SOCIAL HOUSING FINANCIAL STATE OF THE SECTOR FY21/22

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

OCTOBER 2022

Vantage

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- Procurement and contract management
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- Developing a commercial mindset
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Members will gain honest, practical insights from leaders across the sector as well as benefitting from Vantage's twenty years' experience as a leading social housing consultancy.

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This report was written by Rob Bryan and Jane Cryer of Vantage.

INTRODUCTION

WELCOME TO OUR SEVENTH ANNUAL FINANCIAL STATE OF THE SECTOR REPORT COVERING THE PERIOD FY2021/22.

Whilst leaders across the country are focusing on the unprecedented challenges of the future, this report provides a high level analysis of the social housing sector's financial performance of the last twelve months.

This year our analysis is based on the published financial statements of 123 of the TOP 150 RPs for the year ended 31st March 2022, which accounts for roughly 85% of the total turnover of the sector, equating to just over £18.70BN.

After a relatively stable year financially in FY 2021/22 the trend of toughening financial conditions is clearly evidenced in this report.

As an example, it is the fifth consecutive year that Housing Providers' Operating Margins and Return on Capital Employed have reduced.

For further context, overall percentage Operating Margins have reduced from around the mid-thirties in FY 2016/17 down to the mid-twenties in FY 2021/22.

In addition headline Social Housing cost per unit has risen from £3,651 in FY 2016/17 to £4,264 in FY 2021/22.

"This report provides detailed insight into performance with meaningful information for the Executive team to present to Board and helps form our overall VFM strategy and targets. As well as the report, as part of the Improvement Club we have the opportunity to discuss performance with other members and we really value this insight."

Jane Castor,
Chief Finance Officer, Thirteen Group

THE 123 RPs CONTAINED WITHIN THIS REPORT ACCOUNT FOR

c.85%

OF THE TOTAL TURNOVER OF THE SECTOR, EQUATING TO JUST OVER

£18.7BN

If you would like a tailored peer report using the data from this report, get in touch. It can help to 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.

Over 80 housing providers from across the sector are now part of our collaboration forums and clubs as the need for the sector to work together continues to grow.

We have launched our Future Leaders Programme to help bolster the financial awareness and commercial acumen of leaders and managers across the sector at this vital time.

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 or any our other Director clubs and forums, please contact us via info@yourvantage.co.uk or call 0151 342 5989.

ANALYSIS OF FINANCIAL PERFORMANCE

EXECUTIVE SUMMARY

FY21/22 WAS SUPPOSED TO BE THE YEAR TO RECOVER FROM COVID-19 AND GET BACK ON TRACK WITH A FOCUS ON NEW CHALLENGES SUCH AS DECARBONISATION. HOWEVER MANY HAVE FOUND THE EXTERNAL POLITICAL AND MARKET PRESSURES GROW FURTHER AND THE ABILITY TO DELIVER CORE SERVICES MORE CHALLENGING THAN EVER.

RENTAL INCOME

Many of the Directors at our Director forums have expressed their concern of the current rent cap consultation. At a time when costs are increasing by over 10%, capping rents will likely have a negative impact on the majority of RPs new build programmes going forward. They are however equally concerned about the impact of the cost of living crisis on their tenants.

Turnover was up by just over 4% in FY21/22 broadly in line with the rental increases for FY21/22. Our analysis shows social housing operating margins have fallen from on average 36% in 2017 to 25% in 2022.

The combined social housing operating profit of £4.9 billion, is bolstered by a profit on the sale of fixed assets of just over £1 billion, as our analysis demonstrates through continued high level of asset disposals across a number of RPs.

REPAIRS & MAINTENANCE

We are seeing the start of the impact of decarbonisation expenditure as RPs begin to invest in their stock to meet the Governments 2030 EPC targets.

Routine maintenance saw a 13.6% increase in spend compared with FY20/21. There has been a 22.3% increase since last year in terms of overall repairs and maintenance spend (including capitalised programmes).

This reflects our findings that as lockdowns ended the majority of RPs prioritised catching up with the backlog of repairs and maintenance as well as asset investment programmes.

It will be a difficult balance for RPs to search for efficiencies with the current market conditions, increases in repair demand and the need to demonstrate best value to their customers and the regulator.

VOIDS

In FY21/22 income lost due to void properties has increased slightly to £211 million up on last year's figure of £203 million, although still significantly higher than the year before when £150 million was lost. Our more detailed analysis of void losses showed little consistency across the sector with many having increased void losses per unit and others with reduced figures.

To give you a feel for the scale of this we have calculated that void losses for the sector equate to over 43,650 empty properties for the whole year.

NEW BUILD

There was a strong appetite and expectation that the sector would ramp up new build programmes in FY21/22 following the previous years lockdowns and the ambitious sector targets. However, the impact of market and supply chain conditions have been significant.

The Regulators metric for new social housing supply has increased from 1.4% to 1.6% overall reflecting the improved output post lockdown but still a long way to go.

There is now uncertainty for many over the scale of new build forecasts in the medium to long term and many will be remodelling these figures once clarity is given on any rent cap and as wider economic forecasts are refined.

RENT ARREARS

Rent arrears have increased by £67 million in the year, an 8.5% increase. This increase demonstrates the pressure that tenants are under as despite the comprehensive support provided by the majority of RPs, there is now clear evidence of tenants struggling to pay their rent.

The impact of the cost of living crisis is really starting to impact on tenants and unfortunately it appears as if this will continue to deteriorate in 2023.

STAFF COSTS

Management costs continue to make up around 25% of total operating expenditure with staff costs representing a major part of this. Overall management cost per unit went up by 3%. There has been another increase in staffing costs of 3.2% - with staff numbers remaining relatively static with FY 20/21.

There are continued challenges for RPs in recruiting and retaining colleagues, as with most other sectors, raising the importance of having the right Employer Value Proposition. Pay rises for FY22/23 will be a key decision for organisations in the coming months and likely linked either directly or indirectly to the decision on the rent cap.

REGULATOR

We now have six 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

This analysis shows toughening market conditions in FY 21/22. The impact of Brexit, the energy crisis and wider economic challenges are already making FY 22/23 a challenging period financially. There is also clear evidence of fatigue following the pandemic and relentless challenges facing social housing. However, the strong balance sheets and sector resilience will certainly help to navigate through this period.

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,

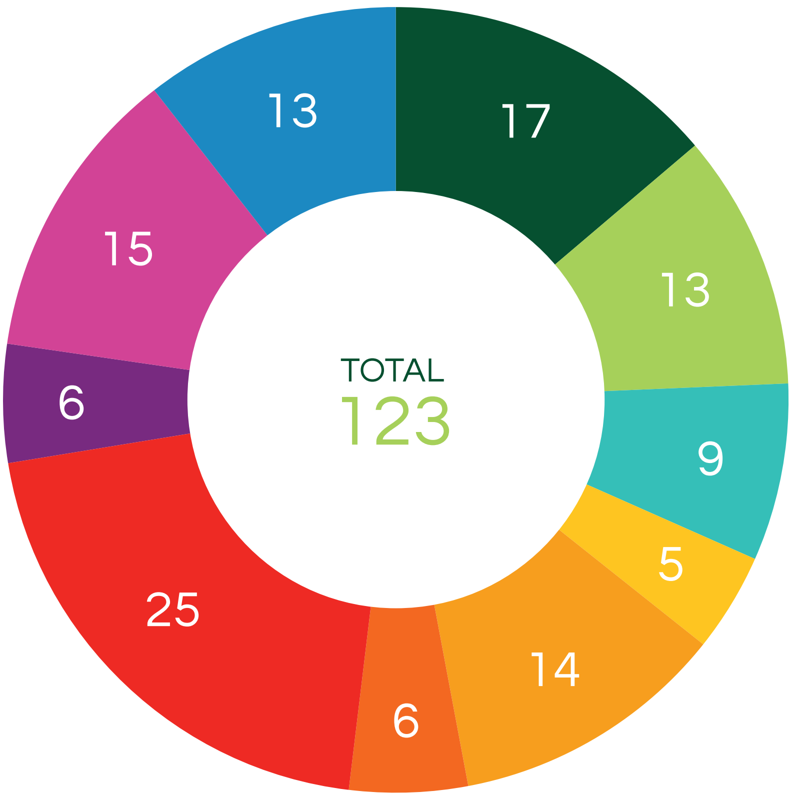
ROB BRYAN

CEO, Vantage

WHAT OUR SAMPLE REPRESENTS:

- **123**
  REGISTERED SOCIAL HOUSING PROVIDERS
- **2,488,830**
  SOCIAL HOUSING UNITS OWNED AND MANAGED
- **85.2%**
  OF SECTOR TURNOVER

NUMBER OF RPs:



KEY:

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

STOCK SIZE: TOTAL 123

0-10K	10-20K	20-50K	50K+
50 RPs	28 RPs	34 RPs	11 RPs

IN BRIEF: OUR HEADLINE ANALYSIS

£18.78BN
TOTAL TURNOVER
UP 4.0% ON LAST YEAR

£4.93BN
OPERATING SURPLUS
DECREASE OF 1.9%

£13.83BN
SOCIAL HOUSING TURNOVER
WITH A MARGIN OF 26.5%

GENERAL NEEDS
REPRESENTED
75.5%
OF SOCIAL HOUSING LETTINGS

NUMBER OF STAFF MEMBERS
REMAINED STATIC AT AROUND
112,000

EMPLOYMENT
COSTS REACHED
£4.37BN
3.2% UP ON LAST YEAR

AVERAGE DEBT
WAS UP 4.2% TO
£71.88BN

HEADLINE SOCIAL HOUSING
COST PER UNIT WAS
£4,264
COMPARED TO £3,857 IN
FY20/21 AN 11% INCREASE

ANALYSIS OF FINANCIAL PERFORMANCE

TURNOVER

TURNOVER FOR FY21/22 WAS £18.78BN, AN INCREASE OF 4% IN COMPARISON TO £18.03BN IN 2020/21.

FY 21/22 increase of 4% was in line with the increase in FY 20/21 with rent increases back in the system.

The chart to the right shows Social Housing Lettings turnover was £13.83BN (73.6%) and the split between social and non-social housing was 92.5% and 7.5% respectively.

BREAKDOWN OF TURNOVER BY STOCK SIZE:

37.9% of total turnover is from organisations with 50,000 plus units (11 RPs).

38.9% of total turnover is from organisations which have between 20,000 and 50,000 units (34 RPs).

12.0% of turnover is from organisations with between 10,000 and 20,000 units (28 RPs).

11.2% of total turnover is from organisations with less than 10,000 units (50 RPs).

BREAKDOWN OF TURNOVER BY REGION:

G15	£4.76BN	20.6%
National	£4.47BN	19.3%
North West	£2.28BN	9.9%
South East	£1.79BN	7.7%
Midlands	£1.42BN	6.1%
East Anglia	£1.23BN	5.3%
Other Regions	£7.20BN	31.1%

OVERALL TURNOVER SPLIT FY21/22 (£18.78BN)

- £1.41BN OTHER NON-SOCIAL HOUSING - T/O
- £0.54BN OTHER SOCIAL HOUSING - T/O
- £1.36BN DEVELOPMENT FOR SALE - T/O
- £1.64BN SO 1ST TRANCHE SALES - T/O
- £13.83BN SOCIAL HOUSING LETTINGS - T/O

£18.78BN
TOTAL TURNOVER

ANALYSIS OF FINANCIAL PERFORMANCE

TURNOVER

SOCIAL HOUSING LETTINGS

Social Housing Lettings made up 74% of the total turnover and is broken down as follows:

TOTAL TURNOVER

£18.78BN

FY20/21: £18.03BN

73.6%

CORE SOCIAL HOUSING

FY20/21: 74.4%

26.4%

NON CORE INCOME

FY20/21: 26.4%

TURNOVER BY SEGMENT: CORE SOCIAL HOUSING

		FY20/21
GENERAL NEEDS	75.5%	76.2%
CARE AND SUPPORT	16.5%	16.5%
LOW COST HOME OWNERSHIP	6.0%	5.5%
TEMPORARY HOUSING	0.1%	0.1%
OTHER	1.7%	1.7%

Nationals had the lowest proportion of General Needs turnover at 61.8%, down from 62.3% in the previous year. The greatest was 92.2% in Yorkshire & the Humber.

The proportion of Care and Support turnover as a percentage of total Social Housing Lettings turnover ranged from 5.7% in Yorkshire & the Humber to 33.2% for National organisations.

The regions with the largest proportion of Low Cost Home Ownership turnover are in G15 (11.2%) with the lowest being North East (1.4%).

Out of the 123 RPs there are only 12 who provide a Temporary Housing service. Regionally, South East has the greatest proportion of Temporary Housing turnover at 0.4%.

£210.6M

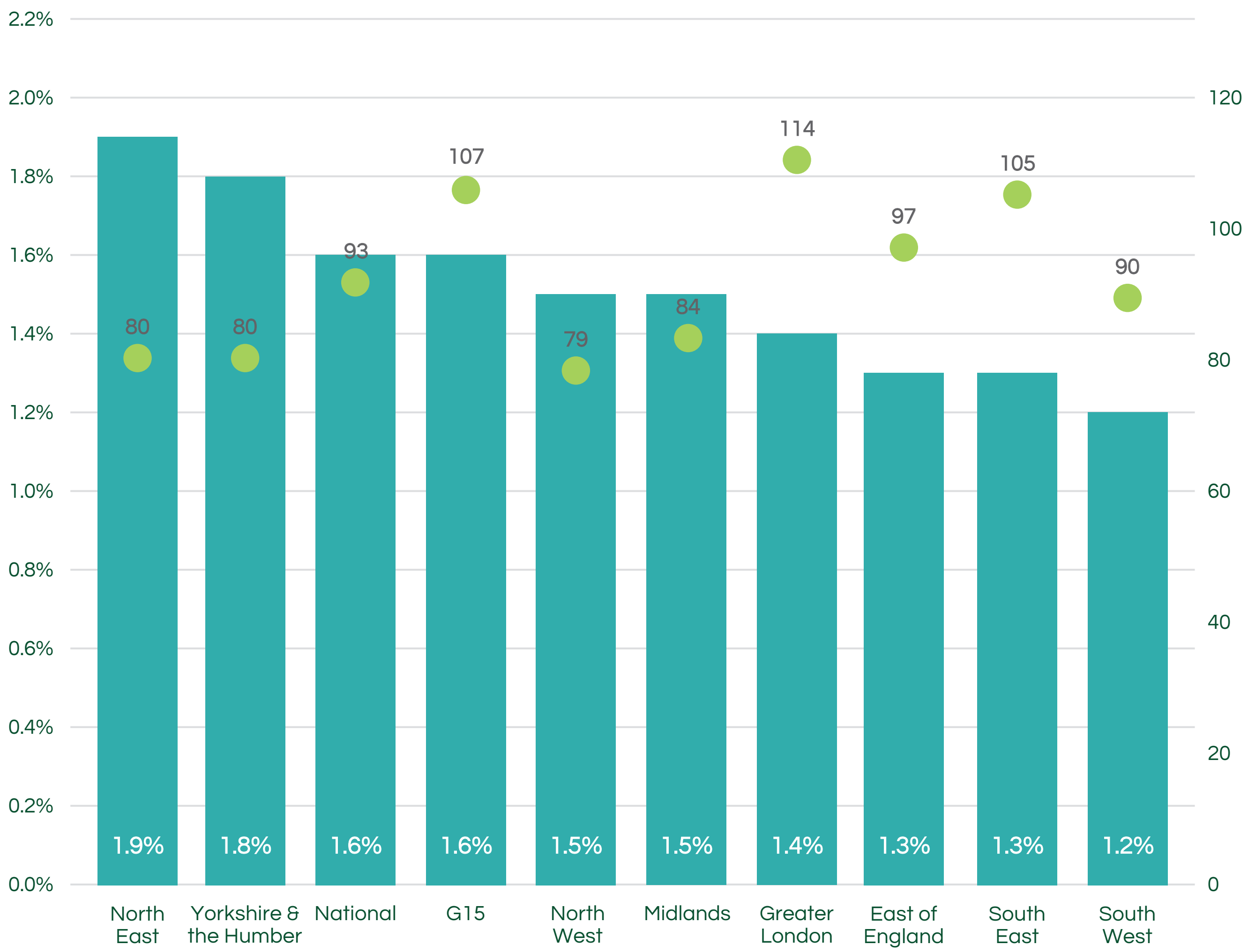
LOST DUE TO EMPTY PROPERTIES

APPROX. 43,654 EMPTY PROPERTIES FOR AN ENTIRE YEAR

VOID LOSSES

In FY21/22, £210.6M was lost due to properties being empty compared to £203.2M in FY20/21, a 3.6% rise and broadly in line with % turnover increase. This equates to £84.61 per unit, an increase in relation to FY20/21 which was £82.91 per unit. For FY21/22 the loss equates to approximately 43,654 empty homes for an entire year.

VOID LOSSES BY REGION AS % OF SOCIAL HOUSING LETTINGS TURNOVER



Key: Void Loss as % SHL Turnover Average Rent per Week (£)

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.

The North East (2.1% down to 1.9%), Greater London (2.1% down to 1.4%), Yorkshire (2.0% down to 1.8%) and the North West (1.8% down to 1.5%) all experienced sizeable reductions in void losses as a percentage of turnover.

ANALYSIS OF FINANCIAL PERFORMANCE

OPERATING MARGIN

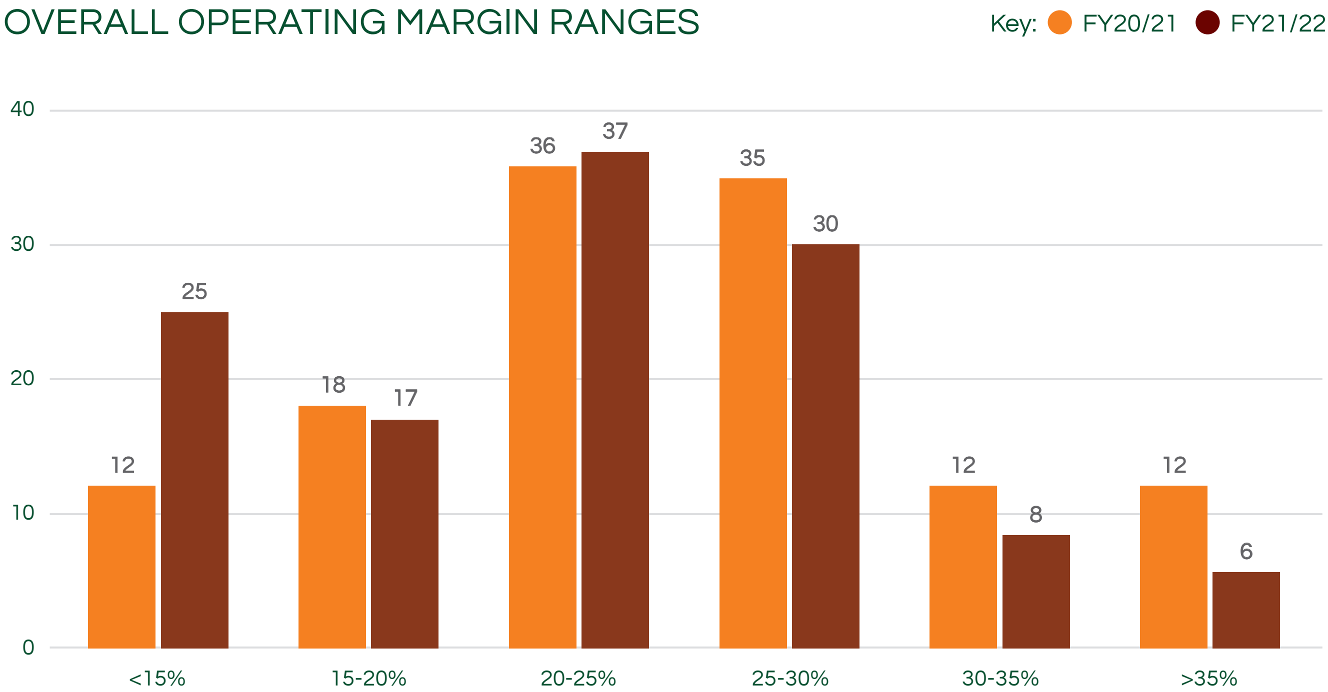
£966M

TOTAL MARGIN ON SALES OF FIXED ASSETS

WE HAVE ANALYSED OVERALL OPERATING MARGIN FOR FY21/22 AND COMPARED TO FY20/21. OUR ANALYSIS SHOWS THE OVERALL OPERATING MARGIN WAS £4.93BN FOR FY21/22, A 1.9% DECREASE ON FY20/21.

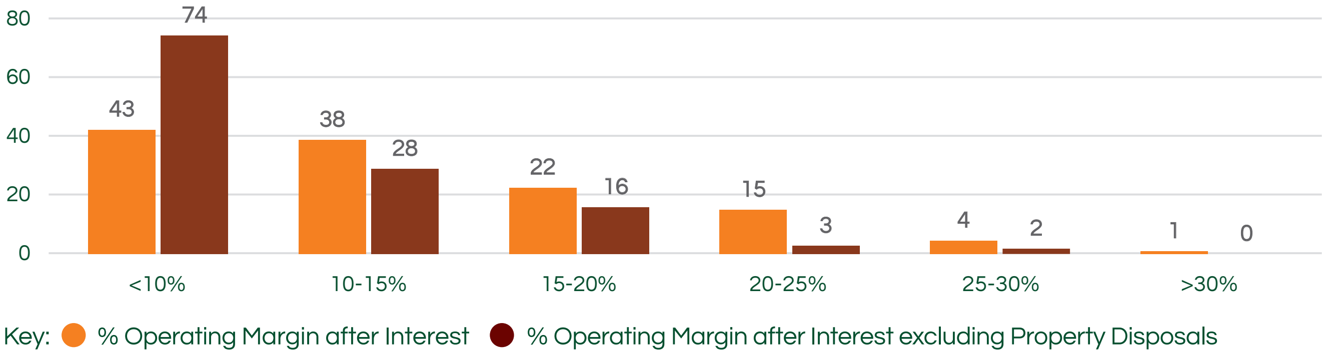
On the whole overall operating margins have reduced despite the increase in turnover. Compared to FY 20/21, there has been a large reduction in those earning over 25% overall margin and more than double earning less than 15% margin compared with last year.

OVERALL OPERATING MARGIN RANGES

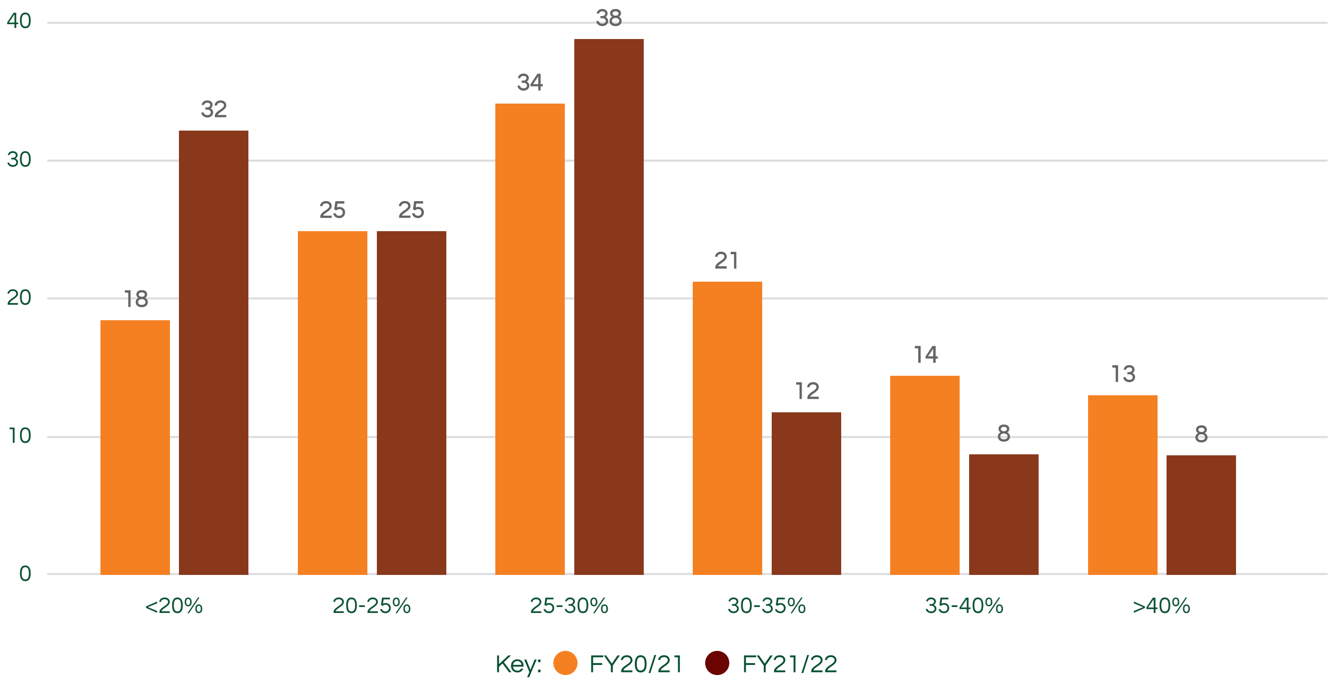


ANALYSIS OF OPERATING MARGIN BY REGION

FREQUENCY ANALYSIS BY MARGIN TYPE



SOCIAL HOUSING LETTINGS OPERATING MARGIN



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

MAXIMUM FY21/22
47.7%
FY20/21: 49.9%

AVERAGE FY21/22
25.3%
FY20/21: 28.0%

MINIMUM FY21/22
0.4%
FY20/21: 0.0%

32
ORGANISATIONS EARNED LESS THAN A 20% MARGIN IN FY21/22

ANALYSIS OF FINANCIAL PERFORMANCE

OPERATING COSTS

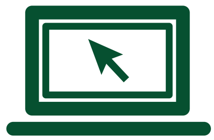
WE HAVE ANALYSED OPERATING COSTS FOR FY21/22 AND COMPARED TO FY20/21. OUR ANALYSIS COVERS MANAGEMENT COSTS, REPAIRS AND MAINTENANCE.

MANAGEMENT COSTS

The average overall operating cost per unit was £4,076 with the highest in Greater London of £5,380 and the lowest in the North East of £3,446.

Highlights:

- **R&M Costs** average cost per unit £1,446 and made up 33.5% of overall operating costs.
- **Management Costs** average cost per unit was £1,017 and made up 24.9% of overall operating costs.
- **Service Charge Costs** average cost per unit was £657 and made up 16.1% of overall operating costs.
- **Bad Debts, Depreciation and Amortisation Cost** average per unit was £902 and made up 22.1% of overall operating costs
- **Other Costs** average cost per unit was £55 and made up 1.3% of overall operating costs.

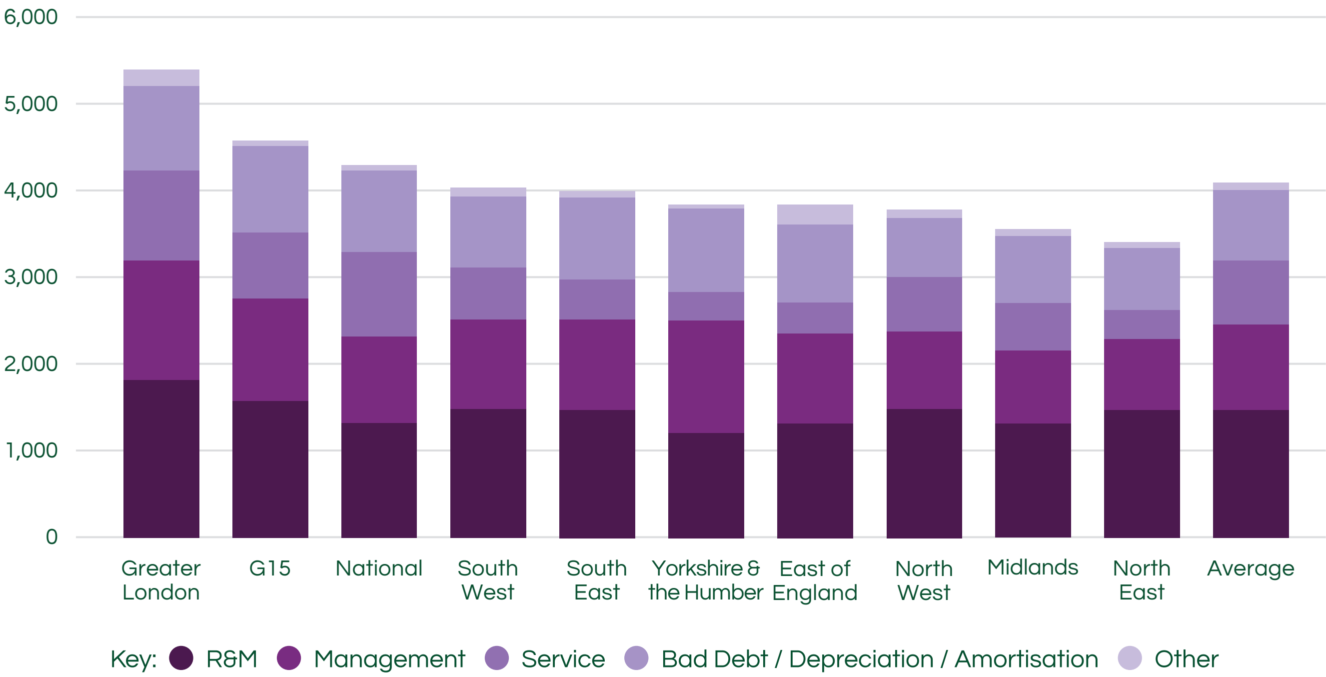


MANAGEMENT COSTS INCREASED TO

£2.53BN

AN INCREASE OF 4.6%

OPERATING COST SPLIT PER UNIT (£s)



Management costs increased from £2.42BN to £2.53BN in FY21/22, an increase of 4.6%. A major proportion of management costs is employment costs. Employment costs increased by 3.2% between FY20/21 and FY21/22 from £4.23BN to £4.37BN.

The number of employees remained static at around 112,000.

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

REPAIRS AND MAINTENANCE COSTS

Overall Repairs and Maintenance Costs (including capitalised costs) were £5.50BN in FY21/22 compared to £4.44BN in FY20/21, a 22.3% increase. Capitalised components spend was £1.90BN in FY21/22 compared to £1.27BN in FY21/22, a 44.8% increase.

The biggest driver behind the increase is the significant increase in asset investment expenditure which bounced back from FY 20/21 when Covid-19 lockdowns had a significant impact on delivery. Despite the supply chain issues facing many, this is higher than the pre-pandemic levels.

The overall maintenance costs excluding capital component costs are £3.60BN in FY21/22 compared to £3.17BN in FY20/21, which is an increase of 13.4%.

This increase was driven by the catch up expenditure in responsive and cyclical repairs programmes following Covid-19 lockdowns - and by toughening market conditions in terms of labour supply and inflationary pressures.

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.

OVERALL REPAIRS AND MAINTENANCE

£5.50BN

IN FY21/22

TOTAL REPAIRS AND MAINTENANCE COSTS:

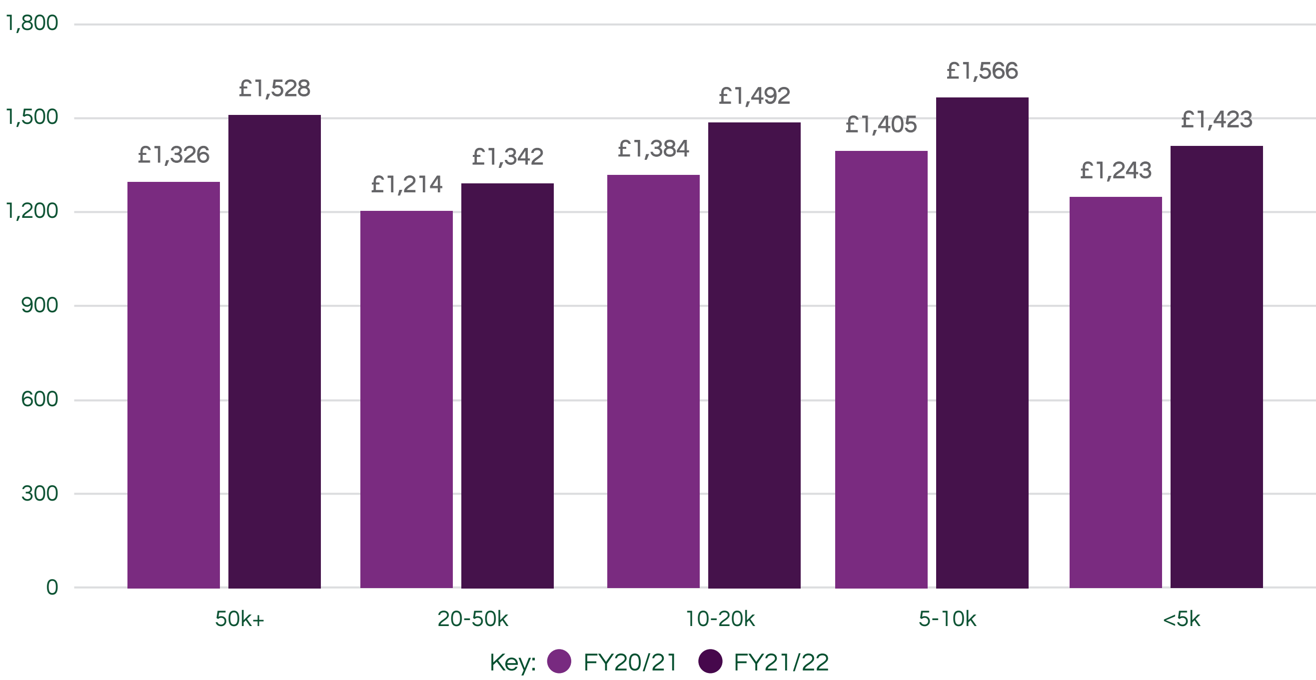
ROUTINE MAINTENANCE
TOTAL FY21/22: £2.09BN
TOTAL FY20/21: £1.84BN

PLANNED MAINTENANCE
TOTAL FY21/22: £1.00BN
TOTAL FY20/21: £0.89BN

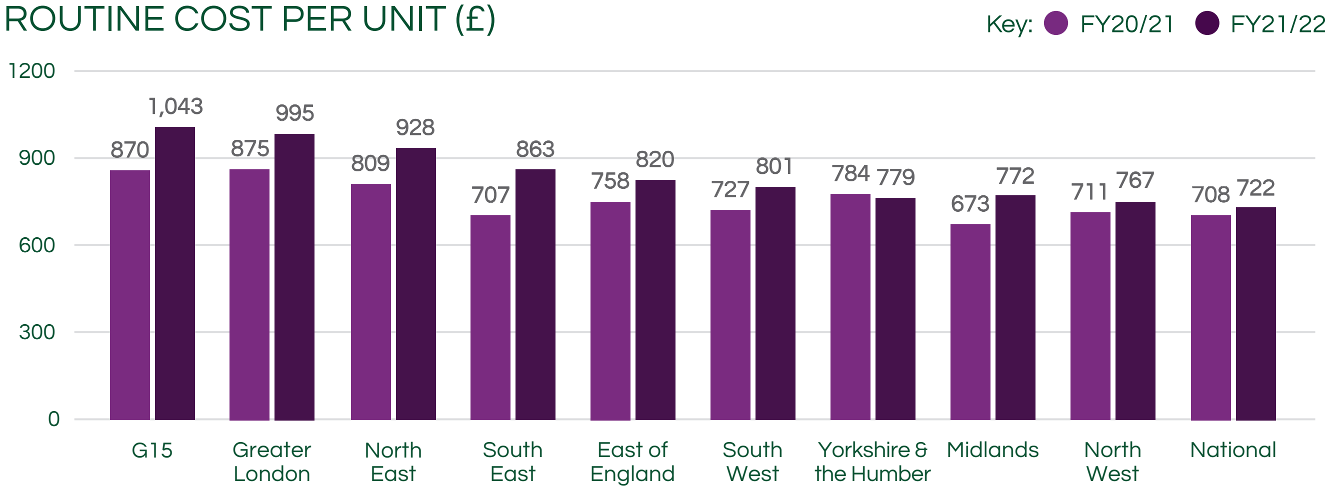
MAJOR REPAIRS EXPENDITURE
TOTAL FY21/22: £0.50BN
TOTAL FY20/21: £0.43BN

TOTAL SUM OF CAPITALISED COMPONENTS
FY21/22: £1.84BN
FY20/21: £1.27BN

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



ROUTINE COST PER UNIT (£)

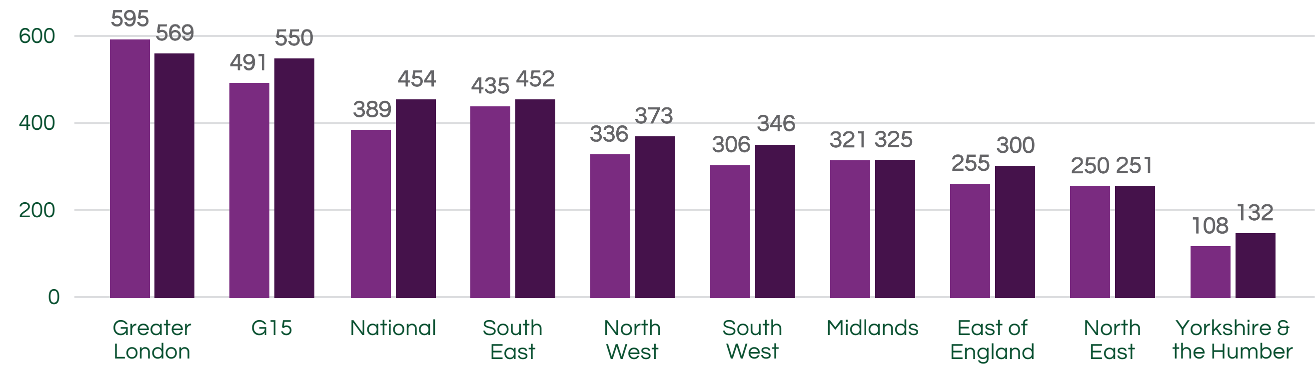


ROUTINE MAINTENANCE

Routine costs (which include responsive and voids expenditure) have increased across all regions to give a figure of £838 per unit in FY21/22 compared with £752 in FY20/21. The largest increase was in the G15 from £869 to £1,042. There was also a large variance between a minimum spend per unit of £294 and a maximum of £1,715 with 62 RPs above the average of £838.

The bar chart above shows the average routine maintenance cost per social home across all regions. The Nationals cost per unit is the lowest in the sector. The highest cost per unit is in G15 at £1,042 per unit - a 20% increase. G15 and Greater London continue to have the highest CPU.

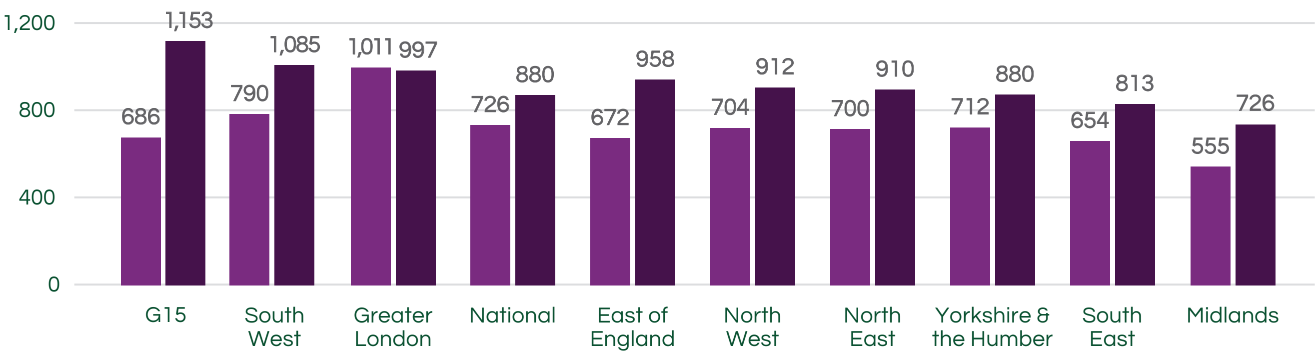
PLANNED COST PER UNIT (£)



PLANNED MAINTENANCE

Planned maintenance costs per unit increased between the years from £366 to £405 per unit, a 10.9% rise. This is likely reflective of additional spend by RPs in compliance and rising prices. Overall spend increased by £112.7m.

MAJOR WORKS EXPENDITURE PER UNIT (£) INCLUDING CAPITALISED



MAJOR REPAIRS

Major repairs costs per unit increased by 38.9% from £695 in FY20/21 to £941 per unit in FY21/22. Major works costs (including capitalised expenditure) increased significantly across all regions.

OPERATING COSTS

ANALYSIS OF FINANCIAL PERFORMANCE

FINANCIAL HEALTH & VIABILITY

Overall, total arrears for rent and service charges increased by £67.4M in the year. This now means that the arrears as a % of turnover went from 4.4% to 4.6%, a small increase.

OVERALL BAD DEBT

£425M

The overall provision for bad debts across the sector was £425M. This was a 3.7% increase from FY20/21 when it had been £410M.

OVERALL ARREARS

£864M

The overall rent and service charge arrears went from £797M to £864M. This was a 8.5% increase from FY20/21.

BAD DEBT WRITE-OFFS

£68.7M

Bad debt write-offs went from £75.6M in FY20/21 to £68.7M in FY21/22 a 9.1% decrease.

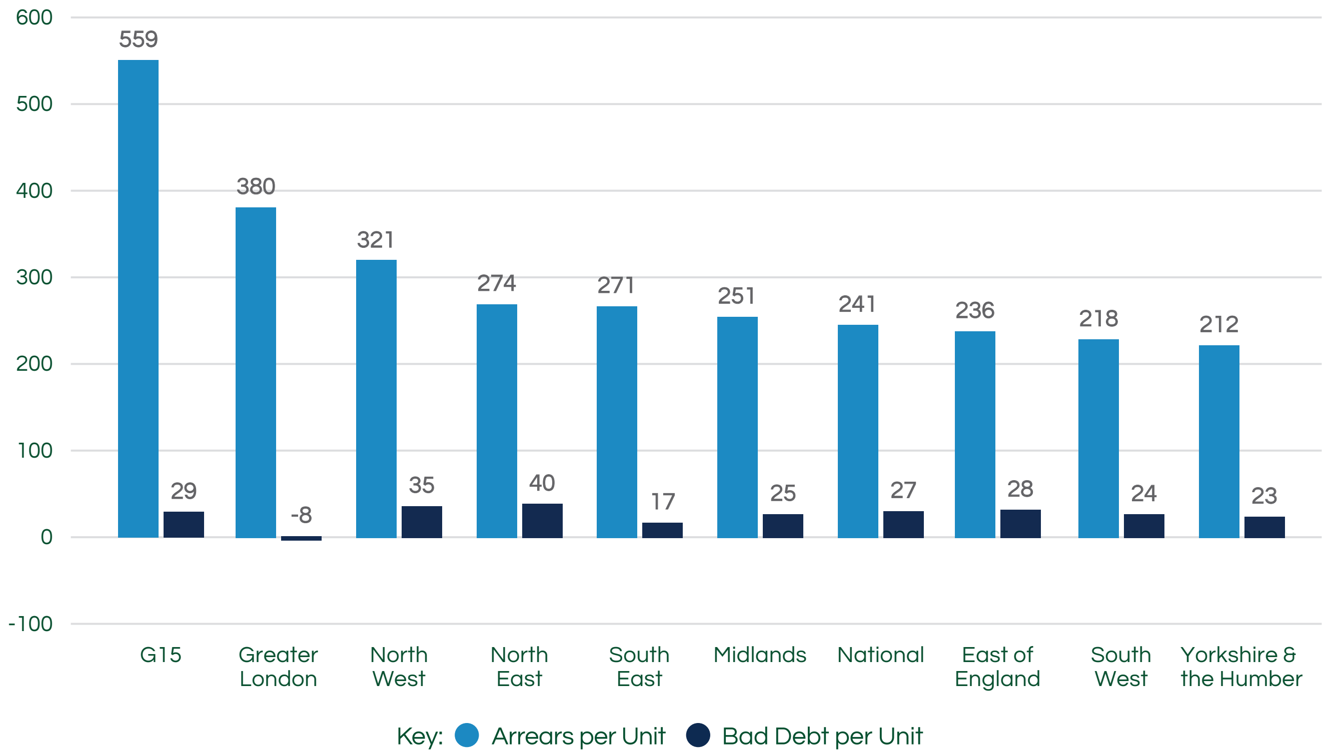
OVERALL DEBT

£73.7BN

Debt at Start:
£70.1BN

Debt at End:
£73.7BN

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

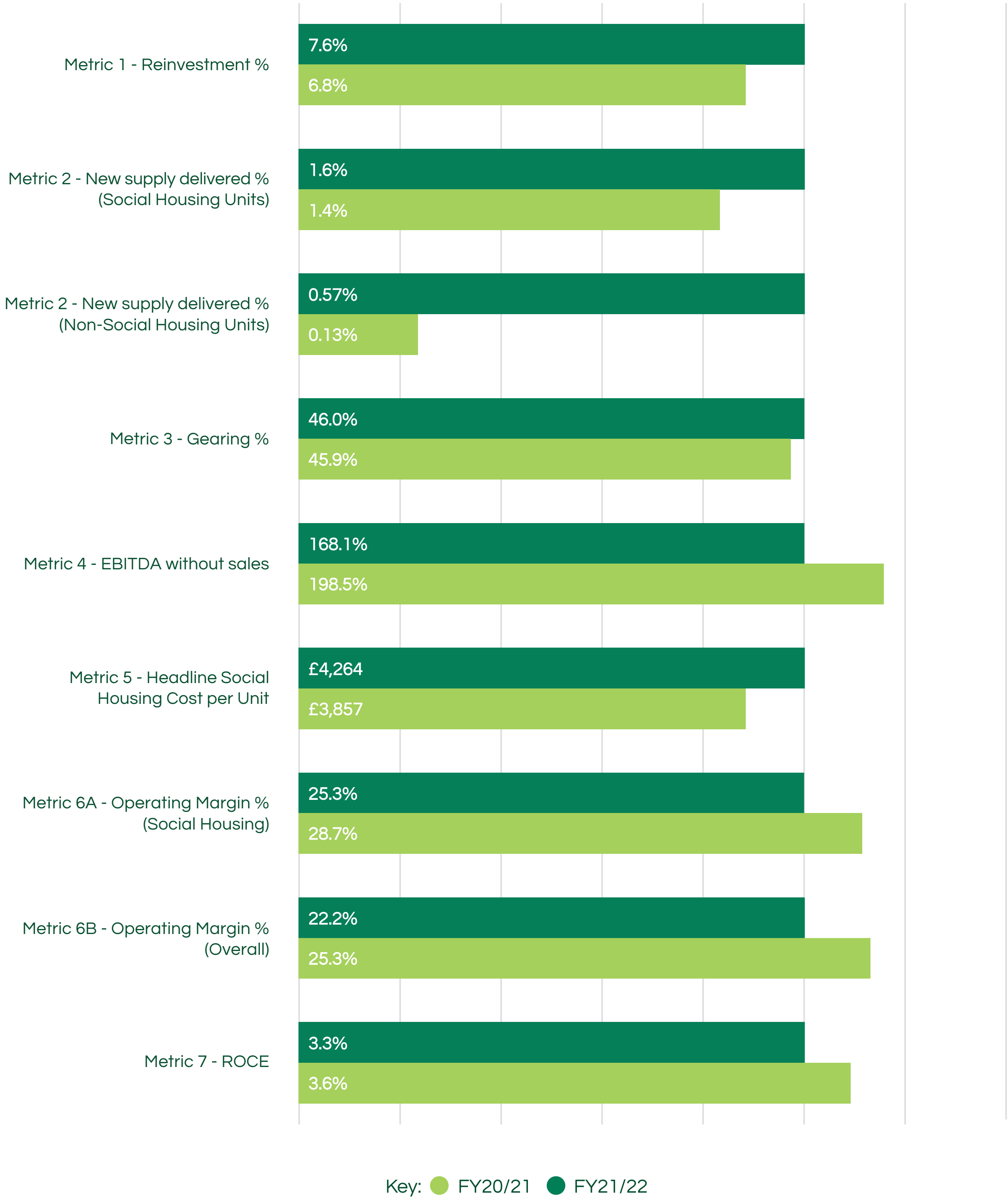


The chart above shows a regional perspective of bad debt and gross arrears. There are variations across regions.

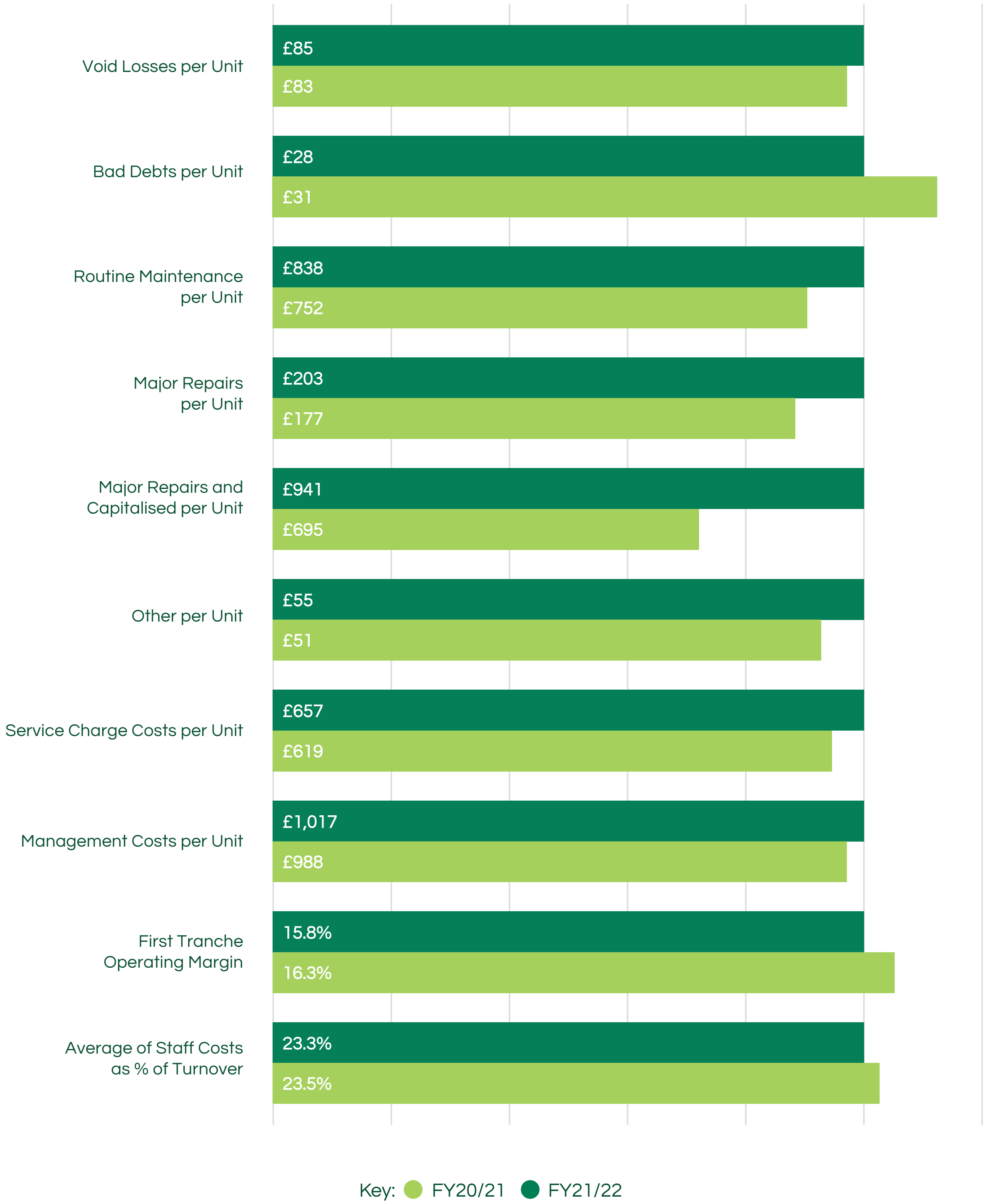
FY21/22 AND 20/21

RSH METRICS SUMMARY

OVERALL AVERAGE PERFORMANCE OF THE SECTOR BETWEEN FY20/21 AND FY21/22



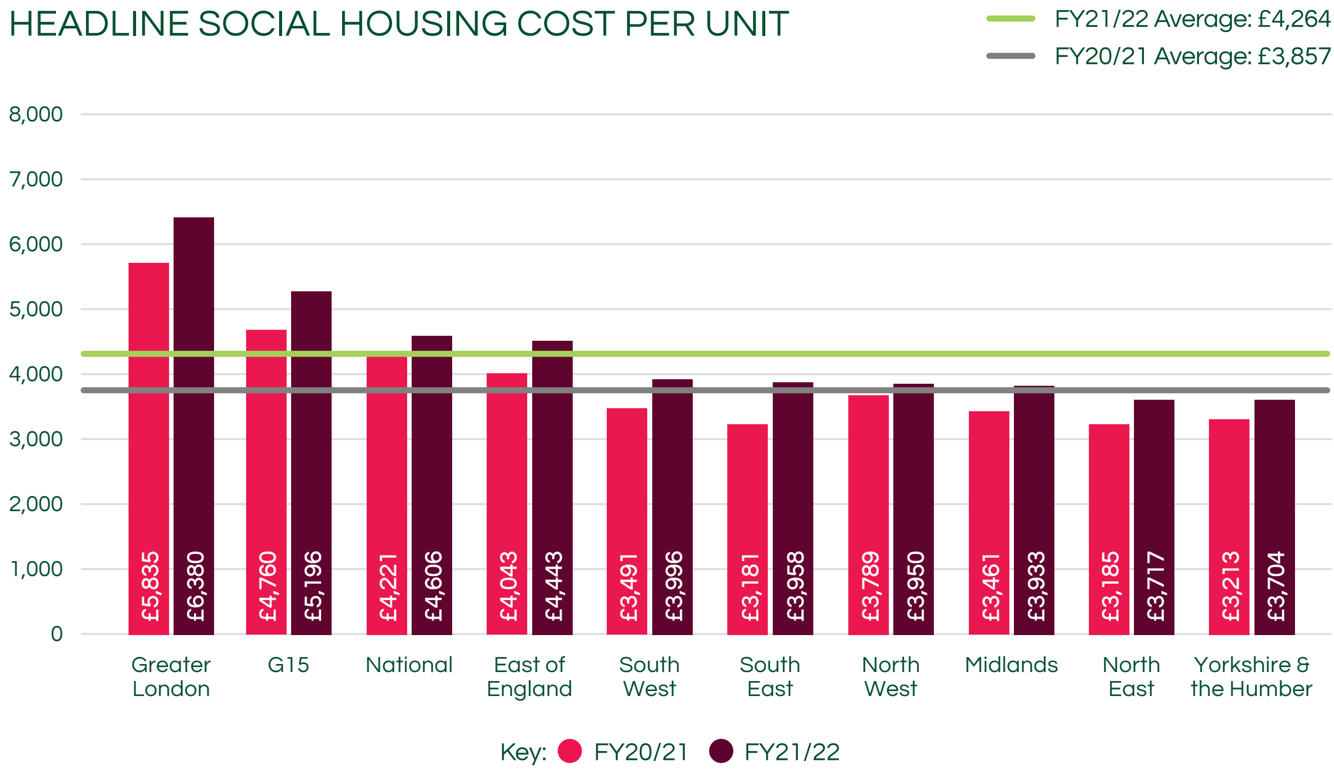
METRIC PER UNIT



ANALYSIS OF FINANCIAL PERFORMANCE

REGULATOR'S VfM METRICS

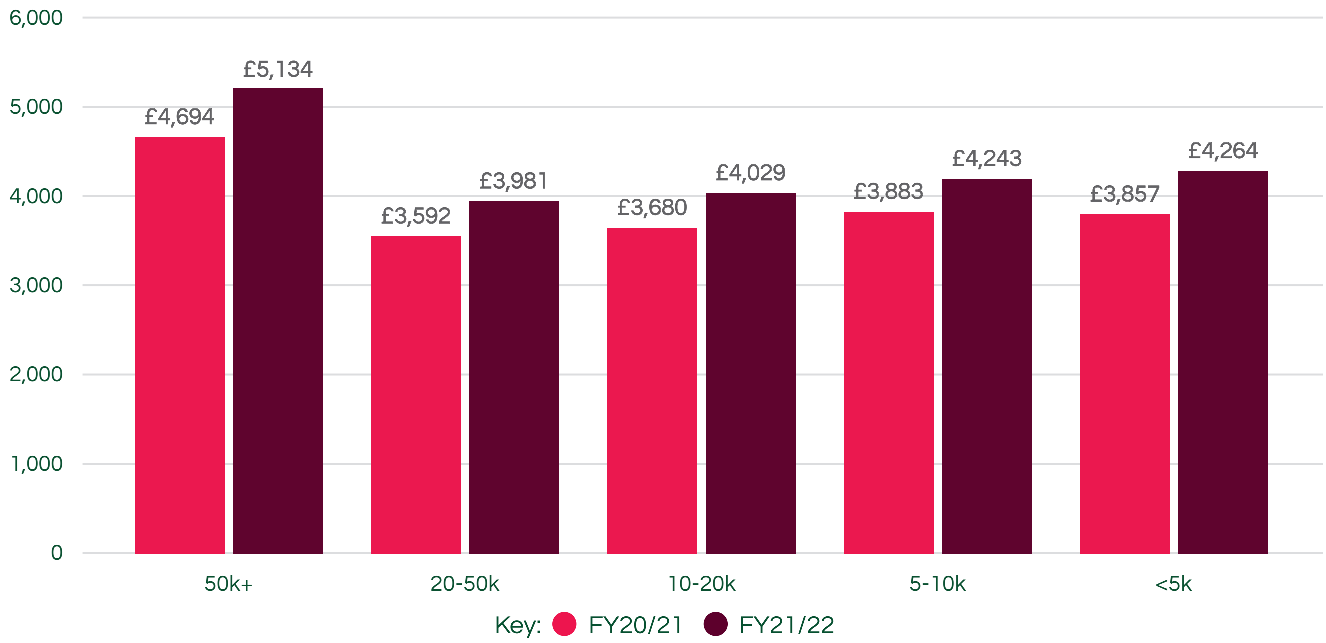
HEADLINE SOCIAL HOUSING COST PER UNIT



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.

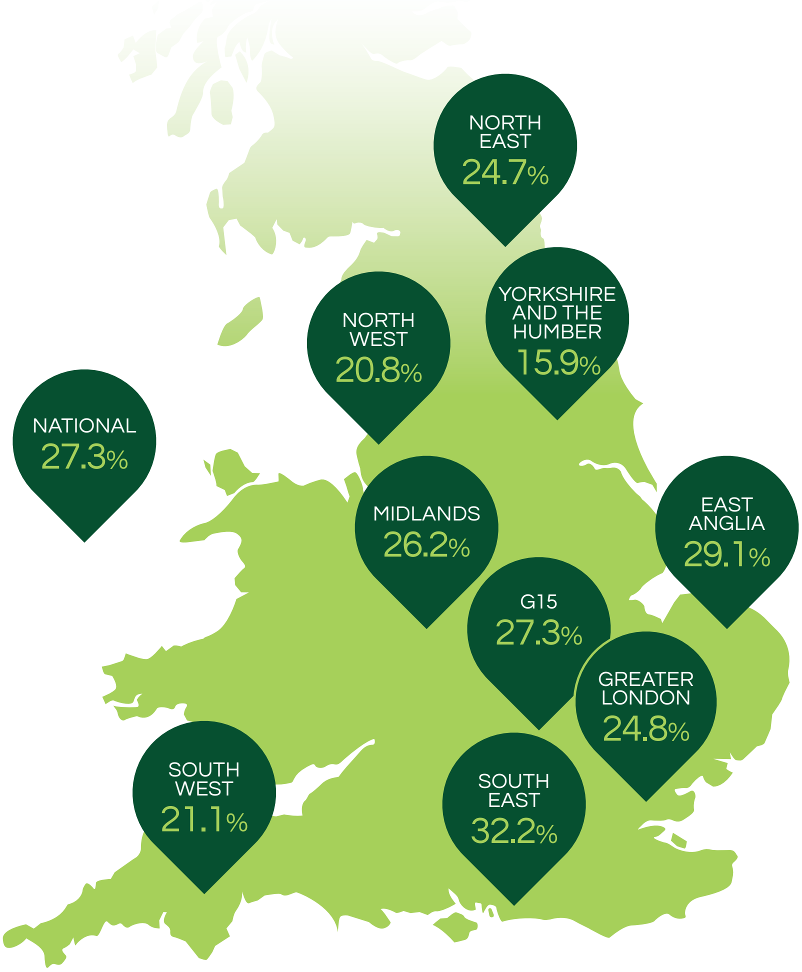
As you would expect the cost per unit in the Greater London and G15 areas continues to be significantly higher than the overall average, with Yorkshire & the Humber having the lowest cost per unit.

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



OPERATING MARGIN % (SOCIAL HOUSING)

FY21/22 AVERAGE
25.3%
FY20/21 AVERAGE:
28.7%

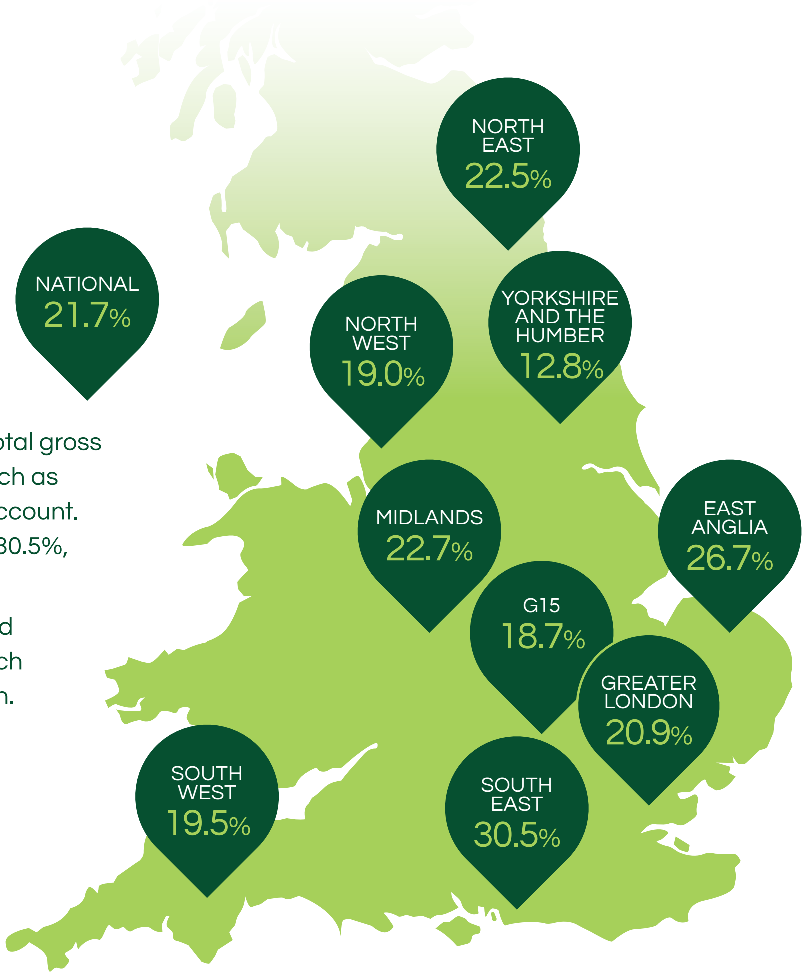


Operating margin (SHL) demonstrates the profitability of an organisation's social housing function. Overall, the margin has reduced in every region compared with FY20/21.

The South East has yet again retained the title of the highest SHL operating margin region at 32.2% with Yorkshire & the Humber having the lowest margin this year with 15.9% and the largest reduction compared with FY20/21.

OPERATING MARGIN % (OVERALL)

FY21/22 AVERAGE
22.2%
FY20/21 AVERAGE:
25.3%

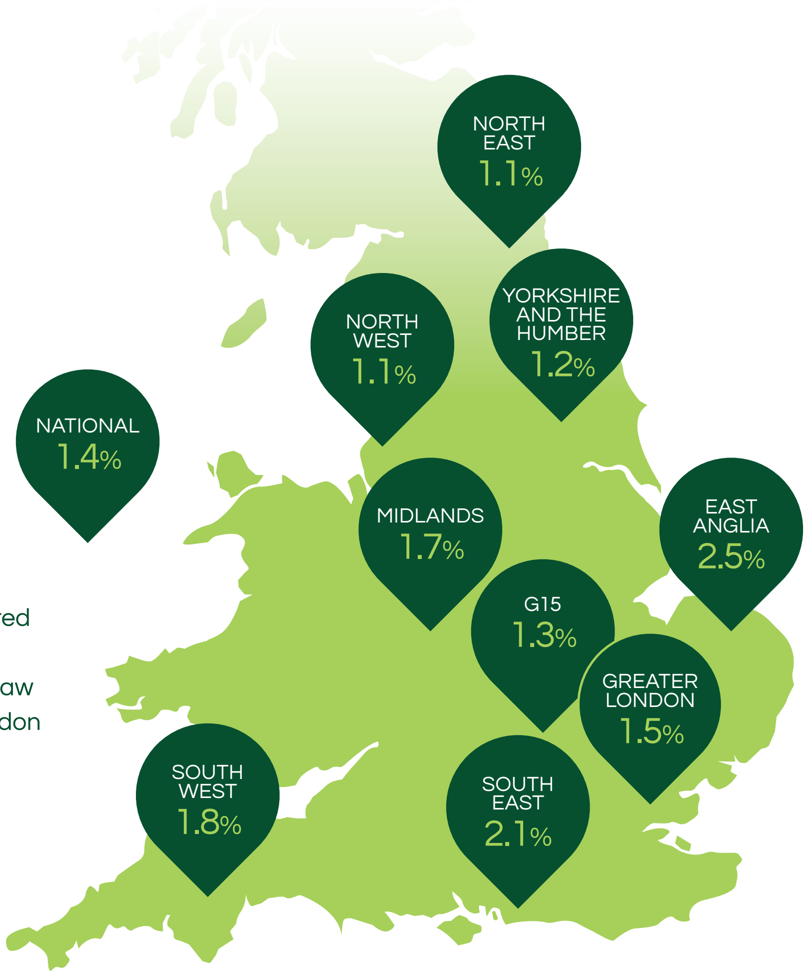


Operating margin (overall) demonstrates the total gross profitability of an organisation before costs, such as interest payable and taxation, are taken into account. The best performing area is the South East at 30.5%, but this is still down from 32.5% from last year.

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 very high margins.

NEW SUPPLY DELIVERED % (SOCIAL HOUSING)

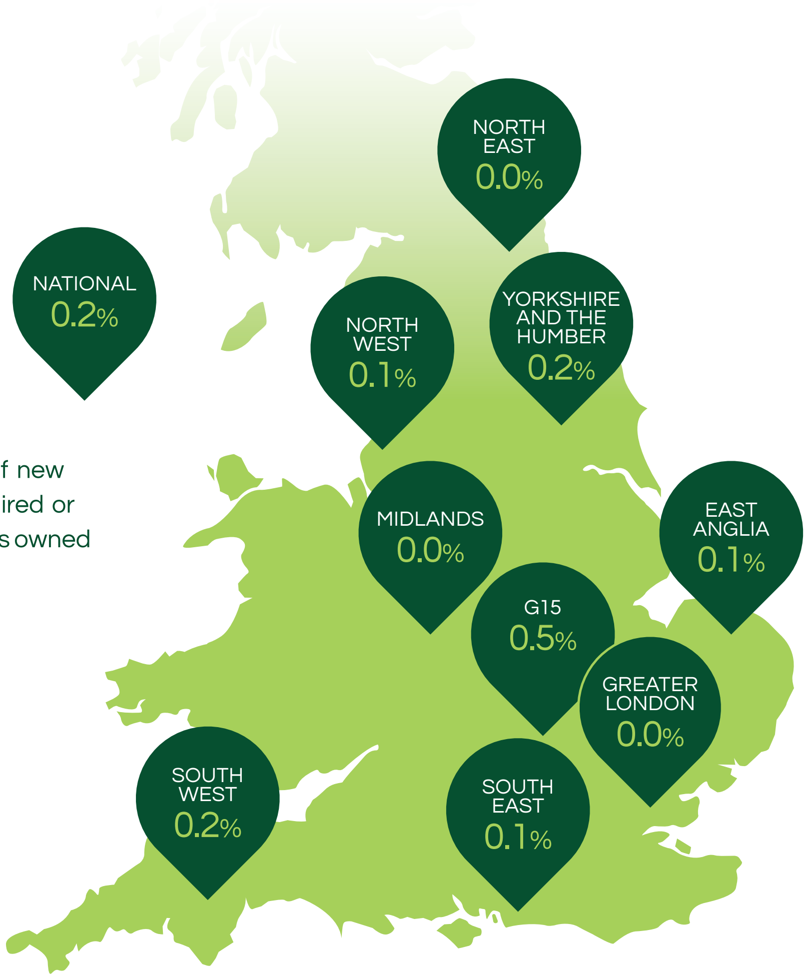
FY21/22 AVERAGE
1.6%
FY20/21 AVERAGE:
1.4%



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 an increase of average value, with Greater London and Yorkshire and The Humber hit the hardest.

NEW SUPPLY DELIVERED % (NON-SOCIAL HOUSING)

FY21/22 AVERAGE
0.6%
FY20/21 AVERAGE:
0.1%



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.

JOIN OUR CLUB

Vantage run a range of forums and clubs focused-on sharing, learning & collaborating nationally with other social housing providers.

ZERO CARBON CLUB

is a peer network programme that is driving forward the sectors decarbonisation strategies, roadmaps and delivery plans.

THE IMPROVEMENT CLUB

helps CFOs/FDs share and discuss strategic financial intelligence and explore opportunities to drive better value for money.

DIRECTOR FORUMS

Operations, Assets and Repairs, ICT and HR

CUSTOMER FIRST

is a learning and collaboration programme for Customer Experience leaders to drive-up customer experience and reduce complaints.

THE FUTURE LEADERS PROGRAMME

will drive-up commercial acumen and financial awareness among Assets and Repairs leaders, to meet the challenges facing the sector.

Visit yourvantage.co.uk/clubs-forums

Vantage

"The State of the Sector report is a really valuable resource. We commissioned Vantage to help us with our VFM reporting and peer analysis. Gaining access to data is always problematic and time consuming but Vantage were able to turn this around in a matter of days. They produced an intelligent tailored VFM report and valuable insight into our performance which prompted many discussions on sector best practice. The analysis work has shown us that our performance levels are really strong, and we are on the right track to meet our corporate plan."

Sam Morgan, Finance Director
Rooftop Housing Group

Vantage

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Visit yourvantage.co.uk