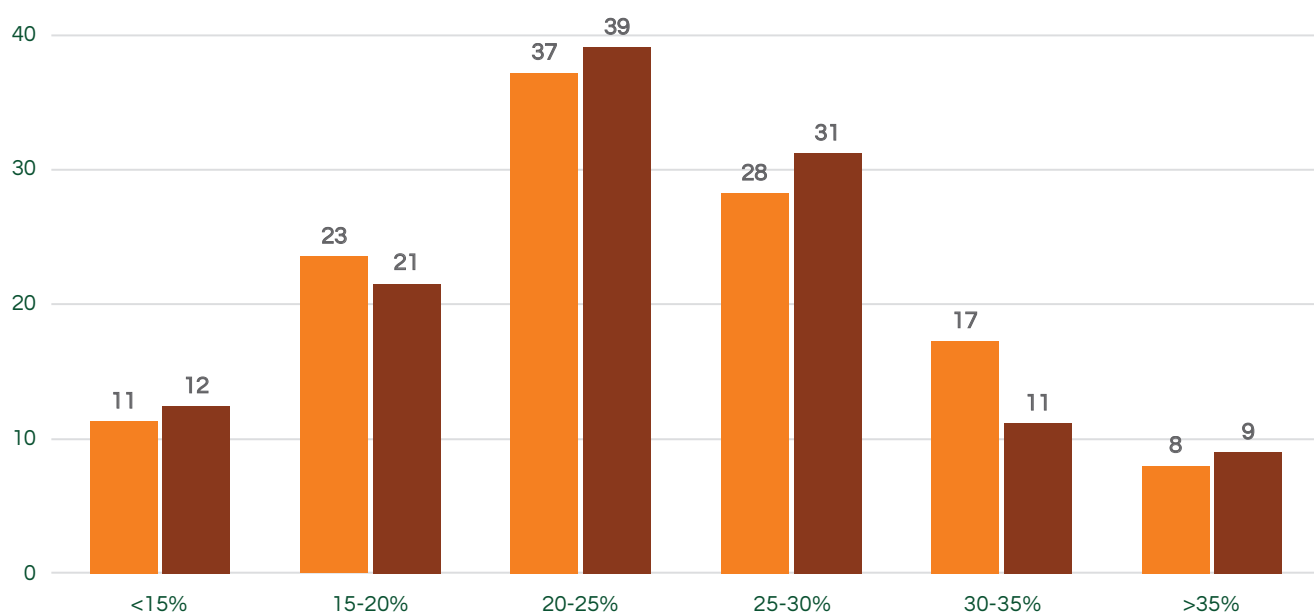


WE HAVE ANALYSED OVERALL OPERATING MARGIN FOR FY20/21 AND COMPARED TO FY19/20. OUR ANALYSIS SHOWS THE OVERALL OPERATING MARGIN WAS £5.19BN FOR FY20/21, A 1.3% INCREASE ON FY19/20.

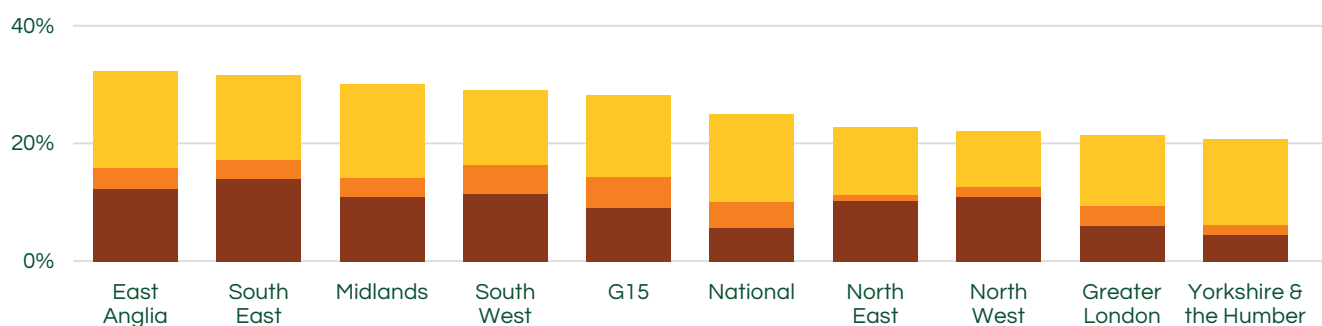
On the whole operating margins have remained relatively steady compared to FY 2019/20, following three years of more substantial reductions. The table below shows the number of organisations with an overall operating margin of more than 30% has dropped with a shift to the 20-30% ranges. Overall operating margins have remained highest in the East and South East.

OVERALL OPERATING MARGIN RANGES

Key: ● FY19/20 ● FY20/21

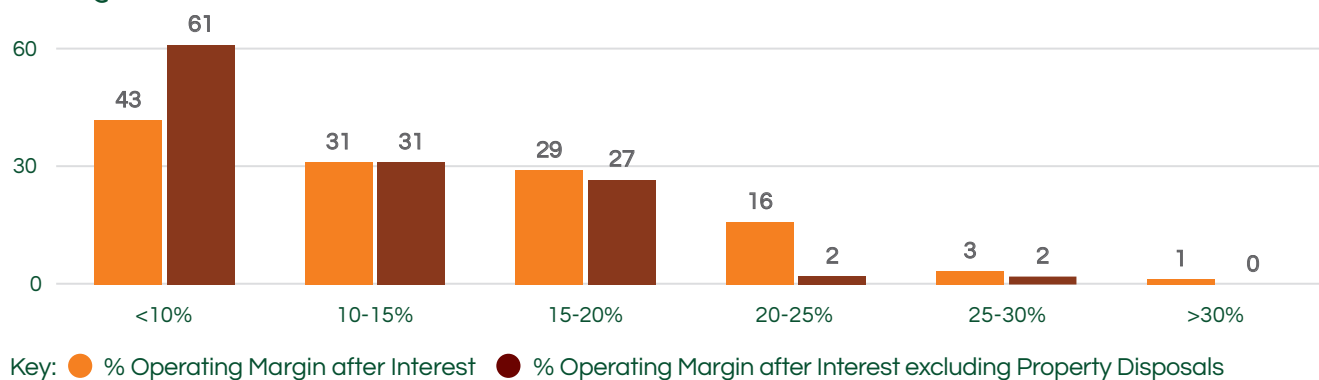


ANALYSIS OF OPERATING MARGIN BY REGION

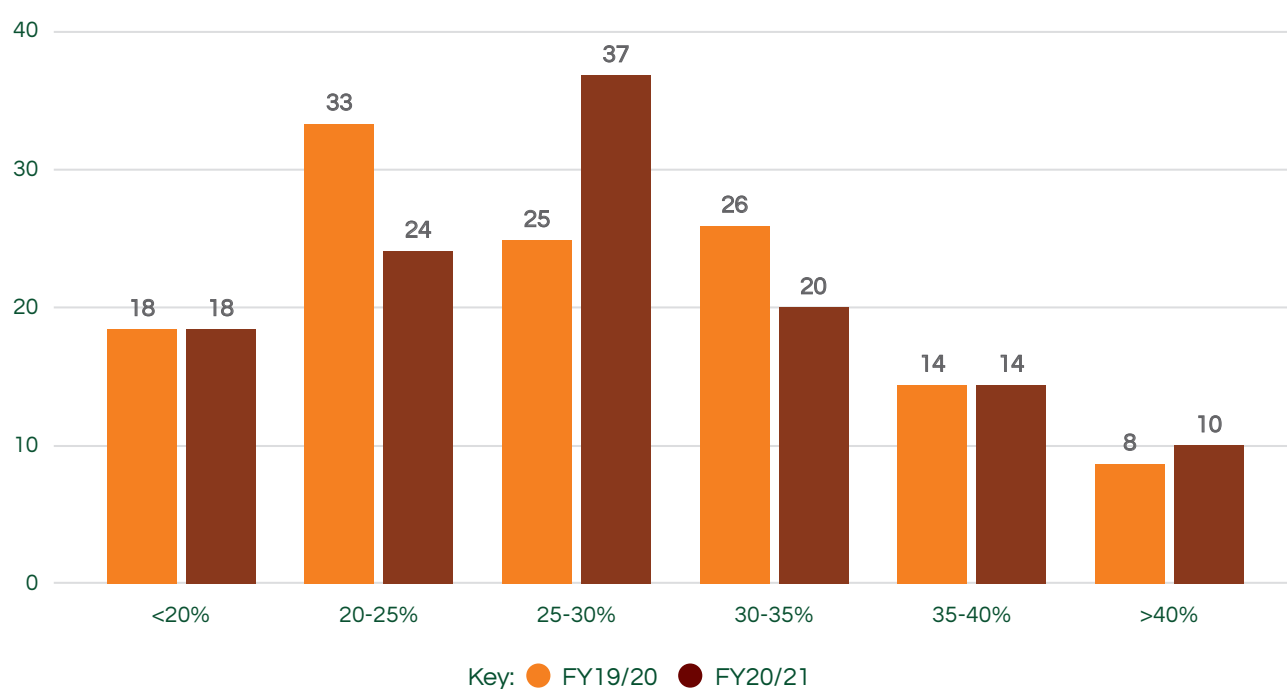


Key: ● % Operating Margin after Interest excluding Property Disposals ● % Operating Margin after Interest
● % Operating Margin

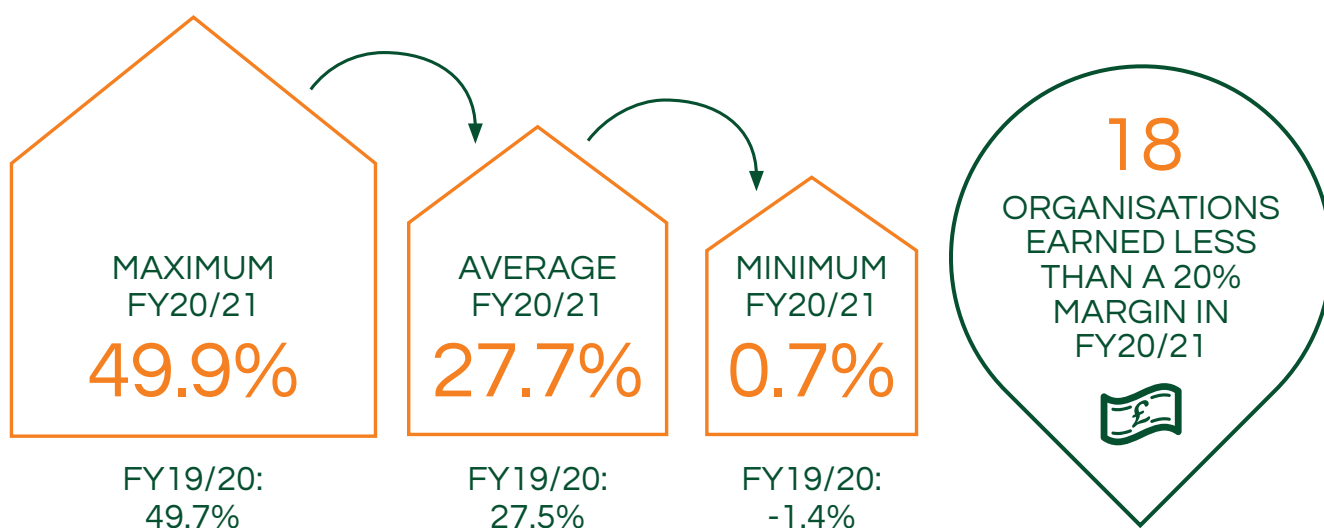
FREQUENCY ANALYSIS BY MARGIN TYPE



SOCIAL HOUSING LETTINGS OPERATING MARGIN



The minimum, maximum and average operating margin on Social Housing Lettings was as follows:



ANALYSIS OF FINANCIAL PERFORMANCE

OPERATING COSTS

WE HAVE ANALYSED OPERATING COSTS FOR FY20/21 AND COMPARED TO FY19/20. OUR ANALYSIS COVERS MANAGEMENT COSTS, REPAIRS AND MAINTENANCE.

MANAGEMENT COSTS

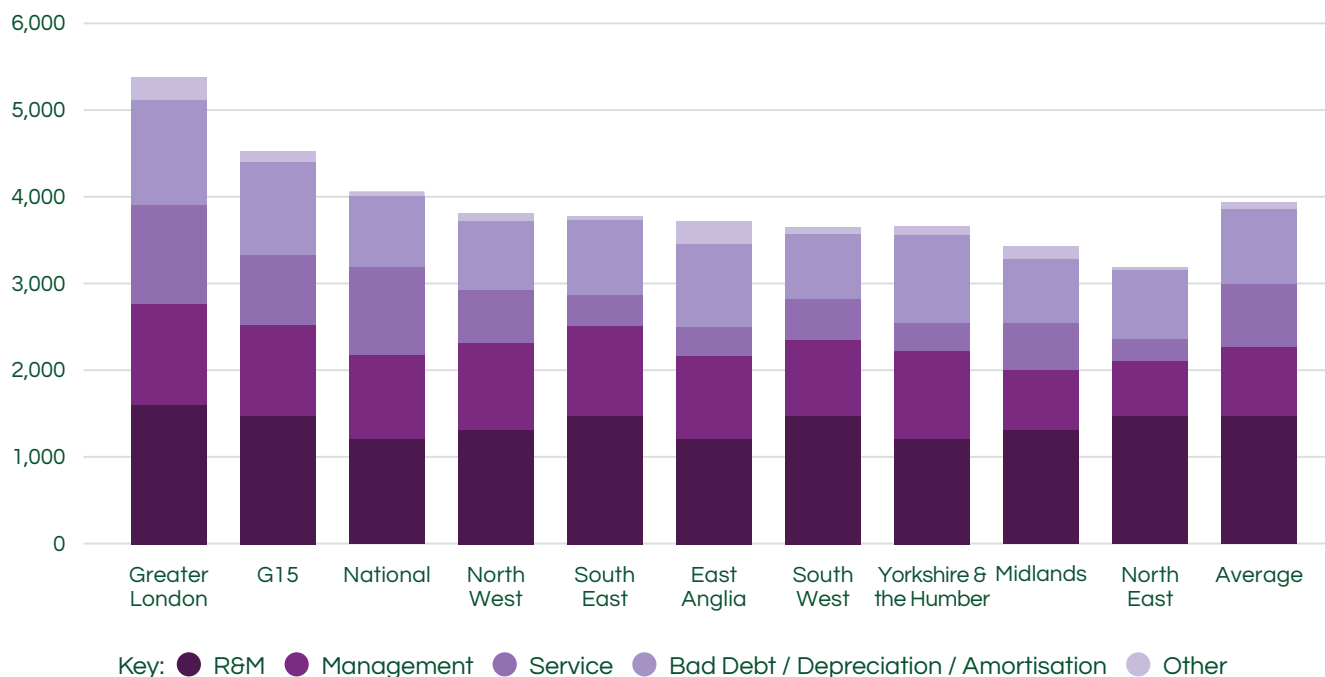
The average overall operating cost per unit was £3,964 with the highest in Greater London of £5,336 and the lowest in the North East of £3,219.

Highlights:

- **R&M Costs** average cost per unit £1,329 and made up 33.5% of overall operating costs.
- **Management Costs** average cost per unit was £1,004 and made up 25.3% of overall operating costs.
- **Service Charge Costs** average cost per unit was £648 and made up 16.3% of overall operating costs.
- **Bad Debts, Depreciation and Amortisation Cost** average per unit was £906 and made up 22.9% of overall operating costs
- **Other Costs** average cost per unit was £78 and made up 2.0% of overall operating costs.



OPERATING COST SPLIT PER UNIT (£s)



Management costs increased from £2.46BN to £2.50BN in FY20/21, an increase of 1.6%. A major proportion of management costs is employment costs. Employment costs increased by 4.5% between FY19/20 and FY20/21 from £4.21BN to £4.40BN.

The number of employees increased by 2.4% from 112,827 to 115,503.

The bar chart above shows operating cost split per unit by region.



OVERALL REPAIRS AND MAINTENANCE

£4.63BN

IN FY20/21

REPAIRS AND MAINTENANCE COSTS

Overall Repairs and Maintenance Costs (including capitalised costs) were £4.63BN in FY20/21 compared to £4.87BN in FY19/20, a 5.0% decrease. Capitalised components spend was £1.32BN in FY20/21 compared to £1.64BN in FY19/20, a 19.5% decrease.

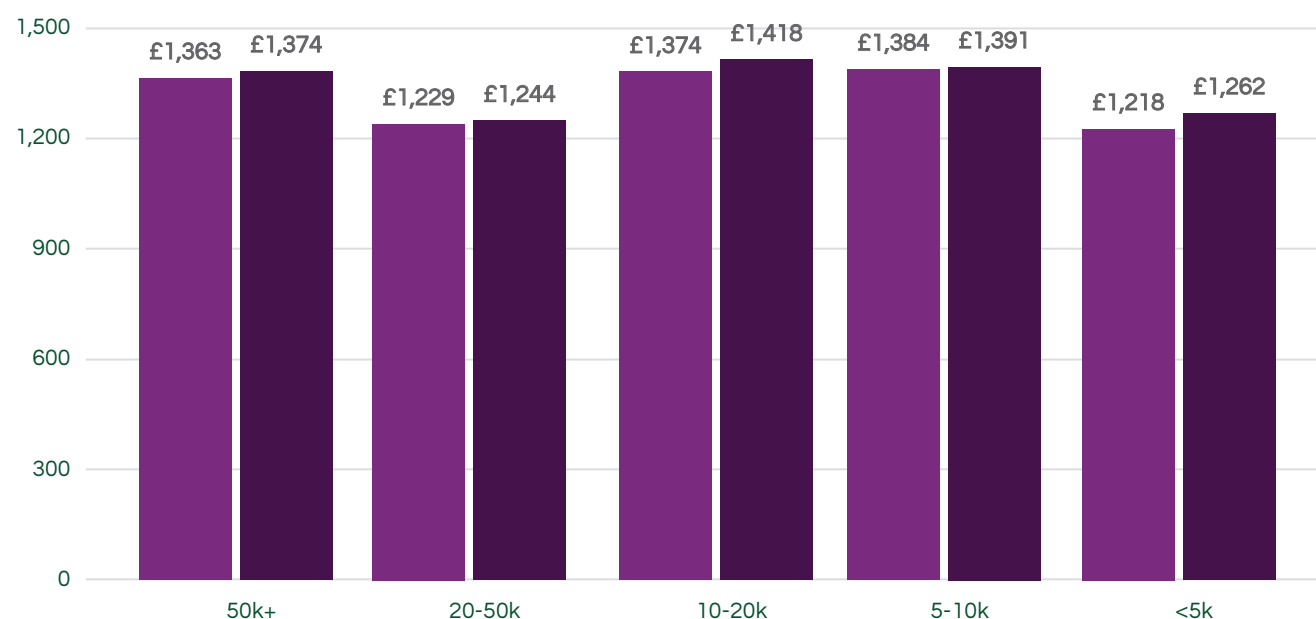
The decrease primarily reflects the issues in programme delivery resulting from Covid-19 lockdowns. This is expected to bounce back in FY21/22 unless further lockdowns are imposed or the labour supply market is severely constrained.

The overall maintenance costs excluding capital component costs are £3.31BN in FY20/21 compared to £3.23BN in FY19/20, which is an increase of 2.3%.

It is difficult to be conclusive on this result given the significant varying factors affecting R&M expenditure in FY20/21 including market price increases and the impact of reduced services from lockdowns.

The chart below illustrates the change on total R&M per unit by stock size. All categories have seen an increase in spend from last year.

TOTAL R&M PER UNIT BY STOCK SIZE (EXCLUDING CAPITALISED COMPONENTS)



Key: ● FY19/20 ● FY20/21

TOTAL REPAIRS AND MAINTENANCE COSTS:



ROUTINE MAINTENANCE

TOTAL FY20/21: £1.93BN

TOTAL FY19/20: £1.91BN



PLANNED MAINTENANCE

TOTAL FY20/21: £0.91BN

TOTAL FY19/20: £0.87BN



MAJOR REPAIRS EXPENDITURE

TOTAL FY20/21: £0.47BN

TOTAL FY19/20: £0.45BN



TOTAL SUM OF CAPITALISED COMPONENTS

FY20/21: £1.32BN

FY19/20: £1.64BN

ROUTINE COST PER UNIT (£)

Key: ● FY19/20 ● FY20/21

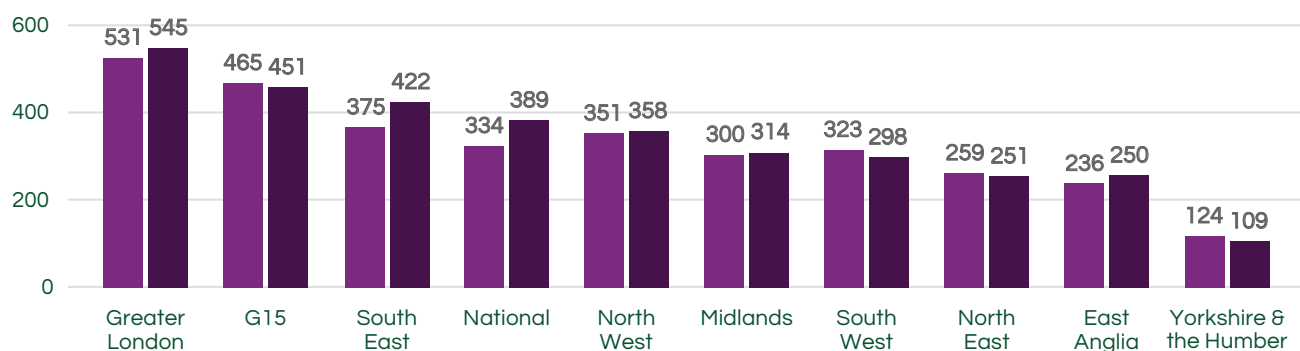


ROUTINE MAINTENANCE

Routine costs per unit remained relatively static with any reductions offsetting inflation increases to give a figure of £774 per unit in FY20/21 compared with £775 in FY19/20. The largest increase was in South East from £652 to £714. There was also a large variance between a minimum spend per unit of £293 and a maximum of £1,327 with 57 RPs above the average of £774.

The bar chart above shows the average routine maintenance cost per social home across all regions. The Midlands cost per unit is the lowest in the sector. The highest cost per unit is in G15 at £910 per unit.

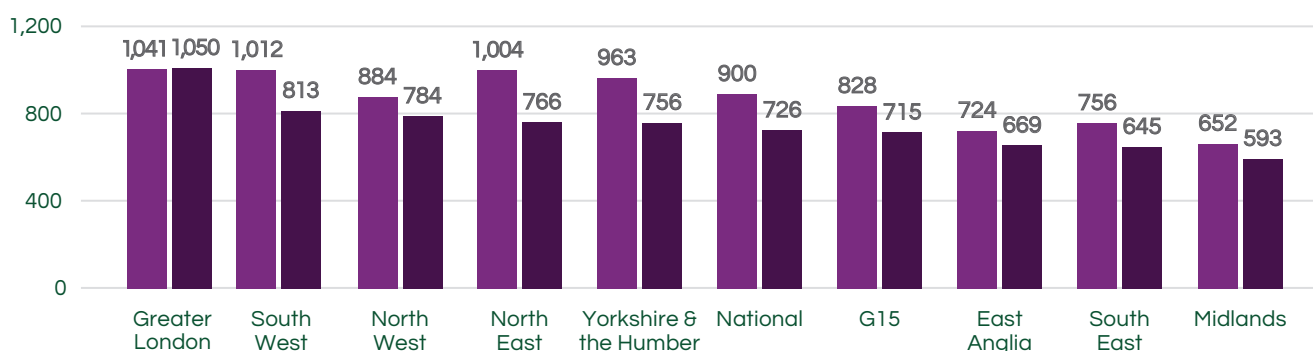
PLANNED COST PER UNIT (£)



PLANNED MAINTENANCE

Planned maintenance costs per unit increased between the years from £352 to £365 per unit, a 3.7% rise. This is likely reflective of additional spend by RPs in compliance and rising prices. Overall spend increased by £40.1m.

MAJOR WORKS EXPENDITURE PER UNIT (£) INCLUDING CAPITALISED

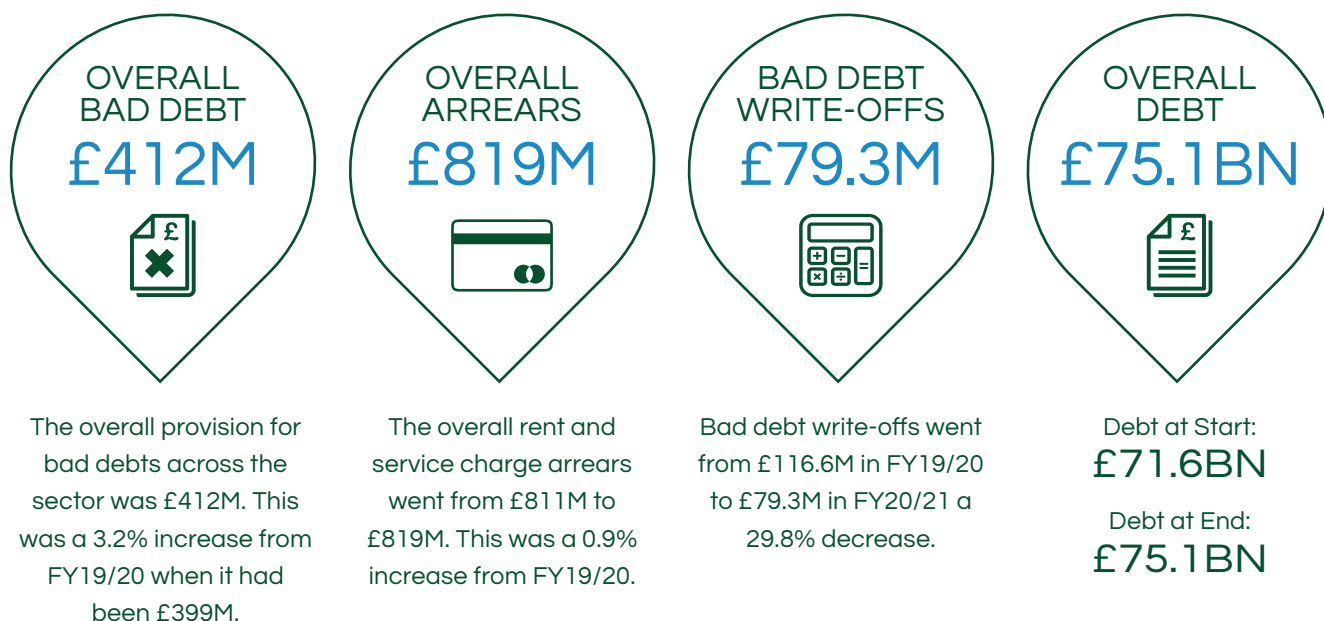


MAJOR REPAIRS

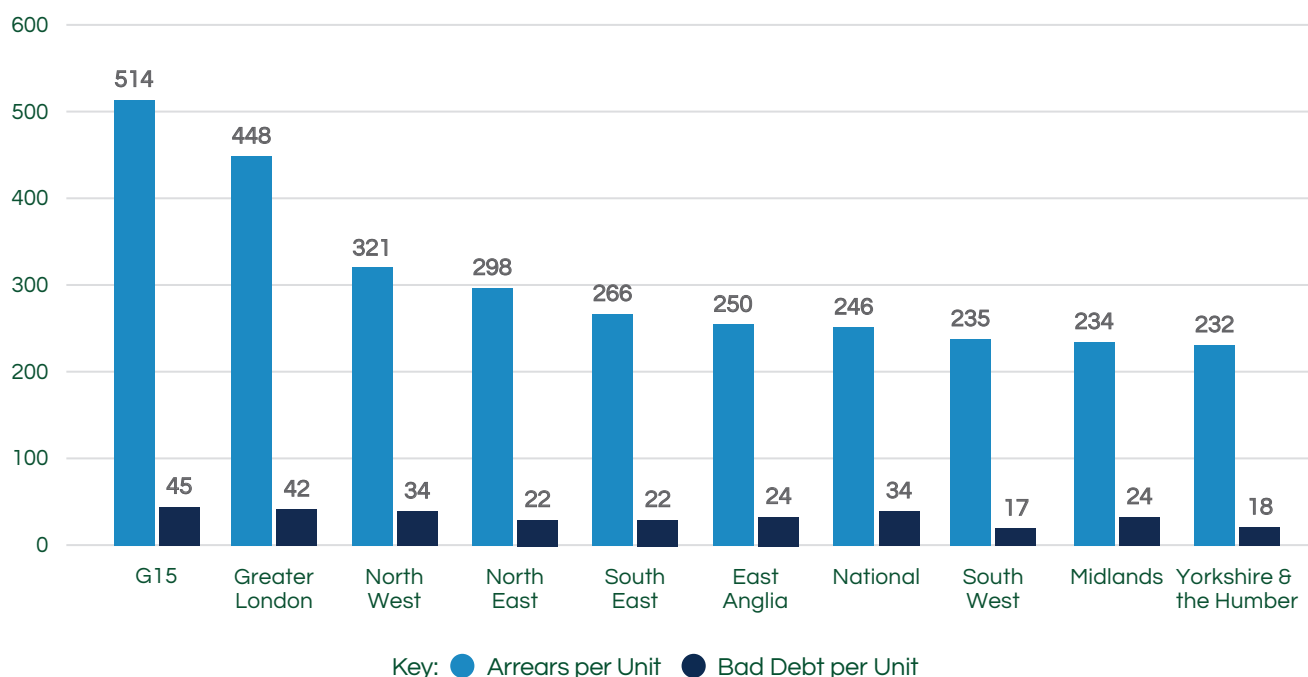
Major repairs costs per unit decreased by 15.1% from £850 in FY19/20 to £722 per unit in FY20/21. Overall spend decreased by £299.9m.

FINANCIAL HEALTH & VIABILITY

Overall, total arrears for rent and service charges increased by £7.3M in the year. This now means that the arrears as a % of turnover went from 4.4% to 4.3%, a small decrease.



BAD DEBTS & GROSS ARREARS PER SOCIAL HOME (£s)

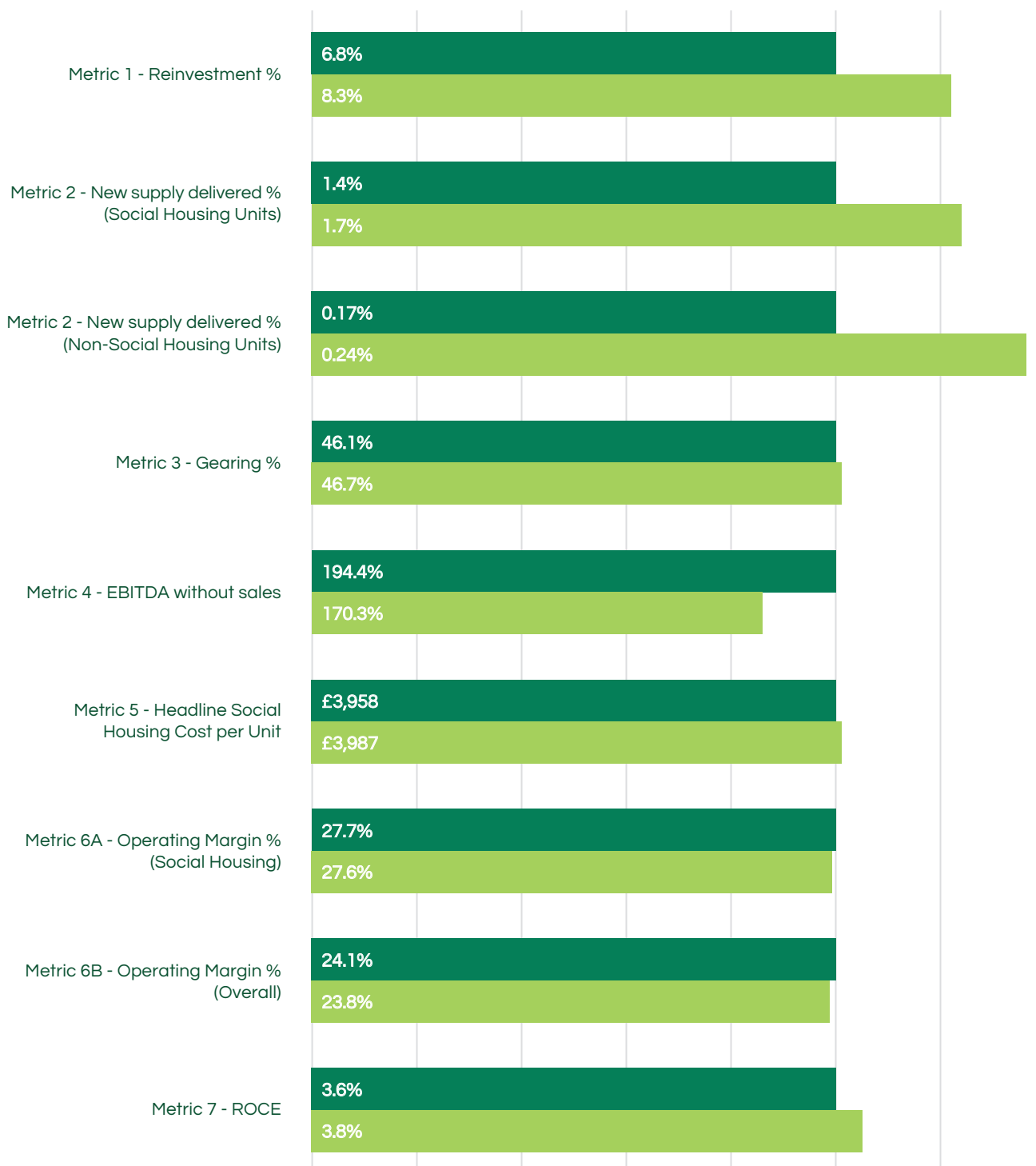


The chart above shows a regional perspective of bad debt and gross arrears. There are variations across regions.

FY20/21 AND 19/20

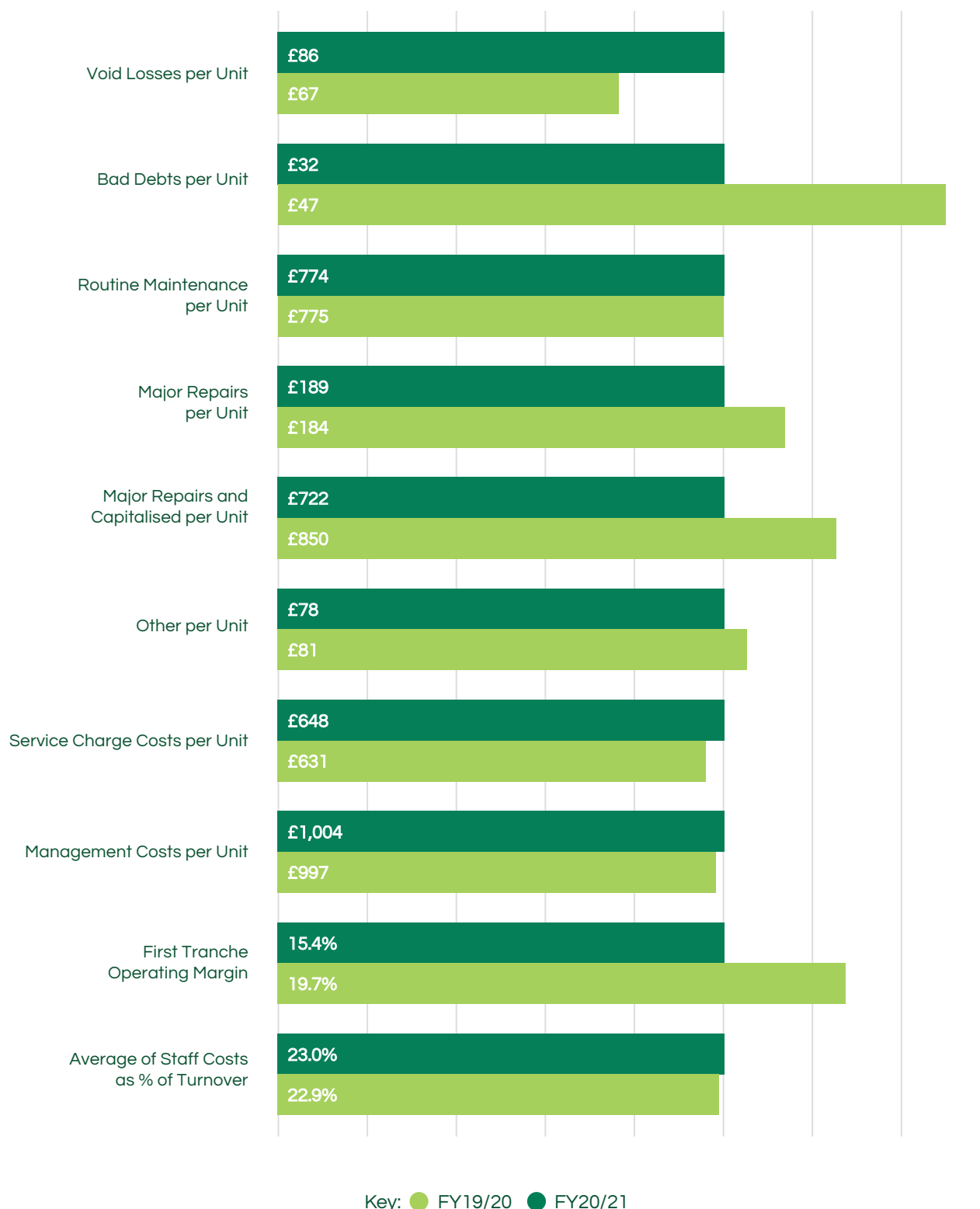
RSH METRICS SUMMARY

OVERALL AVERAGE PERFORMANCE OF THE SECTOR
BETWEEN FY19/20 AND FY20/21



Key: ● FY19/20 ● FY20/21

METRIC PER UNIT



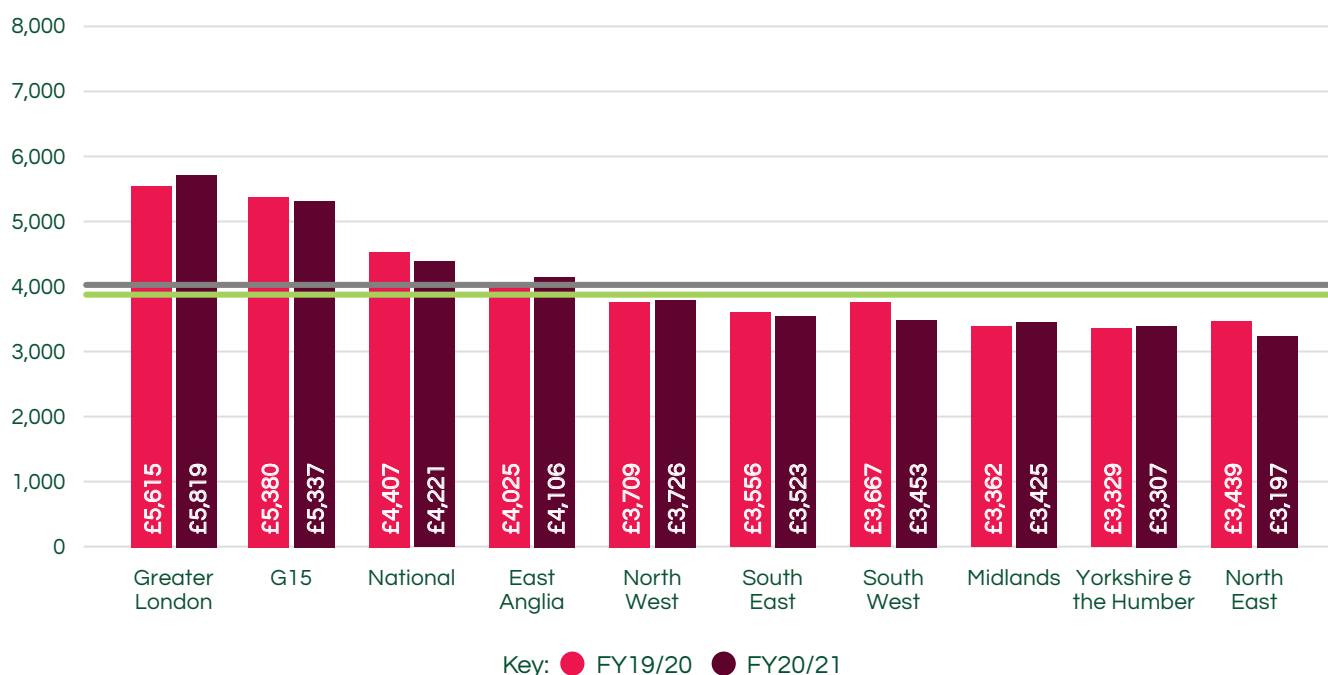
ANALYSIS OF FINANCIAL PERFORMANCE

REGULATOR'S VFM METRICS

HEADLINE SOCIAL HOUSING COST PER UNIT

FY20/21 Average: £3,958

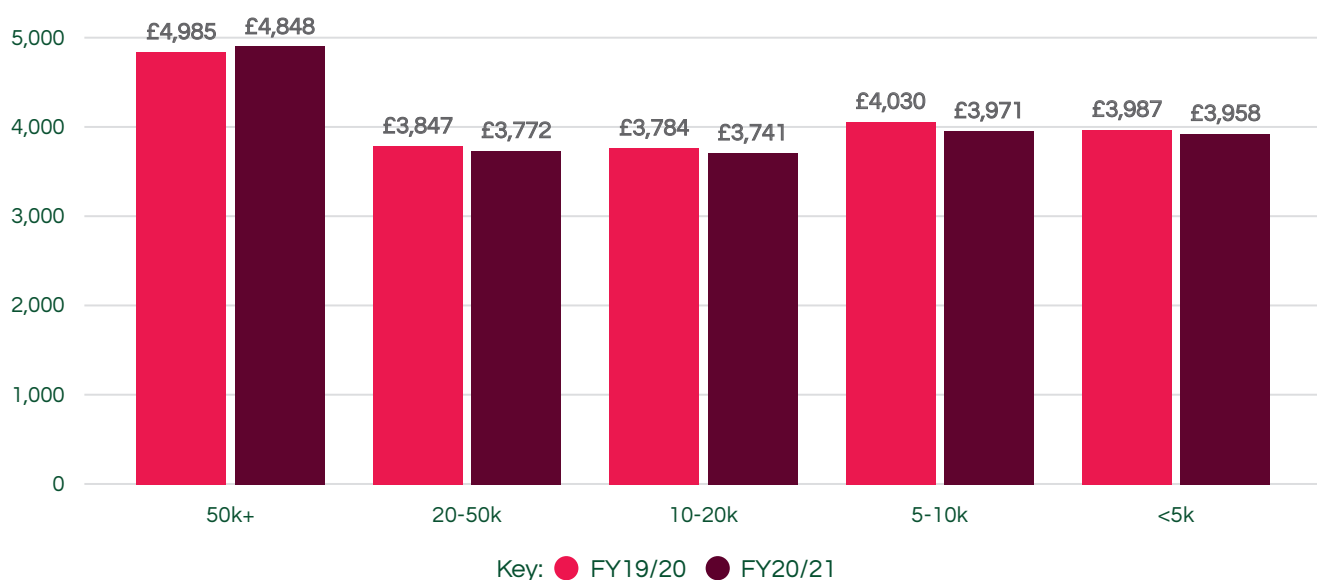
FY19/20 Average: £3,914



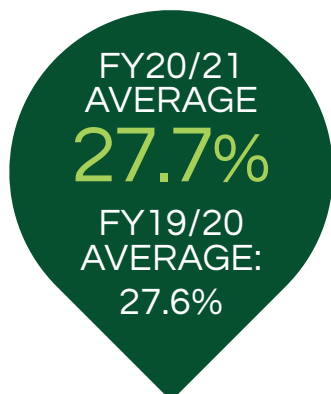
The headline social housing cost per unit includes management costs, routine maintenance, planned maintenance, capitalised and revenue major repairs costs, service costs, charges for support services and neighbourhood services. These costs are then divided by the number of units owned and/or managed.

As you would expect the cost per unit in the Greater London and G15 areas continues to be significantly higher than the overall average, with the North East having the lowest cost per unit.

The bar chart below shows the average headline social housing cost by range of stock size. Housing providers with under 10,000 and greater than 50,000 units continue to incur higher costs per unit than the other housing providers.

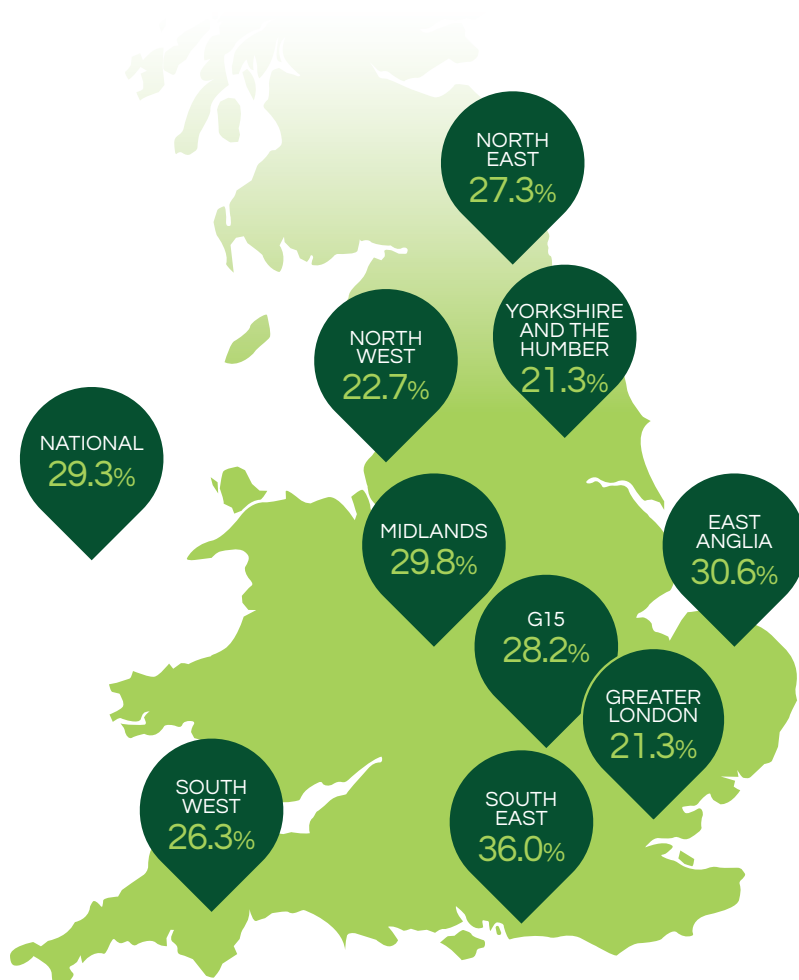


OPERATING MARGIN % (SOCIAL HOUSING)

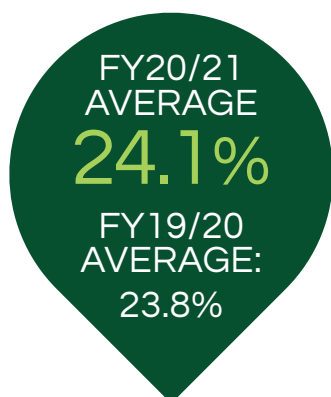


Operating margin (SHL) demonstrates the profitability of an organisation's social housing function. Overall, the margin has remained relatively static compared with FY19/20.

The South East has yet again retained the title of the highest SHL operating margin region at 36.0% with the Yorkshire & The Humber and Greater London having the lowest margin this year with 21.3%.

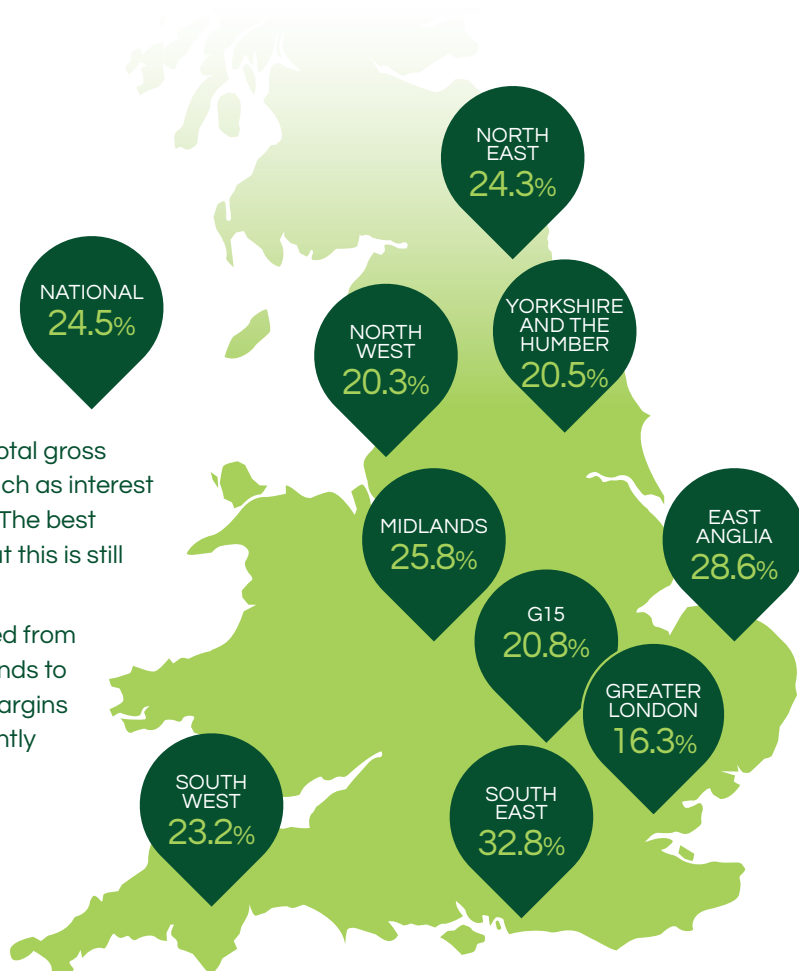


OPERATING MARGIN % (OVERALL)

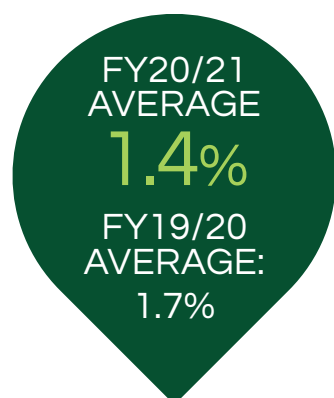


Operating margin (overall) demonstrates the total gross profitability of an organisation before costs, such as interest payable and taxation, are taken into account. The best performing area is the South East at 32.8%, but this is still down from 33.1% from last year.

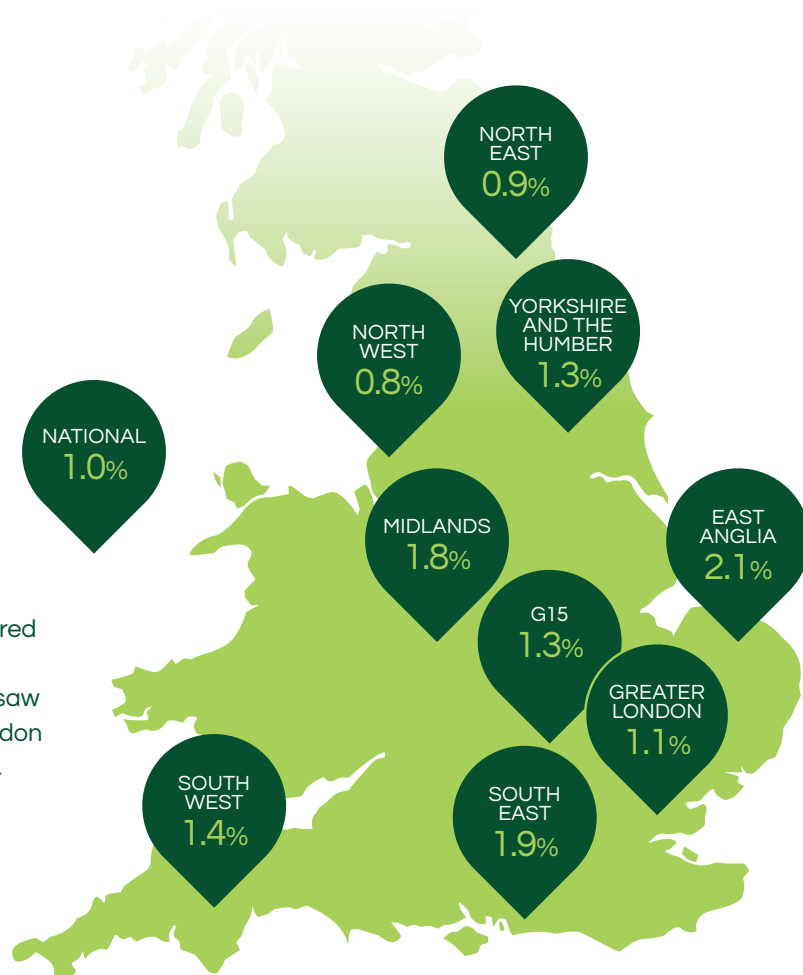
Overall margin % is impacted by margin earned from shared ownership first tranche sales, which tends to dilute the social housing letting margin. The margins reported for first tranche sales varies significantly with some reporting losses and some reporting margins as high as 55.9%.



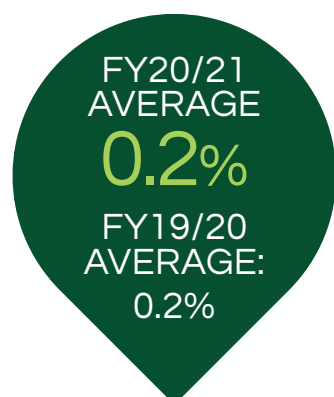
NEW SUPPLY DELIVERED % (SOCIAL HOUSING)



The new supply metrics set out the number of new social housing units that have been acquired or developed in the year as a proportion of the units owned at the end of the year. All regions saw a decrease of average value, with Greater London and Yorkshire and The Humber hit the hardest.

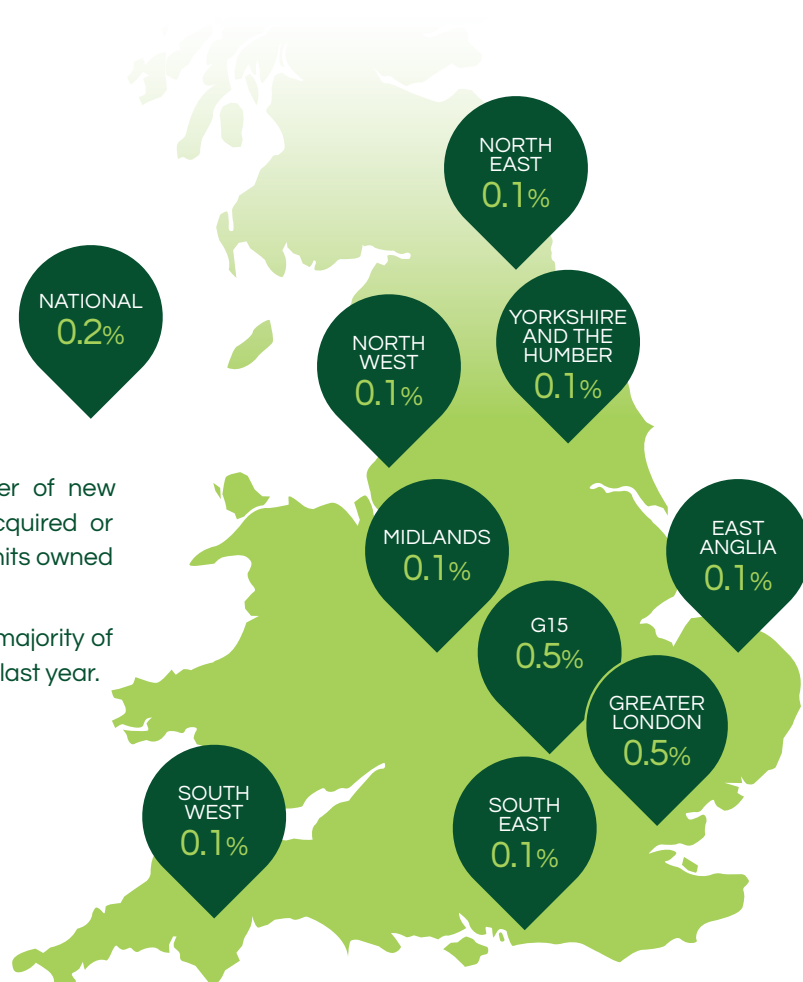


NEW SUPPLY DELIVERED % (NON-SOCIAL HOUSING)



The new supply metrics set out the number of new non-social housing units that have been acquired or developed in the year as a proportion of the units owned at the end of the year.

The key takeaway in this category is that the majority of providers participated at a like for like scale as last year.



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Sam Morgan, Finance Director
Rooftop Housing Group


Vantage

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